
Certified Public Accountants

March 22, 2012

Honorable Board of Directors
Niagara Tobacco Asset Securitization Corporation
Niagara County Office Building
59 Park Avenue
Lockport, New York 14094

Honorable Members of the NTASC Board of Directors:

We have audited the financial statements of the Niagara Tobacco Asset Securitization Corporation ("NTASC"), a component unit of County of Niagara, New York, for the year ended December 31, 2011, and have issued our report thereon dated March 22, 2012.

We have prepared the following comments to assist you in fulfilling that obligation to oversee the financial reporting and disclosure process for which management of NTASC is responsible.

Our Responsibility Under Generally Accepted Auditing Standards

Our responsibility under auditing standards generally accepted in the United States of America ("generally accepted auditing standards") has been described to you in our engagement letter dated November 17, 2011. As described in that letter, those standards require, among other things, that we obtain an understanding of the NTASC's internal control sufficient to plan the audit and to determine the nature, timing, and extent of audit procedures to be performed. The financial statements were prepared by management with the oversight of those charged with governance. The auditor is responsible for forming and expressing an opinion about whether those financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Significant Accounting Policies

The NTASC's significant accounting policies are set forth in Note 2 to the NTASC's year ended December 31, 2011 financial statements. The financial statements of the NTASC have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

During the year ended December 31, 2011, there were no significant changes in previously adopted accounting policies except as listed on the following page.

During the year ended December 31, 2011, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which required NTASC to change its fund balance classifications for governmental funds, was implemented and did not have a material impact on NTASC's financial position or results of operation.

Additionally, during the year ended December 31, 2011, NTASC completed the process of evaluating the impact that will result from adopting GASB Statement No. 59, *Financial Instruments Omnibus* effective for the year ending December 31, 2011. GASB Statement No. 59 did not have a material impact on NTASC's financial position or results from operations.

The GASB has issued the certain pronouncements which are not yet effective. These pronouncements are as follows:

| GASB Statement No. | Title | Effective for NTASC Fiscal Year Ending |
|-------------------------------|---|---|
| 57 | <i>OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans</i> | December 31, 2012 |
| 60 | <i>Accounting and Financial Reporting for Service Concession Arrangements</i> | December 31, 2012 |
| 61 | <i>The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34</i> | December 31, 2013 |
| 62 | <i>Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989</i> | December 31, 2012 |
| 63 | <i>Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position</i> | December 31, 2012 |
| 64 | <i>Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53</i> | December 31, 2012 |

A summary of the requirements of these pronouncements follows:

- ◆ GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates.
- ◆ GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, improves financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties.

- ◆ GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, amends Statement No. 14, *The Financial Reporting Entity* and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, to better meet user needs and to address reporting entity issues that have arisen since the issuance of those statements.
- ◆ GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance
- ◆ GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources.
- ◆ GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53* to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

The NTASC has not completed the process of evaluating the impact that will result from the adoption of these pronouncements and; therefore, is unable to disclose the impact these statements will have on its financial position or results of operation when implemented.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. We are not aware of any significant changes in accounting estimates or in management's judgment relating to accounting estimates in NTASC's year ended December 31, 2011 financial statements. However, the Subordinate Turbo CAB's outstanding and related interest are considered significant estimates.

Audit Adjustments

Our audit was designed to obtain reasonable, rather than absolute, assurance about whether the consolidated financial statements are free from material misstatement, whether caused by error or fraud. There were two material proposed adjustments for the year ended December 31, 2011. One entry was proposed to adjust NTASC's accrued interest payable on the Subordinate Turbo CAB's to the amount confirmed from the third party. Additionally, during the year ended December 31, 2011, NTASC received \$345,502 in additional Tobacco Settlement Revenues from a lawsuit settled with Bank of America. An entry was proposed to recognize the transfer to the County during the year ended December 31, 2011.

Alternative Accounting Treatments

We discussed no items with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices related to material items, including recognition, measurement, and disclosure

considerations related to the accounting for specific transactions as well as general accounting policies, related to the year ended December 31, 2011.

Significant Difficulties Encountered in Performing the Audit

In our judgment, we received the full cooperation of the NTASC's management and staff and had unrestricted access to the NTASC's senior management and to its books and records in the performance of our audit.

Disagreements with Management

We have not had any disagreements with management related to matters that are material to the NTASC's financial statements for the year ended December 31, 2011.

Consultation with Other Accountants

We are not aware of any extraordinary consultations that management may have had with other accountants about auditing and accounting matters during the year ended December 31, 2011.

Major Issues Discussed With Management Prior to Retention

Throughout the year, routine discussions regarding the application of accounting principles or auditing standards were held with management in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions were not held in connection with our retention as auditors.

Independence

We are not aware of any matters that would impair our independence.

Other Material Written Communications

Written communication that we believe constitute other material written communications between management and us related to the audit for the year ended December 31, 2010 are:

- Engagement letter dated November 17, 2011 (copy attached)
- Management representation letter dated March 22, 2012 (copy attached)

* * * * *

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

We will be pleased to discuss this report with you further at your convenience.

Yours truly,



Drescher & Malecki LLP
3083 William Street, Suite 5
Cheektowaga, New York 14227
Telephone: 716.565.2299
Fax: 716-565-2201



Certified Public Accountants

November 17, 2011

Mr. Clyde L. Burmaster, President
Niagara Tobacco Asset Securitization Corporation
Niagara County Office Building
59 Park Avenue
Lockport, New York 14094

Dear President Burmaster:

This letter confirms our understanding of the services that we will provide to the Niagara Tobacco Asset Securitization Corporation (the "Corporation") for the year ended December 31, 2011. Drescher & Malecki LLP (D&M) is pleased to serve as independent accountants and auditors for the Niagara Tobacco Asset Securitization Corporation.

While auditing and reporting on the Corporation's annual financial statements for the year ended December 31, 2011 is the primary service that we are to provide under this engagement letter, we would also be pleased to assist the Corporation on issues as they arise throughout the year. Hence, we hope that the Corporation will call on us whenever management believes we can be of assistance.

Auditing standards generally accepted in the United States provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to accompany the Corporation's basic financial statements. As part of our engagement, we will apply certain limited procedures to the Corporation's RSI. These limited procedures will consist principally of inquiries of management regarding the methods of measurement and presentation, which management is responsible for affirming to us in its representation letter. Unless we encounter problems with the presentation of the RSI or with procedures relating to it, we will disclaim an opinion on it. Management's Discussion and Analysis represents RSI required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited.

AUDIT OF FINANCIAL STATEMENTS

The objective of our audit is the expression of an opinion as to whether your financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. We will audit the Corporation's basic financial statements for the year ended December 31, 2011. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America (hereinafter referred to as "generally accepted auditing standards"); and, standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and will include tests of the accounting records and other procedures as we consider necessary to enable us to express such an opinion. If circumstances preclude us from issuing an unqualified opinion, we will discuss the reasons with the Corporation in advance. If for any reason, we are unable to complete the audit or unable to form or have not formed an opinion, we

Our procedures will include tests of documentary evidence that support the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of cash, investments, and certain other assets and liabilities by correspondence with customers, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to that inquiry. At the conclusion of our audit, we will also request certain representations from you about the financial statements and related matters.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Our audit is designed to provide reasonable, not absolute, assurance about whether the financial statements are free of material misstatement, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements or contractual agreements. Because of this concept of reasonable assurance and because we will not examine all transactions, there is a risk that material misstatements may exist and not be detected by us. Also, an audit is not designed to detect error or fraud that is immaterial to the financial statements. The Corporation's management is responsible for establishing and maintaining a sound system of internal control, which is the best means of preventing or detecting errors, fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements. Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that might arise during any later periods for which we are not engaged as auditors.

An audit includes obtaining an understanding of the entity and its environment, including its internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, we will ensure that those charged with governance are aware of any significant deficiencies that come to our attention.

We understand that you will provide us with the basic information required for our audit and that you are responsible for the accuracy and completeness of that information. We may advise you about appropriate accounting principles and their application and may assist in the preparation of your financial statements, but the responsibility for the financial statements remains with you. This management responsibility includes (a) establishing and maintaining adequate records and related internal control policies and procedures, (b) selecting and applying accounting principles, (c) safeguarding assets, and (d) identifying and ensuring that the entity complies with laws, regulations, grants, and contracts applicable to its activities.

We understand that our reports on the Corporation's internal control, as part of the financial statement audit and on compliance with laws and regulations, are intended for the information of the management, and others within the Corporation.

THE CORPORATION BOARD'S RESPONSIBILITY

The Corporation Board is responsible for informing us of its views about the risk of fraud within the Corporation and its knowledge of any fraud or suspected fraud affecting the Corporation.

MANAGEMENT'S RESPONSIBILITY

The financial statements are the responsibility of the Corporation's management. Encompassed in that responsibility, among other things, is the establishment and maintenance of effective internal control over financial reporting, the establishment and maintenance of proper accounting records, the selection of appropriate accounting principles, the safeguarding of assets, identifying and ensuring compliance with relevant laws and regulations and informing us of any known material violations of such laws or regulations, making appropriate accounting estimates, adjusting the financial statements to correct material misstatements, and making all financial records and related information available to us.

D&M will provide accounting services as we find necessary to compile the financial statements. We will also discuss with you any suggestions and recommendations concerning the Corporation's accounting methods, as may come to our attention. However, you agree to be responsible for all management decisions and functions, and for designating a competent employee to oversee any bookkeeping or other services that we may provide. You, or the designated employee, are responsible for evaluating the adequacy and results of the services performed. You are responsible for final acceptance of those services. As previously mentioned, you are responsible for establishing internal controls, including monitoring ongoing activities.

Additionally, management is responsible for the design and implementation of programs and controls to prevent and detect fraud and for informing us about all known or suspected fraud affecting the Corporation involving, (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Management is also responsible for informing us of its knowledge of any allegations of fraud or suspected fraud affecting the Corporation received in communications from employees, former employees, analysts, regulators, short sellers, or others.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous audits or other engagements or studies related to the objectives discussed in the Audit Objectives section of this letter. The responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits or other engagements or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions.

We will make specific inquiries of the Corporation's management about the representations embodied in the financial statements. As part of our audit procedures, we will request that management provide us with a representation letter acknowledging management's responsibility for the preparation of the financial statements and affirming management's belief that the effects of any uncorrected financial statement misstatements aggregated by us during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We will also request that management confirm certain representations made to us during our audit. The responses to those inquiries and related written representations of management required by generally accepted auditing standards are part of the evidential matter that we will rely on as auditors in forming our opinion on the Corporation's financial statements. Because of the importance of management's representations, the Corporation agrees to release and indemnify D&M and its personnel from all claims, liabilities, and expenses relating to our services under this engagement letter attributable to any misrepresentation by management.

If the Corporation intends to publish or otherwise reproduce in any document, our report on the Corporation's financial statements, or otherwise make reference to our firm in a document that contains other information in addition to the audited financial statements, you agree to provide us with a draft of the document to read and obtain our approval for the inclusion or incorporation by reference of our report, or the reference to D&M, in such document before the document is printed and distributed. The Corporation also agrees that its management will notify us and obtain our approval prior to including our report on an electronic site.

During the course of the engagement, we may communicate with you or with your personnel via fax or e-mail, and you should be aware that communication in those mediums contains a risk of misdirected or intercepted communications.

OTHER COMMUNICATIONS ARISING FROM THE AUDIT

In accordance with the requirements of *Government Auditing Standards*, we will also issue a written report describing the scope of our testing of internal control over financial reporting and over compliance with laws, regulations, and provisions of grants and contracts, including the results of that testing. However, providing an opinion on internal control and compliance will not be an objective of the audit and, therefore, no such opinion will be expressed.

In connection with the planning and the performance of our audit, generally accepted auditing standards and *Government Auditing Standards* require that certain matters be communicated to the Corporation Board. We will report directly to the Corporation Board any fraud of which we become aware that involves senior management, and any fraud (whether caused by senior management or other employees) of which we become aware that causes a material misstatement of the financial statements. We will report to senior management any fraud perpetrated by lower level employees of which we become aware that does not cause a material misstatement of the financial statements; however, we will not report such matters directly to the Corporation Board, unless otherwise directed by the Corporation Board.

We will inform the appropriate level of management of the Corporation and determine that the Corporation Board is adequately informed with respect to illegal acts that have been detected or have otherwise come to our attention in the course of our audit, unless the illegal act is clearly inconsequential.

If, after determining that the Corporation Board has been adequately informed of an illegal act that has been detected or which has otherwise come to our attention in the course of our audit, we conclude that (1) the illegal act has a material effect on the financial statements; (2) senior management has not taken, and the Corporation Board has not caused senior management to take, timely and appropriate remedial actions with respect to the illegal act; and (3) the failure to take appropriate remedial actions is likely to result in a departure from the standard auditors' report or warrant our resignation from the audit engagement, we will directly report our conclusions to the Corporation Board and take such actions as are required by state or federal law to report such matters to funding agencies and appropriate legal authorities.

At the conclusion of our audit engagement, we will communicate to the Corporation Board the following significant findings from the audit:

- Our view about the qualitative aspects of the entity's significant accounting practices;
- Significant difficulties, if any, encountered during the audit;
- Uncorrected misstatements, other than those we believe are trivial, if any;

- Disagreements with management, if any;
- Other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process;
- Material, corrected misstatements that were brought to the attention of management as a result of our audit procedures;
- Representations we requested from management;
- Any matters that would impair our independence;
- Management's consultations with other accountants, if any; and
- Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

AUDIT ADMINISTRATION

We may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

We understand that your employees will prepare all cash or other confirmations we request and will locate any documents selected by us for testing. Any fees charged by banks or other financial institutions will be passed on to the Corporation.

We will provide copies of our reports to the Corporation Board; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

ACCESS TO WORKING PAPERS BY REGULATORS

In accordance with the requirements of *Government Auditing Standards*, we are required to provide access to our working papers and photocopies thereof to a federal agency or the Comptroller General of the United States upon their request for their regulatory oversight purposes. If such a request is made, we will inform you prior to providing such access. The working papers for this engagement are the property of D&M and constitute confidential information. Access to the requested working papers will be provided to representatives of the United States General Accounting Office or other appropriate government audit staffs under the supervision of D&M audit personnel and at a location designated by our firm. If photocopies are requested, we will mark all information confidential and maintain control over the duplication of all information. All professional and administrative services relating to such access (including photocopying) will be charged as an additional expense to the engagement. The working papers relating to this audit will be retained by us for a minimum of five years from the date of the

reports issued, or such longer periods as may be required to satisfy legal and administrative requirements. If we are aware that a federal awarding agency or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

AUDIT TIMETABLE

We will plan the performance of our audit in accordance with the following timetable:

| | <u>Begin</u> | <u>Targeted for Completion</u> |
|--|--------------|--------------------------------|
| Audit Performance Schedule: | | |
| Planning & Interim audit procedures | January 16 | January 16 |
| Year-end audit procedures | March 12 | March 26 |
| Audit Committee Communications: | | |
| Report on audit (including communications to the Audit Committee) | | March 31 |
| Reportable conditions, if any | | March 31 |
| Other management comments | | March 31 |

Tom Malecki is the engagement partner and is responsible for supervising the engagement and signing the report.

Assistance to be supplied by the Corporation's personnel, including preparation of schedules and analyses of accounts, is described in a separate correspondence. Timely completion of the Corporation's work will facilitate the completion of our audit by the targeted completion dates. We will notify you promptly of any circumstances we encounter that could significantly change the targeted completion dates. Appendix B provides a description of circumstances that could significantly change the targeted completion dates.

FEES

Our fees will be consistent with those of the prior year. They will be billed as work progresses and are based on the anticipated amount of time required to complete. We estimate our fees for the aforementioned audit services relating to the basic financial statements will not exceed \$9,250 inclusive of expenses (which is a 5.1% reduction from the prior year fee). Invoices are payable upon presentation.

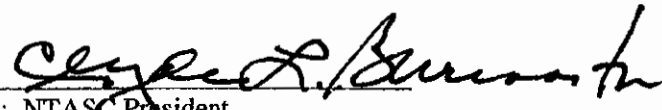
The estimate of our fees is based on certain assumptions. To the extent that certain circumstances, as listed in Appendix B, arise during the engagement, our fee estimate may be significantly affected and additional fees may be necessary. We will notify you promptly of any circumstances we encounter that could significantly affect our estimate and discuss with you any additional fees, as necessary.

If the terms within this letter are acceptable to the Corporation, and the services outlined are in accordance with your understanding, please sign the copy of this engagement letter in the space provided and return it to us.

Yours truly,

 David E. Malin LLP

Accepted and agreed to by
the Niagara Tobacco Asset Securitization Corporation

By: 
Title: NTASC President

Date: 1/18/2012

Appendix A

HEINOLD-BANWART, LTD.
Certified Public Accountants



Riverfront Office Center 2400 N. Main Street East Peoria, IL 61611-1795 Tel 309.694.4251 Fax 309.694.4202

System Review Report

June 11, 2009

To the Partners of
Drescher & Malecki LLP
and the Peer Review Committee of the New York State Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Drescher & Malecki LLP (the firm) in effect for the year ended December 31, 2008. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards*.

In our opinion, the system of quality control for the accounting and auditing practice of Drescher & Malecki LLP, in effect for the year ended December 31, 2008, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Drescher & Malecki LLP has received a peer review rating of *pass*.

Heinold-Banwart, Ltd.

APPENDIX B
NIAGARA TOBACCO ASSET SECURITIZATION CORPORATION
Circumstances affecting Timing and fee estimate
Year ended December 31, 2011.

The fees quoted for the audit are based on certain assumptions. Circumstances may arise during the engagement that may significantly affect the targeted completion dates and our fee estimate. As a result, additional fees may be necessary. Such circumstances include but are not limited to the following:

1. Changes to the timing of the engagement at the Corporation's request. Changes to the timing of the engagement usually require reassignment of personnel used by Drescher and Malecki (D&M) in the performance of services hereunder. However, because it is often difficult to reassign individuals to other engagements, D&M may incur significant unanticipated costs.
2. All audit schedules are not (a) provided by the Corporation on the date requested, (b) completed in a format acceptable to D&M, (c) mathematically correct, or (d) in agreement with the appropriate Corporation records (e.g., general ledger accounts). D&M will provide the Corporation with a separate listing of required schedules and deadlines.
3. Weaknesses in the internal control structure.
4. Significant new issues or changes as follows:
 - a. Significant new accounting issues that require an unusual amount of time to resolve.
 - b. Significant changes in accounting policies or practices from those used in prior years.
 - c. Significant changes or transactions that occur prior to the issuance of our reports.
 - d. Significant changes in the Corporation's accounting personnel, their responsibilities, or their availability.
 - e. Significant changes in auditing requirements set by regulators.
5. Significant delays in the Corporation's assistance in the engagement or delays by the Corporation in reconciling variances as requested by D&M. All invoices, contracts, and other documents, which we will identify for the Corporation, are not located by the Corporation's personnel or made ready for our easy access.
6. Deterioration in the quality of the Corporation's accounting records during the current-year engagement in comparison with the prior-year engagement.
7. A significant level of proposed audit adjustments are identified during our audit.
8. Changes in audit scope caused by events that are beyond our control.
9. Untimely payment of our invoices as they are rendered.
10. The procedures necessary to adopt Governmental Accounting Standards Board ("GASB") Statements.



**NIAGARA TOBACCO ASSET
SECURITIZATION CORP.**

**59 Park Avenue
Lockport, NY 14094**

March 22, 2012

Drescher & Malecki LLP
3083 William St.
Suite 5
Cheektowaga, New York 14227

Gentlemen:

We are providing this letter in connection with your audit of the basic financial statements of the Niagara Tobacco Asset Securitization Corporation (the "NTASC"), a component unit of the County of Niagara, New York (the "County"), as of and for the year ended December 31, 2011 for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position and results of operations and changes in fund balances of the organization in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the basic financial statements of the financial position, results of operations, and changes in the fund balances of the various funds and account groups in conformity with accounting principles generally accepted in the United States of America.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The basic financial statements referred to above are fairly presented in conformity with accounting principles accepted in the United States of America.
2. The NTASC has made available to you all:
 - a. Records and related data for all financial transactions of the NTASC and for all funds administered by NTASC. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the NTASC and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
 - b. Minutes of the meetings of Board of Directors, and committees thereof, or summaries of actions of recent meetings for which minutes have not yet been prepared.

Telephone: (716) 439-7018

Fax :(716) 439-7021

Email: Karen.castle@niagaracounty.com

3. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. There has been no:
 - a. Fraud involving NTASC management or employees who have significant roles in internal control.
 - b. Fraud involving others that could have a material effect on the financial statements.
6. The NTASC has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
7. The following, to the extent applicable, have been appropriately identified and properly recorded and disclosed in the financial statements.
 - a. Related-party transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees whether written or oral, under which the NTASC is contingently liable.
 - c. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with the AICPA's Statement of Position 94-6, *Disclosures of Certain Significant Risks and Uncertainties*.
8. There has been no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Accounting Standards Codification ("ASC") 450, *Contingencies* (formerly Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*).
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by ASC 450, *Contingencies*.
9. The NTASC has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.

10. The NTASC has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
11. Management considers NTASC as a special purpose, bankruptcy remote, local development corporation organized under the Not-for-Profit Corporation Law of the State of New York. NTASC is an instrumentality of but separate, and apart from the County. Although legally separate from the County, based on the nature and significance of NTASC's relationship with the County and the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, NTASC is included within the County basic financial statements as a blended component unit.

Except where otherwise stated below, matters less than \$5,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

12. The following, to the extent applicable, have been appropriately identified and properly recorded and disclosed in the financial statements.
 - a. Interfund transactions, including repayment terms.
 - b. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
 - c. All off-balance-sheet derivative financial instruments (e.g., futures, options, swaps), including outstanding commitments to purchase or sell securities under forward placement and standby commitments.
 - d. Financial instruments with significant individual or group concentration of credit risk.
 - e. Loans that have been restructured to provide a reduction or deferral of interest or principal payments because of borrower financial difficulties.
 - f. Agreements to repurchase assets previously sold.
13. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. The NTASC has disclosed in the financial statements all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the financial statements.
14. During the year ended December 31, 2009, a residual amount that had gone to the County was deposited into this "trapping account" to protect investors. This is in response to the "trapping events" that occurred in prior years. The 1st trapping event occurred because Phillip Morris' bond rating was downgraded.

Additionally, during the year ended December 31, 2006, a second "trapping event" occurred, involving a dispute over the applicability of an MSA provision, the "Non-

Participating Manufacturers (NPM) adjustment.” The NPM adjustment is designed to shield tobacco companies participating in the MSA from making payments disproportionate to their market share. This adjustment has recently been the subject of a dispute that may potentially have a significant impact on tobacco settlement securitizations. Under certain conditions, the TSA payments can be reduced by an amount proportionate to the loss in market share of the tobacco companies that resulted from their participation in the MSA. As a result, during 2006, Reynolds American and Lorillard held a portion of their TSA payment due for 2006 (about 32% and 16% respectively) in an escrow account for disputed payments.

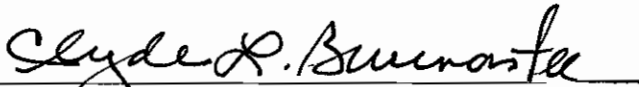
15. Certain smokers, consumer groups, cigarette importers, cigarette wholesalers, cigarette distributors, cigarette manufacturers, Native American tribes, taxpayers, taxpayers’ groups and other parties have instituted lawsuits against various tobacco manufacturers, including the participating manufacturers, as well as against certain of the settling States and other public entities. The lawsuits allege, among other things, that the MSA violates certain provisions of the United States Constitution, state constitutions, the federal antitrust laws, federal civil rights laws, state consumer protection laws and unfair competition laws, some of which actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. The lawsuits seek, among other things, an injunction against one or more of the settling States from collecting any monies under the MSA and barring the participating manufacturers from collecting cigarette price increases related to the MSA and/or a determination that the MSA is void or unenforceable. In addition, class action lawsuits have been filed in several federal and state courts alleging that under the federal Medicaid law, any amount tobacco settlement funds that the settling State receive in excess of what they paid through the Medicaid program to treat tobacco-related diseases should be paid directly to Medicaid recipients.

With respect to all matters of litigation that have been brought and may in the future be brought against the OPMs, or involving the enforceability of the MSA or constitutionality of the Model Statute or the enforcement of the right to the annual payments or otherwise filed in connection with the tobacco industry, the outcome of such litigation, in general, cannot be determined with certainty and depends, among other things, on (i) the issues being appropriately presented and argued before the courts (including the applicable appellate courts) and (ii) on the courts, having been presented with such issues, correctly applying applicable legal principles in reaching appropriate decisions regarding the merits. In addition, the courts may, in their exercise of equitable jurisdiction, reach judgments based not upon the legal merits but upon a balancing of the equities among the parties. Accordingly, no assurance can be given as to the outcome of any such litigation and any such adverse outcome could have a material adverse effect on the amount of TSRs available to the TASCs to pay the Series 2005 Bonds which could adversely affect the amount of pass-through funds available to pay Turbo redemptions, principal of and interest on the Series 2005 NYCTT Bonds and could result in the complete loss of an owner’s investment.

16. We agree with the work of a specialist in evaluating the accreted interest payable related to the subordinate Turbo CABs and have adequately considered the qualifications of the specialist in determining amounts and disclosures used in the financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to specialists with respect to value or amounts derived in an

attempt to bias their work, and we are not aware of any matters that have impacted the independent or objectivity of the specialists.

17. During the year ended December 31, 2011, NTASC received \$345,502 in additional Tobacco Settlement Revenues from a lawsuit settled with Bank of America. This amount was transferred to the County during the year ended December 31, 2011.
18. Management has evaluated subsequent events through March 22, 2012, which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.
19. NTASC management agrees with the proposed adjusting journal entries as presented in Exhibit I.
20. In conjunction with your assistance in compiling the basic financial statements for the year ended December 31, 2011, NTSAC has performed the following:
 - a. Made all management decisions and performed all management functions
 - b. Designated Scott Cain, CPA, Wittlin, Cain & Dry, LLP, to perform bookkeeping functions and to oversee the above services.
 - c. Evaluated the adequacy and results of the services performed.
 - d. Accepted responsibility for the results of these services.


Clyde L. Burmaster, President

NTASC
Year Ended December 31, 2011
Proposed Adjusting Journal Entries

| Account | Description | Debit | Credit |
|--|---|----------------------------|----------------------------|
| Adjusting Journal Entries JE # 1 | | | |
| To accrue LT interest payable on the Turbo CABs as of 12/31/11 | | | |
| 6920.00 | Interest Expense | 1,535,531.00 | |
| 2600.00 | Accrued Interest Payable - LT (CAB payable) | | 1,535,531.00 |
| Total | | <u>1,535,531.00</u> | <u>1,535,531.00</u> |
| Adjusting Journal Entries JE # 2 | | | |
| To record revenue and expense activity related to BoA settlement (reporting entry only). | | | |
| 6930.XX | Transfer to County | 345,502.00 | |
| 4000.00 | Tobacco Settlement revenues | | 345,502.00 |
| Total | | <u>345,502.00</u> | <u>345,502.00</u> |