From: (212) 552-1509
Ellen Honeywell
JPMorgan Chase Bank, NA
4 New York Plaza, Floor 13

NEW YORK, NY 10004

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State of South Carolina
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J.P.Morgan

Important Notice Regarding Termination of the National Tobacco Grower Settlement Trust
<u>Action Required by December 31, 2014</u>

State of South Carolina
Office of the Governor
State House
P.O. Box 11369
Columbia, SC 29211

Re: Termination of the National Tobacco Grower Settlement Trust - 12/31/14

The Honorable Nikki Haley:

As you may be aware, the National Tobacco Grower Settlement Trust (the "***Trust***") established in August 1999 pursuant to a Trust Agreement dated July 19, 1999 (the "***Trust Agreement***") is scheduled to terminate pursuant to its terms on December 31, 2014 ("***Termination Date***"). Background information regarding the Trust is summarized below.

This letter is to remind you that the Termination Date of December 31, 2014 is rapidly approaching.

<u>ACTION REQUIRED</u>

Our records indicate that there is a balance of $6,124.26 in the reserve account(s) dedicated to your Grower State (as defined below) that must be distributed on or about the Termination Date.

Please advise us **<u>no later than December 31, 2014</u>** to which Tax Exempt Organization (defined below) the Trustee should distribute the residual Trust assets allocated to your Grower State, including the residual assets contained in your reserve account(s) (collectively, the "***Residual Assets***"). If we do not receive a response from you by the Termination Date, the Trustee will distribute the Residual Assets to one or more Tax Exempt Organizations chosen by the Trustee pursuant to the provisions of the Trust Agreement.

Pursuant to Section 1.08 of the Trust Agreement, at the termination of the Trust, the Trust Estate shall be distributed to one or more non-governmental tax-exempt organizations of the type described in Section 170(c)(2) of the Internal Revenue Code of 1986 (each a "***Tax Exempt Organization***"), as the Grower States representatives shall determine, taking into account the purpose of the Trust to provide economic assistance to the Tobacco Farmers (as defined below). If any assets remain undesignated for distribution by the Grower States representatives, JPMorgan Chase Bank, N.A., as trustee (the "***Trustee***"), shall distribute the remaining assets as per the provisions of Section 1.08 of the Trust Agreement.

Please provide your disbursement instructions to the Trustee contact at the address below (and include evidence of the authority of any signatory instructing us on the funds distribution) **<u>no later than December 31, 2014</u>**.

Ellen Honeywell
JPMorgan Chase Bank, N.A.
4 New York Plaza, Floor 13
New York, NY, 10004-2413, United States

J.P.Morgan

Financial Statements
The most recent audited financial statements of the Trust for the calendar years 2011, 2012, and 2013 are enclosed.

Background
The Trust was established pursuant to a Trust Agreement dated July 19, 1999 funded by the four major cigarette manufacturers in the United States: Philip Morris Incorporated, R. J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation (now part of the R. J. Reynolds Company) and Lorillard Tobacco Company (collectively the "***Settlors***"). The Settlors are parties to a Master Settlement Agreement (the "***MSA***") which settled certain claims against the Settlors brought by states party to the MSA.

The creation of the Trust was a result of an agreement in the MSA that recognized that potential reductions in tobacco consumption, due to the MSA, would adversely affect Tobacco Growers/Quota Owners (collectively, "***Tobacco Farmers***"). There are fourteen states (the "**Grower States**") that are party to the Trust Agreement: Georgia, Kentucky, North Carolina, South Carolina, Tennessee, Virginia, Alabama, Florida, Indiana, Maryland, Missouri, Ohio, Pennsylvania and West Virginia. Pursuant to the Trust Agreement, JPMorgan Chase Bank, N.A. was appointed as the Trustee of the Trust. The Trust is a mechanism to provide aid to the Tobacco Farmers and to ameliorate potential adverse economic consequences to the Grower States.

In 2004, the FETRA Act relieved the Settlors of further payment obligations to the Trust. Therefore, the current Trustee's role no longer includes payments to Tobacco Farmers.

If you have any questions, please contact the Trustee at (212) 552 -1509.

Sincerely,

JPMorgan Chase Bank, N.A., as Trustee

CC: Agriculture Department
The Honorable Huge E. Weathers
P.O. Box 11280
Columbia, South Carolina 29211

Office of the Attorney General
The Honorable Alan Wilson
Rembert C. Dennis Office Bldg.
P.O. Box 11549
Columbia, SC 29211-1549

NATIONAL TOBACCO GROWER SETTLEMENT TRUST

Financial Statements

December 31, 2013

NATIONAL TOBACCO GROWER SETTLEMENT TRUST

Index

MHM

Mayer Hoffman McCann CPAs
The New York Practice of
Mayer Hoffman McCann P.C.
An Independent CPA Firm

1065 Avenue of the Americas
New York, NY 10018
ph: 212.790.5700 fax: 212-398-0267
www.mhmcpa.com

INDEPENDENT AUDITOR'S REPORT

To the Trustee of
National Tobacco Grower Settlement Trust

We have audited the accompanying financial statements of National Tobacco Grower Settlement Trust (the "Trust") which comprise the statements of assets, liabilities and net assets as of December 31, 2013 and 2012, and the related statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

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 an opinion 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. 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. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of December 31, 2013 and 2012, and the results of its operations, changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Trust will terminate on December 31, 2014, resulting in the distribution of all funds remaining in the Trust. Our opinion is not modified with respect to that matter.

Mayer Hoffman McCann CPAs

June 30, 2014

NATIONAL TOBACCO GROWER SETTLEMENT TRUST
Statements of Assets, Liabilities and Net Assets
December 31, 2013 and 2012

ASSETS

	2013	2012
Assets:		
Cash (including $408,516 in 2013 and $408,393 in 2012 of restricted cash comprised of reserve accounts held for individual states)	$ 581,868	$ 591,880
Prepaid expenses and other current assets	-	4,356
	581,868	596,236

LIABILITIES AND NET ASSETS

	2013	2012
Liabilities:		
Accrued expenses	7,500	3,750
Commitments (Notes 1 and 4)		
Total net assets	$ 574,368	$ 592,486

See accompanying notes.

NATIONAL TOBACCO GROWER SETTLEMENT TRUST

Statements of Operations
For the Years Ended December 31, 2013 and 2012

	2013	2012
Income:		
Interest income	$ 174	$ 187
Expenses:		
Trustee fees (Note 3)	10,130	10,108
Professional fees	3,750	5,497
Other	4,412	4,251
Total expenses	18,292	19,856
Net decrease in assets from operations	$ (18,118)	$ (19,669)

See accompanying notes.

NATIONAL TOBACCO GROWER SETTLEMENT TRUST

Statements of Changes in Net Assets

For the Years Ended December 31, 2013 and 2012

	2013	2012
Decrease in net assets:		
Net decrease in assets from operations	$ (18,118)	$ (19,669)
Distributions (Note 5)	-	(60,084)
Net decrease in net assets	(18,118)	(79,753)
Net assets:		
Beginning of year	592,486	672,239
End of year	$ 574,368	$ 592,486

See accompanying notes.

NATIONAL TOBACCO GROWER SETTLEMENT TRUST
Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Net decrease in assets from operations	$ (18,118)	$ (19,669)
Adjustments to reconcile net decrease in assets from operations to net cash used in operating activities:		
Change in assets and liabilities:		
Decrease in prepaid expenses and other current assets	4,356	3,958
Increase (decrease) in accrued expenses	3,750	(4,783)
Net cash used in operating activities	(10,012)	(20,494)
Cash used in financing activities:		
Distributions	-	(60,084)
Net decrease in cash	(10,012)	(80,578)
Cash, beginning of year	591,880	672,458
Cash, end of year	$ 581,868	$ 591,880

See accompanying notes.

Note 1 - Organization

National Tobacco Grower Settlement Trust (the "Trust") was established in August 1999 pursuant to a Trust Agreement dated July 19, 1999 (the "Trust Agreement"). The Trust is funded by four major cigarette manufacturers in the United States: Philip Morris USA, Inc., R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation and Lorillard Tobacco Company (collectively, the "Settlors"). On July 30, 2004, R.J. Reynolds Tobacco Company merged with Brown & Williamson Tobacco Corporation. The resulting company goes by the name of R.J. Reynolds Tobacco Company. The Settlors are parties to a Master Settlement Agreement (the "MSA"), which settled certain claims against the Settlors brought by states party to the MSA (the "Settling States"). Under the terms of the Trust Agreement, the Settlors were scheduled to contribute $5,150,000,000 over the life of the Trust. The contributions are subject to annual adjustments as defined in the Trust Agreement.

The creation of the Trust was a result of the agreement in the MSA, which recognized that potential reductions in tobacco consumption would adversely affect Tobacco Growers and/or Tobacco Quota Owners. Fourteen states, Georgia, The Commonwealth of Kentucky, North Carolina, South Carolina, Tennessee, The Commonwealth of Virginia, Alabama, Florida, Indiana, Maryland, Missouri, Ohio, The Commonwealth of Pennsylvania and West Virginia, (hereinafter referred to as the "Grower States") are party to the Trust Agreement. The Trust is a mechanism to provide aid to the Tobacco Growers and/or Tobacco Quota Owners and to ameliorate potential adverse economic consequences to the Grower States. Each year, the Grower States through their respective certification entities (the "Certification Entities"), as defined in the Trust Agreement, are responsible for determining their State's eligibility requirements within the parameters of the Trust, identifying their Tobacco Growers and/or Tobacco Quota Owners, determining and applying the payment formula to the eligible Tobacco Growers and/or Tobacco Quota Owners and submitting this information to JPMorgan Chase Bank as Trustee (the "Trustee" or "JPMorgan").

This Trust will terminate on December 31, 2014, unless otherwise provided by the Court of Jurisdiction. Upon termination of this Trust, the Trust Estate, as then constituted, together with all accrued, accumulated and/or undistributed net income therefrom (after accounting for all past and anticipated administrative expenses and taxes of the Trust), shall be distributed to one or more non-governmental tax-exempt organizations of the type described in Section 170(c) (2) of the Internal Revenue Code of 1986, as amended. Each Certification Entity shall be entitled to designate the non-governmental tax-exempt organization to receive that portion of any such residual assets equal to the sum of (i) the allocation percentage for its Grower State as set forth in the Trust Agreement multiplied by the residual assets not held in any reserve account, plus (ii) any residual assets remaining in the reserve account for its Grower State. If any residual assets remain undesignated for distribution by the Certification Entities, the Trustee shall distribute such remaining assets as provided in the Trust Agreement.

Note 1 - Organization (Continued)

On October 22, 2004, the Fair and Equitable Tobacco Reform Act of 2004 ("FETRA") was signed by President Bush.

In December 2004, the Settlors advised JPMorgan that they would not pay their respective installments due to the Trust for the fourth quarter of 2004 because of the enactment of FETRA, and that they were entitled to a refund of the prior installments paid to the Trust in 2004. JPMorgan, with certain Certification Entities of the Grower States, moved the General Court of Justice, Superior Court Division, of Wake County, North Carolina (the "Court of Jurisdiction"), for specific performance of the Trust Agreement, and opposed the request for a refund. In an order dated December 23, 2004, the Trial Court ruled in favor of the Settlors and held that they were entitled to a refund and that they were excused from payment to the Trust of their 2004 fourth-quarter installments. JPMorgan and the Certification Entities appealed directly to the North Carolina Supreme Court.

In its decision dated August 19, 2005, the North Carolina Supreme Court held that the signing of FETRA into law in 2004 had no effect on the obligations of the Settlors to continue funding the Trust, and that it was only when the Settlors actually made payments pursuant to FETRA that they would be entitled to claim Tax Offset Adjustments (see Note 4) to their required Trust payments pursuant to the terms of the Trust Agreement. The Settlors made their first FETRA payments in 2005, and so the first year of impact on the Trust is 2005, where the Settlors claimed a Tax Offset Adjustment to their required Trust payments for 2005. To the extent the Settlors make their required FETRA payments for each succeeding calendar year in which the Trust Agreement requires the Settlors to make Trust payments, the Settlors will claim a Tax Offset Adjustment to their Trust payments for each succeeding year. To the extent a Settlor fails to make some or all of its required FETRA payments in any year, it would not be entitled to claim a corresponding Tax Offset Adjustment to its Trust payment.

The Trustee was advised of the existence of a lawsuit brought by the State of Maryland and the Commonwealth of Pennsylvania against the Settlors of the Trust, which lawsuit was brought in the Court of Jurisdiction. Maryland and Pennsylvania sought to force the Settlors to continue payments to the Trust for the lifetime of the Trust for the amounts designated by the Trust Agreement for distribution to the eligible Tobacco Growers in these two states because these states do not receive any benefits from FETRA payments and thus argue no Tax Offset Adjustments should apply to them. In August 2007, the Court of Jurisdiction ruled in favor of the claims of Maryland and Pennsylvania that the Settlors' FETRA payments did not act as a Tax Offset Adjustment for those two Grower States. The Settlors appealed the order of the Court of Jurisdiction and, in a December 2008 opinion, the North Carolina Court of Appeals reversed the order of the Court of Jurisdiction and directed judgment be entered in favor of the Settlors.

Note 1 - Organization (Continued)

In January 2009, the Commonwealth of Pennsylvania and the State of Maryland filed a notice of appeal as of right and a petition for discretionary review to the North Carolina Supreme Court. In March 2009, the North Carolina Supreme Court granted the petition for discretionary review. In a decision dated November 9, 2009, the North Carolina Supreme Court affirmed the decision of the North Carolina Court of Appeals in favor of the Settlors and so ended the case brought by the State of Maryland and the Commonwealth of Pennsylvania. The Trustee was not a party to this litigation.

Note 2 - Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income

Interest income is recorded on the accrual basis.

Expenses

Expenses are recorded on the accrual basis. The Trust bears all expenses incurred in the administration of the Trust; however, the Trust Agreement stipulates that the Trust's administrative expenses cannot exceed the lesser of (i) all pre-tax interest and other pre-tax earnings on amounts paid to the Trust or (ii) 5% of any amounts paid to the Trust by the Settlors in any given year unless the Grower States consent to amounts greater than the calculated amounts. The expenses for the years ended December 31, 2013 and 2012 are paid from existing reserve accounts established by the Trust. No future payments are expected from the Settlors (see Note 4).

Income Taxes

The Trust is a "qualified settlement trust" as defined in Section 1.468 B-1 of the Treasury regulations. As such, it is treated as a corporation for federal income tax purposes. For determining income subject to federal income tax, permanent differences arise between financial statement and federal income tax reporting. For the years ended December 31, 2013 and 2012, no federal income tax provision is required.

Note 2 - Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

The Trust has not recorded a provision for state taxes as the Grower States have indicated that the Trust is either exempt from taxes in each state or deemed to not be conducting business in the state.

Note 3 - Transactions with Affiliates of the Trustee

Trustee

The Trustee for the Trust has all fiduciary powers as stipulated in Section 3 of the Trust Agreement and has the principal responsibilities to receive the contributions, invest the funds and hold and disburse the assets of the Trust.

The fees of the Trustee are payable quarterly during the year in arrears.

Note 4 - Settlor Payments to the Trust

Pursuant to the Trust Agreement, the Settlors were required to make annual payments to the Trust for the years 2003 to 2010; payments are due in four equal installments on the last day of each quarter. No such payment was required for the years 2011 to 2013.

The base payments are adjusted by (a) an Inflation Adjustment, (b) a Volume Adjustment, (c) MSA Finality Adjustments and (d) a Tax Offset Adjustment as set out in Schedule A of the Trust Agreement.

As a result of the FETRA enactment, no future payments are required from the Settlors since the cumulative FETRA payments exceeded all future payments due under the Trust Agreement.

During 2013 and 2012, the Settlors made FETRA payments to the U.S. Department of Agriculture in which the payments exceeded the calculated Adjusted Payments, as defined in the Trust Agreement, for 2013 and 2012.

Note 4 - Settlor Payments to the Trust (Continued)

Pursuant to the Trust Agreement, the monies received from the Settlors are permitted to be invested in: (i) direct obligations of, or obligations where the timely payment of principal and interest is guaranteed by, the United States government or agencies thereof, maturing no more than one year after the date of acquisition; (ii) repurchase agreements, fully collateralized by securities of the United States government or agencies, and with a counterparty whose long-term debt securities are rated "AA" or higher by Standard & Poor's and "AA" or higher by Moody's; (iii) interest-bearing time or demand deposits or certificates of deposit maturing within ninety days of acquisition and issued by banks outlined in the Trust Agreement; and (iv) money market funds that invest in securities described in clauses (i) and/or (ii) and subject to restrictions outlined in the Trust Agreement. Such monies may be invested until distributed to the Grower States, as discussed in Note 5.

Note 5 - Distributions to Grower States

Pursuant to the Trust Agreement, on or before November 15 of each year, the Trustee will notify the Grower States as to the estimated Distributable Amounts allocable to each Grower State. The Distributable Amount represents monies deposited by Settlors and adjusted for income earned and expenses incurred by the Trust. This distribution will be allocated to the Grower States based on each Grower State's percentage enumerated in Section 1.03 of the Trust Agreement. All interest earned and expenses accrued are allocated to the Grower States based on each Grower State's percentage, as enumerated in Section 1.03 of the Trust Agreement, except for interest earned on the Hold Separate and Reserve Accounts, which are allocated to the states based on the cash balances in their respective accounts.

The Trustee allows for monthly distributions at the request of the Grower States but will not distribute any monies to any Grower State that is not one of the Settling States under the MSA unless such Settling State has achieved State-Specific Finality as defined in the MSA. At December 31, 2001, all the states had achieved State-Specific Finality.

Pursuant to the Trust Agreement, on or before December 31 of each year, the Trustee will pay out or place in a Reserve Account for each individual Grower State, a distribution in accordance with the instructions contained in the Signed Statement submitted each year by the Grower State's Certification Entity.

Pursuant to the terms of the Trust Agreement, prior to disbursement of the Distributable Amounts, each Certification Entity must deliver to the Trustee a plan (the "Plan") describing the categories of persons or entities to whom distributions will be made and explaining how each falls within the definition of "Tobacco Grower" or "Tobacco Quota Owner," as defined in the Trust Agreement. The Trustee will review and accept such plan or return the Plan to the Certification Entity for revision.

Note 5 - Distributions to Grower States (Continued)

Upon completion and acceptance of a valid plan, each Certification Entity will submit a Signed Statement to the Trustee outlining all information regarding the Distributable Amounts. The Certification Entities have the following options with regard to the Distributable Amounts: they may pay the respective eligible Tobacco Growers and/or Tobacco Quota Owners (Item (ii) of the Signed Statement); reimburse the Certification Entity for reasonable administrative expenses (Item (iii) of the Signed Statement) or defer payments by placing amounts in a Reserve or Hold Separate Account (Item (iv) of the Signed Statement).

The Certification Entities of the Grower States that establish and operate private administrative offices are entitled to receive advances for expenses of a maximum of $400,000 against the Distributable Amount for the Grower State. Such advances are included in distributions in the statements of changes in net assets and cash flows.

Subsequent to December 31, 2013, there was approximately $12,000 of funds disbursed to non-governmental tax-exempt organizations based on the instructions from the Grower States.

Note 6 - Off-Balance Sheet, Market and Credit Risk

In the normal course of business, the Trust enters into contracts that contain a variety of representations and warranties, which provide general indemnifications. The Trust's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Trust but have not yet occurred. However, based on experience, the Trust expects the risk of loss to be remote.

The Trust maintains its cash balances with a financial institution; the accounts are insured by the Federal Deposit Insurance Corporation up to $250,000.

Note 7 - Subsequent Events

The Trust has evaluated subsequent events through June 30, 2014, which is the date the financial statements were available to be issued, and has concluded that, other than the events mentioned in Note 5, no such events or transactions took place which would require disclosure herein.

NATIONAL TOBACCO GROWER SETTLEMENT TRUST

Financial Statements

December 31, 2011

NATIONAL TOBACCO GROWER SETTLEMENT TRUST

Index

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The New York Practice of
Mayer Hoffman McCann P.C.
An Independent CPA Firm

1065 Avenue of the Americas
New York, NY 10018
ph: 212.790.5700 fax: 212-398-0267
www.mhmcpa.com

INDEPENDENT AUDITOR'S REPORT

To the Trustee of
National Tobacco Grower Settlement Trust

We have audited the accompanying statement of assets, liabilities and net assets of National Tobacco Grower Settlement Trust (the "Trust") at December 31, 2011, and the related statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of December 31, 2011, and the results of its operations, changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Trust will terminate on December 31, 2014, resulting in the distribution of all funds remaining in the Trust.

Mayer Hoffman McCann CPAs

June 30, 2014

NATIONAL TOBACCO GROWER SETTLEMENT TRUST

Statement of Assets, Liabilities and Net Assets

December 31, 2011

ASSETS

Assets:	
Cash (including $468,351 of restricted cash comprised of reserve accounts held for individual states)	$ 672,458
Prepaid expenses and other current assets	8,314
	680,772

LIABILITIES AND NET ASSETS

Liabilities:	
Accrued expenses	8,533
Commitments (Notes 1 and 4)	
Total net assets	$ 672,239

See accompanying notes.

NATIONAL TOBACCO GROWER SETTLEMENT TRUST

Statement of Operations

For the Year Ended December 31, 2011

Income:	
Interest income	$ 217
Expenses:	
Trustee fees (Note 3)	11,182
Professional fees	(4,753)
Other	3,657
Total expenses	10,086
Net decrease in assets from operations	$ (9,869)

See accompanying notes.

NATIONAL TOBACCO GROWER SETTLEMENT TRUST
Statement of Changes in Net Assets
For the Year Ended December 31, 2011

Decrease in net assets:	
Net decrease in assets from operations	$ (9,869)
Distributions (Note 5)	(216,654)
Net decrease in net assets	(226,523)
Net assets:	
Beginning of year	898,762
End of year	$ 672,239

See accompanying notes.

NATIONAL TOBACCO GROWER SETTLEMENT TRUST

Statement of Cash Flows

For the Year Ended December 31, 2011

Cash flows from operating activities:		
Net decrease in assets from operations	$	(9,869)
Adjustments to reconcile net decrease in assets from operations to net cash used in operating activities:		
Change in assets and liabilities:		
Decrease in prepaid expenses and other current assets		3,597
Decrease in accrued expenses		(21,467)
Net cash used in operating activities		(27,739)
Cash used in financing activities:		
Distributions		(216,654)
Net decrease in cash		(244,393)
Cash, beginning of year		916,851
Cash, end of year	$	672,458

See accompanying notes.

Note 1 - Organization

National Tobacco Grower Settlement Trust (the "Trust") was established in August 1999 pursuant to a Trust Agreement dated July 19, 1999 (the "Trust Agreement"). The Trust is funded by four major cigarette manufacturers in the United States: Philip Morris USA, Inc., R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation and Lorillard Tobacco Company (collectively, the "Settlors"). On July 30, 2004, R.J. Reynolds Tobacco Company merged with Brown & Williamson Tobacco Corporation. The resulting company goes by the name of R.J. Reynolds Tobacco Company. The Settlors are parties to a Master Settlement Agreement (the "MSA"), which settled certain claims against the Settlors brought by states party to the MSA (the "Settling States"). Under the terms of the Trust Agreement, the Settlors were scheduled to contribute $5,150,000,000 over the life of the Trust. The contributions are subject to annual adjustments as defined in the Trust Agreement.

The creation of the Trust was a result of the agreement in the MSA, which recognized that potential reductions in tobacco consumption would adversely affect Tobacco Growers and/or Tobacco Quota Owners. Fourteen states, Georgia, The Commonwealth of Kentucky, North Carolina, South Carolina, Tennessee, The Commonwealth of Virginia, Alabama, Florida, Indiana, Maryland, Missouri, Ohio, The Commonwealth of Pennsylvania and West Virginia, (hereinafter referred to as the "Grower States") are party to the Trust Agreement. The Trust is a mechanism to provide aid to the Tobacco Growers and/or Tobacco Quota Owners and to ameliorate potential adverse economic consequences to the Grower States. Each year, the Grower States through their respective certification entities (the "Certification Entities"), as defined in the Trust Agreement, are responsible for determining their State's eligibility requirements within the parameters of the Trust, identifying their Tobacco Growers and/or Tobacco Quota Owners, determining and applying the payment formula to the eligible Tobacco Growers and/or Tobacco Quota Owners and submitting this information to JPMorgan Chase Bank as Trustee (the "Trustee" or "JPMorgan").

This Trust will terminate on December 31, 2014, unless otherwise provided by the Court of Jurisdiction. Upon termination of this Trust, the Trust Estate, as then constituted, together with all accrued, accumulated and/or undistributed net income therefrom (after accounting for all past and anticipated administrative expenses and taxes of the Trust), shall be distributed to one or more non-governmental tax-exempt organizations of the type described in Section 170(c) (2) of the Internal Revenue Code of 1986, as amended. Each Certification Entity shall be entitled to designate the non-governmental tax-exempt organization to receive that portion of any such residual assets equal to the sum of (i) the allocation percentage for its Grower State as set forth in the Trust Agreement multiplied by the residual assets not held in any reserve account, plus (ii) any residual assets remaining in the reserve account for its Grower State. If any residual assets remain undesignated for distribution by the Certification Entities, the Trustee shall distribute such remaining assets as provided in the Trust Agreement.

Note 1 - Organization (Continued)

On October 22, 2004, the Fair and Equitable Tobacco Reform Act of 2004 ("FETRA") was signed by President Bush.

In December 2004, the Settlors advised JPMorgan that they would not pay their respective installments due to the Trust for the fourth quarter of 2004 because of the enactment of FETRA, and that they were entitled to a refund of the prior installments paid to the Trust in 2004. JPMorgan, with certain Certification Entities of the Grower States, moved the General Court of Justice, Superior Court Division, of Wake County, North Carolina (the "Court of Jurisdiction"), for specific performance of the Trust Agreement, and opposed the request for a refund. In an order dated December 23, 2004, the Trial Court ruled in favor of the Settlors and held that they were entitled to a refund and that they were excused from payment to the Trust of their 2004 fourth-quarter installments. JPMorgan and the Certification Entities appealed directly to the North Carolina Supreme Court.

In its decision dated August 19, 2005, the North Carolina Supreme Court held that the signing of FETRA into law in 2004 had no effect on the obligations of the Settlors to continue funding the Trust, and that it was only when the Settlors actually made payments pursuant to FETRA that they would be entitled to claim Tax Offset Adjustments (see Note 4) to their required Trust payments pursuant to the terms of the Trust Agreement. The Settlors made their first FETRA payments in 2005, and so the first year of impact on the Trust is 2005, where the Settlors claimed a Tax Offset Adjustment to their required Trust payments for 2005. To the extent the Settlors make their required FETRA payments for each succeeding calendar year in which the Trust Agreement requires the Settlors to make Trust payments, the Settlors will claim a Tax Offset Adjustment to their Trust payments for each succeeding year. To the extent a Settlor fails to make some or all of its required FETRA payments in any year, it would not be entitled to claim a corresponding Tax Offset Adjustment to its Trust payment.

The Trustee was advised of the existence of a lawsuit brought by the State of Maryland and the Commonwealth of Pennsylvania against the Settlors of the Trust, which lawsuit was brought in the Court of Jurisdiction. Maryland and Pennsylvania sought to force the Settlors to continue payments to the Trust for the lifetime of the Trust for the amounts designated by the Trust Agreement for distribution to the eligible Tobacco Growers in these two states because these states do not receive any benefits from FETRA payments and thus argue no Tax Offset Adjustments should apply to them. In August 2007, the Court of Jurisdiction ruled in favor of the claims of Maryland and Pennsylvania that the Settlors' FETRA payments did not act as a Tax Offset Adjustment for those two Grower States. The Settlors appealed the order of the Court of Jurisdiction and, in a December 2008 opinion, the North Carolina Court of Appeals reversed the order of the Court of Jurisdiction and directed judgment be entered in favor of the Settlors. In January 2009, the Commonwealth of Pennsylvania and the State of Maryland filed a notice

Note 1 - Organization (Continued)

of appeal as of right and a petition for discretionary review to the North Carolina Supreme Court. In March 2009, the North Carolina Supreme Court granted the petition for discretionary review. In a decision dated November 9, 2009, the North Carolina Supreme Court affirmed the decision of the North Carolina Court of Appeals in favor of the Settlors and so ended the case brought by the State of Maryland and the Commonwealth of Pennsylvania. The Trustee was not a party to this litigation.

Note 2 - Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income

Interest income is recorded on the accrual basis.

Expenses

Expenses are recorded on the accrual basis. The Trust bears all expenses incurred in the administration of the Trust; however, the Trust Agreement stipulates that the Trust's administrative expenses cannot exceed the lesser of (i) all pre-tax interest and other pre-tax earnings on amounts paid to the Trust or (ii) 5% of any amounts paid to the Trust by the Settlors in any given year unless the Grower States consent to amounts greater than the calculated amounts. The expenses for the year ended December 31, 2011 are paid from existing reserve accounts established by the Trust. No future payments are expected from the Settlors (see Note 4).

Note 2 - Summary of Significant Accounting Policies (Continued)

Income Taxes

The Trust is a "qualified settlement trust" as defined in Section 1.468 B-1 of the Treasury regulations. As such, it is treated as a corporation for federal income tax purposes. For determining income subject to federal income tax, permanent differences arise between financial statement and federal income tax reporting. For the year ended December 31, 2011, no federal income tax provision is required.

The Trust has not recorded a provision for state taxes as the Grower States have indicated that the Trust is either exempt from taxes in each state or deemed to not be conducting business in the state.

Note 3 - Transactions with Affiliates of the Trustee

Trustee

The Trustee for the Trust has all fiduciary powers as stipulated in Section 3 of the Trust Agreement and has the principal responsibilities to receive the contributions, invest the funds and hold and disburse the assets of the Trust.

The fees of the Trustee are payable quarterly during the year in arrears.

Note 4 - Settlor Payments to the Trust

Pursuant to the Trust Agreement, the Settlors were required to make annual payments to the Trust for the years 2003 to 2010; payments are due in four equal installments on the last day of each quarter. No such payment was required for the year ended December 31, 2011.

The base payments are adjusted by (a) an Inflation Adjustment, (b) a Volume Adjustment, (c) MSA Finality Adjustments and (d) a Tax Offset Adjustment as set out in Schedule A of the Trust Agreement.

As a result of the FETRA enactment, no future payments are required from the Settlors since the cumulative FETRA payments exceeded all future payments due under the Trust Agreement.

During 2011, the Settlors made FETRA payments to the U.S. Department of Agriculture in which the payments exceeded the calculated Adjusted Payments, as defined in the Trust Agreement, for 2011.

Note 4 - Settlor Payments to the Trust (Continued)

Pursuant to the Trust Agreement, the monies received from the Settlors are permitted to be invested in: (i) direct obligations of, or obligations where the timely payment of principal and interest is guaranteed by, the United States government or agencies thereof, maturing no more than one year after the date of acquisition; (ii) repurchase agreements, fully collateralized by securities of the United States government or agencies, and with a counterparty whose long-term debt securities are rated "AA" or higher by Standard & Poor's and "AA" or higher by Moody's; (iii) interest-bearing time or demand deposits or certificates of deposit maturing within ninety days of acquisition and issued by banks outlined in the Trust Agreement; and (iv) money market funds that invest in securities described in clauses (i) and/or (ii) and subject to restrictions outlined in the Trust Agreement. Such monies may be invested until distributed to the Grower States, as discussed in Note 5.

Note 5 - Distributions to Grower States

Pursuant to the Trust Agreement, on or before November 15 of each year, the Trustee will notify the Grower States as to the estimated Distributable Amounts allocable to each Grower State. The Distributable Amount represents monies deposited by Settlors and adjusted for income earned and expenses incurred by the Trust. This distribution will be allocated to the Grower States based on each Grower State's percentage enumerated in Section 1.03 of the Trust Agreement. All interest earned and expenses accrued are allocated to the Grower States based on each Grower State's percentage, as enumerated in Section 1.03 of the Trust Agreement, except for interest earned on the Hold Separate and Reserve Accounts, which are allocated to the states based on the cash balances in their respective accounts.

The Trustee allows for monthly distributions at the request of the Grower States but will not distribute any monies to any Grower State that is not one of the Settling States under the MSA unless such Settling State has achieved State-Specific Finality as defined in the MSA. At December 31, 2001, all the states had achieved State-Specific Finality.

Pursuant to the Trust Agreement, on or before December 31 of each year, the Trustee will pay out or place in a Reserve Account for each individual Grower State, a distribution in accordance with the instructions contained in the Signed Statement submitted each year by the Grower State's Certification Entity.

Pursuant to the terms of the Trust Agreement, prior to disbursement of the Distributable Amounts, each Certification Entity must deliver to the Trustee a plan (the "Plan") describing the categories of persons or entities to whom distributions will be made and explaining how each falls within the definition of "Tobacco Grower" or "Tobacco Quota Owner," as defined in the Trust Agreement. The Trustee will review and accept such plan or return the Plan to the Certification Entity for revision.

Note 5 - Distributions to Grower States (Continued)

Upon completion and acceptance of a valid plan, each Certification Entity will submit a Signed Statement to the Trustee outlining all information regarding the Distributable Amounts. The Certification Entities have the following options with regard to the Distributable Amounts: they may pay the respective eligible Tobacco Growers and/or Tobacco Quota Owners (Item (ii) of the Signed Statement); reimburse the Certification Entity for reasonable administrative expenses (Item (iii) of the Signed Statement) or defer payments by placing amounts in a Reserve or Hold Separate Account (Item (iv) of the Signed Statement).

The Certification Entities of the Grower States that establish and operate private administrative offices are entitled to receive advances for expenses of a maximum of $400,000 against the Distributable Amount for the Grower State. Such advances are included in distributions in the statements of changes in net assets and cash flows.

Subsequent to December 31, 2011, there was approximately $60,000 of funds disbursed to non-governmental tax-exempt organizations based on the instructions from the Grower States.

Note 6 - Off-Balance Sheet, Market and Credit Risk

In the normal course of business, the Trust enters into contracts that contain a variety of representations and warranties, which provide general indemnifications. The Trust's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Trust but have not yet occurred. However, based on experience, the Trust expects the risk of loss to be remote.

The Trust maintains its cash balances with a financial institution; the interest bearing accounts are insured by the Federal Deposit Insurance Corporation up to $250,000.

Note 7 - Subsequent Events

The Trust has evaluated subsequent events through June 30, 2014, which is the date the financial statements were available to be issued, and has concluded that, other than the events mentioned in Note 5, no such events or transactions took place which would require disclosure herein.