

**Annual Assessment of Effectiveness of Internal Controls
For the Fiscal Year 2012
Erie Tobacco Asset Securitization Corporation**

1. BACKGROUND

Section 2800(1)(a)(9) and Section 2800(2)(a)(8) of the Public Authorities Law require all public authorities to complete an annual assessment of the effectiveness of their internal control structures and procedures.

2. MISSION OF AUTHORITY AND MAJOR BUSINESS FUNCTIONS

The mission of the Erie Tobacco Asset Securitization Corporation (ETASC) is to acquire, hold, sell, pledge and otherwise dispose of all or a portion of the rights of Erie County to receive payments from certain cigarette manufacturers under a 1998 Master Settlement Agreement (MSA) of a class action entitled State of New York, et al. v. Philip Morris Incorporated, et al. for the benefit of its bondholders and the County. The Corporation's mission is to satisfy its obligations under Trust Indentures associated with its outstanding bonds and from time to time, if appropriate, assess additional MSA revenue securitization opportunities. This public purpose and mission has been accomplished in part by ETASC through the issuance of bonded indebtedness in the years 2000, 2005 and 2006.

3. MAJOR RISKS ASSOCIATED WITH OPERATIONS

Given the nature of ETASC and the minimal financial and operational actions of the corporation, there are no major risks associated with operations.

4. INTENT

The intent of the corporation's system of internal control shall be to:

- a) Promote effective and efficient operations so as to help the corporation carry out its mission.
- b) Provide reasonable assurance that the corporation's assets are safeguarded against inappropriate or unauthorized use.
- c) Promote the accuracy and reliability of accounting data and financial reporting to ensure transactions are executed in accordance with the corporation's board of directors' authorization and recorded properly in accounting records.
- d) Encourage adherence to the corporation's policies and procedures for conducting programs and operations.
- e) Ensure compliance with applicable laws and regulations.

5. ASSESSMENT

The corporation reviews internal controls on an on-going and as-needed basis. Two of the three independent directors of ETASC are CPA's. One of the two County members of the board of directors is the County's elected Comptroller who serves as chief financial officer of the County. The corporation undergoes an annual financial audit by an independent CPA firm. Any internal control weakness identified either by corporation officers or directors by the CPA firm is communicated to the Audit Committee and the board of directors. To the extent that deficiencies are identified, the corporation will develop corrective action plans to reduce any corresponding risk.

For the year ended December 31, 2012 the present internal control procedures appear to be sufficient to meet internal control objectives that pertain to the prevention and detection of material weaknesses or deficiencies.