ONTARIO TOBACCO ASSET SECURITIZATION CORPORATION
A COMPONENT UNIT OF ONTARIO COUNTY, NEW YORK

BASIC FINANCIAL STATEMENTS

For The Years Ended December 31, 2012 and 2011

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Raymond F. Wager, CPA, P.C.
Certified Public Accountants

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Members of
American Institute of
Certified Public Accountants
and
New York State Society of
Certified Public Accountants

Independent Auditors' Report

To the Board of Directors
Ontario Tobacco Asset Securitization Corporation
A Component Unit of Ontario County, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the Ontario Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of Ontario County, New York, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

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 opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2012 and 2011, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note II to the financial statements, management has elected to change its accounting policy for recognizing debt issuance costs included in the net investment in capital assets.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2013 on our consideration of the Ontario Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of Ontario County, New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Ontario Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of Ontario County, New York's internal control over financial reporting and compliance.

Raymond F. Wager, CPA, PC

March 12, 2013

ONTARIO TOBACCO ASSET SECURITIZATION CORPORATION

A COMPONENT UNIT OF ONTARIO COUNTY, NEW YORK

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2012

INTRODUCTION

This discussion and analysis of the Ontario Tobacco Asset Securitization Corporation (TASC), a component unit of Ontario County, New York's financial performance provides an overview of the financial activities for the year ended December 31, 2012. It should be read in conjunction with the basic financial statements which immediately follow this section, and it is intended to enhance understanding of the TASC's financial performance.

THE STATEMENT OF NET POSITION AND THE STATEMENT OF ACTIVITIES

The Statement of Net Position includes all assets and liabilities of the Ontario TASC, with the difference between assets and liabilities reported as Net Position. The Statement of Activities presents financial information as to how the TASC's Net Position changed during the year, with all of the changes being reported. Over time, increases or decreases in the TASC's Net Position are one indicator of whether its "financial health" is strengthening or deteriorating. Both statements utilize the full accrual basis of accounting.

The total net position at the close of the 2012 year was ($23,883,488). Net position decreased by $489,846 from the previous year as illustrated below:

	2012 Total	2011 Total	2010 Total
Operating Revenues	$ 1,108,464	$ 1,427,312	$ 1,267,986
Operating Expenses	1,650,223	1,623,614	1,549,920
Operating Income (Loss)	$ (541,759)	$ (196,302)	$ (281,934)
Non-Operating Revenues	101,913	102,020	64,241
Non-Operating (Expenses)	(50,000)	(20,000)	(20,000)
Increase (Decrease) in Net Position	**$ (489,846)**	**$ (114,282)**	**$ (237,693)**

The decrease in Net Position in 2012 is explained in the following revenue and expense summaries.

OPERATING REVENUES

The Ontario TASC's operating revenues decreased by $318,848 in 2012 and increased by $159,326 in 2011. This decrease in revenues can be attributed to the April 2012 payment coming in less than expected, while the increase during 2011 can be attributed to an increase in accrued tobacco settlement revenues in anticipation of the April 2012 payment.

OPERATING EXPENSES

The Ontario TASC's operating expenses increased by $26,609 in 2012 and by $73,694 in 2011. These increases in expenses can be attributed to an increase in the amount of debt service interest paid in 2012 and 2011.

NOTES TO THE FINANCIAL STATEMENTS

The Notes to the Basic Financial Statements provide additional information considered essential to a clear understanding of the financial information provided in the TASC's financial statements.

2012 FINANCIAL ACTIVITIES

In 2012, the cash balance of the TASC decreased by $15,088 to a year ending balance of $150,595 at December 31, 2012. This decrease was caused by a decreased amount in the operating checking account.

While the TASC has $150,595 of cash on hand at December 31, 2012, the Statement of Net Position indicates that the TASC has outstanding debt for the Series 2001 New York Counties Trust II and Series 2005 New York Counties Tobacco Trust V of $16,020,000 and $10,665,927 net of discount at year end, respectively. These debt instruments have varying principal payment terms. For the Trust II bonds, debt will be paid in annual installments ($1,140,000 on June 1, 2013) plus interest payments, with the final payment expected to be made on June 1, 2027. The Trust V bonds are Capital Appreciation Bonds and do not pay current interest. Interest accretes until both principal and accreted interest is paid. Future interest accretion has been recorded as bond discount, amortized as the current interest accretes. The first principal payment of $767,567 is expected to be paid June 1, 2022.

Due to the outstanding debt and accrued liabilities, the TASC had a net position balance at December 31, 2012 of ($23,883,488) which is the difference between the total liabilities as listed at December 31, 2012 of ($26,761,594) less the sum of cash currently on hand to pay those bondholders of $150,595, investments of $1,460,412, accounts receivable of $1,267,099. The following is a summary of the Ontario TASC's Net Position as of December 31, 2012, 2011 and 2010:

	2012	2011	2010
ASSETS:			
Current Assets	$ 2,878,106	$ 3,054,966	$ 2,863,220
Total Assets	**$ 2,878,106**	**$ 3,054,966**	**$ 2,863,220**
LIABILITIES:			
Current Liabilities	$ 1,215,667	$ 977,438	$ 738,998
Noncurrent Liabilities	25,545,927	25,471,170	25,403,582
Total Liabilities	**$ 26,761,594**	**$ 26,448,608**	**$ 26,142,580**
NET POSITION:			
Restricted	$ 2,878,106	$ 3,054,966	$ 2,863,220
Unrestricted	(26,761,594)	(26,448,608)	(26,142,580)
Total Net Position	**$ (23,883,488)**	**$ (23,393,642)**	**$ (23,279,360)**

The decrease in Net Position of $489,846 in 2012 and $114,282 in 2011 was primarily due to increased bonds payable offset by tobacco settlement revenue receivable during those respective years.

FACTORS BEARING ON THE TASC'S FUTURE

There are three main factors that could significantly affect the TASC. The first factor is litigation challenging the Master Settlement Agreement (MSA). Some smokers, consumer groups, cigarette importers, wholesalers, distributors, manufacturers, Native American tribes, taxpayers and other parties have instituted lawsuits alleging that certain provisions of the constitution, antitrust, civil rights, consumer protection and unfair competition laws have been violated by the MSA. An adverse ruling in any of these cases could have a material adverse effect on the amount of revenue available to the TASC to pay principal and interest on outstanding bonds.

The second factor is the ability of tobacco companies to make annual tobacco settlement payments to the Ontario TASC. The risk of reduced sales of cigarettes affects the amount of revenue passed through to the TASC and its ability to repay the bondholders. If certain criteria, signaling a decline in consumption to a specific level are met, a Trapping Event can occur. The occurrence of a trapping event mandates a deposit of all residual payments to be made into a "trapping account." This money is set aside to protect the bondholders, and affects the TASC's cash requirements.

The third factor is the provision in the original bond agreements for an alternate debt repayment schedule in the event that tobacco settlement revenue is not sufficient to meet the original repayment schedule.

CONTACTING THE TASC FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the TASC's finances for anyone having an interest and should be considered along with the Basic Financial Statements and related notes. Questions concerning any of the information provided in this report should be addressed to Ms. Lorrie Scarrott, Ontario County, 20 Ontario Street, Canandaigua, New York 14424.

ONTARIO TOBACCO ASSET SECURITIZATION CORPORATION
A COMPONENT UNIT OF ONTARIO COUNTY, NEW YORK

STATEMENT OF NET POSITION

December 31, 2012 and 2011

	Governmental Activities 2012	Governmental Activities 2011
ASSETS:		
Current Assets -		
Restricted cash	$ 150,595	$ 165,683
Restricted investments	1,460,412	1,460,412
Tobacco settlement receivables	1,267,099	1,428,871
TOTAL ASSETS	**$ 2,878,106**	**$ 3,054,966**
LIABILITIES:		
Current Liabilities -		
Bonds payable	$ 1,140,000	$ 900,000
Accrued liabilities	75,667	77,438
Total Current Liabilities	$ 1,215,667	$ 977,438
Non-Current Liabilities -		
Bonds payable - net of discount	$ 25,545,927	$ 25,471,170
TOTAL LIABILITIES	**$ 26,761,594**	**$ 26,448,608**
NET POSITION:		
Restricted for debt service	$ 2,878,106	$ 3,054,966
Unrestricted	(26,761,594)	(26,448,608)
TOTAL NET POSITION	**$ (23,883,488)**	**$ (23,393,642)**

ONTARIO TOBACCO ASSET SECURITIZATION CORPORATION

A COMPONENT UNIT OF ONTARIO COUNTY, NEW YORK

STATEMENT OF ACTIVITIES

For the Years Ended December 31, 2012 and 2011

	Governmental Activities	
	2012	**2011**
OPERATING REVENUES:		
Tobacco settlement revenues	$ 1,108,464	$ 1,427,312
TOTAL OPERATING REVENUES	$ 1,108,464	$ 1,427,312
OPERATING EXPENSES:		
Debt service - interest	$ 1,621,617	$ 1,594,647
Insurance	5,430	1,135
Professional fees	23,176	27,832
TOTAL OPERATING EXPENSES	$ 1,650,223	$ 1,623,614
OPERATING INCOME (LOSS)	$ (541,759)	$ (196,302)
NON-OPERATING REVENUES (EXPENSES):		
Interest	$ 101,913	$ 102,020
Distribution to Ontario County, New York	(50,000)	(20,000)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$ 51,913	$ 82,020
CHANGE IN NET POSITION	**$ (489,846)**	**$ (114,282)**
NET POSITION - BEGINNING OF YEAR (RESTATED)	(23,393,642)	(23,279,360)
NET POSITION - END OF YEAR	**$ (23,883,488)**	**$ (23,393,642)**

ONTARIO TOBACCO ASSET SECURITIZATION CORPORATION
A COMPONENT UNIT OF ONTARIO COUNTY, NEW YORK

BALANCE SHEET
GOVERNMENTAL FUNDS

December 31, 2012 and 2011

	Debt Service Fund	
	2012	**2011**
ASSETS:		
Cash and cash equivalents	$ 150,595	$ 165,683
Investments	1,460,412	1,460,412
TOTAL ASSETS	**$ 1,611,007**	**$ 1,626,095**
FUND BALANCES:		
Restricted fund balance	$ 1,611,007	$ 1,626,095
TOTAL FUND BALANCES	**$ 1,611,007**	**$ 1,626,095**
Amounts reported in the statement of net position are different because:		
Receivables related to tobacco settlement revenues are not available financial resources and therefore, are not reported in the governmental funds	1,267,099	1,428,871
Accrued interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in governmental funds balance sheet.	(75,667)	(77,438)
Long-term liabilities, including bonds payable, are not due in the current period and therefore, are not reported in the fund.	(26,685,927)	(26,371,170)
Net Position of Governmental Activities	**$ (23,883,488)**	**$ (23,393,642)**

(See accompanying notes to financial statements)

ONTARIO TOBACCO ASSET SECURITIZATION CORPORATION
A COMPONENT UNIT OF ONTARIO COUNTY, NEW YORK

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Years Ended December 31, 2012 and 2011

	Debt Service Fund	
	2012	**2011**
REVENUES:		
Tobacco settlement revenues	$ 1,270,236	$ 1,245,553
Interest income	101,913	102,020
TOTAL REVENUES	$ 1,372,149	$ 1,347,573
TOTAL REVENUES AND OTHER FINANCING SOURCES	$ 1,372,149	$ 1,347,573
EXPENDITURES:		
Current -		
General governmental support	$ 28,606	$ 28,967
Distributions to Ontario County	50,000	20,000
Debt Service -		
Principal	390,000	350,000
Interest	918,631	938,619
TOTAL EXPENDITURES	$ 1,387,237	$ 1,337,586
NET CHANGE IN FUND BALANCE	**$ (15,088)**	**$ 9,987**
FUND BALANCE - BEGINNING OF YEAR	1,626,095	1,616,108
FUND BALANCE - END OF YEAR	**$ 1,611,007**	**$ 1,626,095**

ONTARIO TOBACCO ASSET SECURITIZATION CORPORATION
A COMPONENT UNIT OF ONTARIO COUNTY, NEW YORK

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

For the Years Ended December 31, 2012 and 2011

	2012	2011
NET CHANGE IN FUND BALANCE - DEBT SERVICE FUND	$ (15,088)	$ 9,987
Amounts reported in the statement of activities are different because:		
The issuance of long-term debt, including bonds, provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of insurance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(312,986)	(306,028)
Receivables related to tobacco settlement revenues are not available financial resources and therefore, are not reported in the governmental funds	(161,772)	181,759
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	**$ (489,846)**	**$ (114,282)**

I. Organization:

The Ontario Tobacco Asset Securitization Corporation (The Corporation), a component unit of Ontario County, New York is a special purpose, bankruptcy-remote local development corporation organized under the Not-For-Profit Corporation Law of the State of New York (the State). The Corporation was established on July 2, 2001. The Corporation is an instrumentality of, but separate and apart from the County of Ontario, New York (the County). The Corporation is managed by a Board of Directors, four members of which shall serve ex officio, consisting of the County Administrator, the County Director of Finance, Assistant County Attorney, and the Chairman of the Finance Committee of the Board of Supervisors, and one member of which shall be an Independent Director (as defined in the bylaws of the Corporation). Although legally separate from the County, the Corporation is a component unit of the County, and accordingly, is included in the County's financial statements as a blended component unit.

On July 3, 2001, pursuant to a Purchase and Sale Agreement with the County, the County sold to the Corporation all of its future rights, title and interest in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) and the Decree and Final Judgment (the Decree). The MSA resolved cigarette smoking-related litigation between the settling states and the Participating Manufacturers (PMs), released the PMs from past and present smoking-related claims, and provides for a continuing release of future smoking-related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things. The Decree, which was entered by the Supreme Court of the State, allocated to the County a share of the TSRs under the MSA. The future rights, title and interest of the County's share were sold to the Corporation.

The purchase price of the County's future rights, title and interest in the TSRs has been financed by the issuance of serial bonds. A Residual Certificate exists, which represents the entitlement to receive all amounts required to be distributed after payment of debt service, operating expenses and certain other costs as set forth in the indenture. Payments on the Residual Certificate from TSR collections are subordinate to payments on the bonds and payment of certain other costs specified in the indenture. Excess TSRs not required by the Corporation to pay various expenses, debt service or required reserves with respect to the bonds are transferred to the Ontario Tobacco Asset Securitization Corporation Residual Trust (the Trust), as owner of the Residual Certificate. The County is the beneficial owner of the Trust and thus, the funds received by the Trust will ultimately transfer to the County.

II. Summary of Significant Accounting Policies:

A. Adoption of Accounting Principles

The Governmental Accounting Standards Board (GASB) promulgates accounting principles and guidelines for financial reporting for use by state and local governments throughout the United States. Effective January 1, 2004, the following governmental Accounting Standards Board's (GASB) Statements became applicable: Statement No. 46 – *Net Assets Restricted by Enabling Legislation, an Amendment of GASB No. 34* and GASB Technical Bulletin No. 2004-1 – *Tobacco Settlement Recognition and Financial Reporting Entity Issues.* Technical Bulletin No. 2004-1 had an impact on the Corporation's basic financial statements. As a result, the Corporation began recognizing tobacco settlement revenues based on the date of domestic shipment of cigarettes.

GASB has issued Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Corporation implemented this statement for the year ended December 31, 2011.

GASB has issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* GASB Statement 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The Statement of Net Assets is renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The Corporation adopted the provisions of the statement for the year ended December 31, 2012.

GASB has issued Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which improves financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012, however, the Corporation has elected to early implement this statement in fiscal year 2012.

B. Basis of Presentation

The Corporation uses one governmental fund (Debt Service Fund) to report its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and aid financial management by segregating transactions related to certain functions and activities. The Debt Service Fund accounts for the accumulation of resources for payment of principal and interest on long-term debt and supports the operations of the Corporation.

C. Basis of Accounting/Measurement Focus

The Corporation follows the modified accrual basis of accounting in its debt service fund, which focuses on changes in available resources, in preparation of the fund financial statements. Under the modified accrual basis of accounting, revenues and related receivables are recorded in the accounting period that they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay the liabilities of the current period (ninety days or less). Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recognized as expenditures to the extent they have matured.

General administration expenditures are direct costs incurred by the Corporation, such as legal and auditing fees, financial advisory fees, printing costs, trustee fees and other related costs. General administration expenditures are paid either from bond proceeds or from TSR's.

The Corporation utilizes the full accrual basis of accounting, which focuses on changes in total economic resources, in preparation of the Corporation-wide financial statements. Under the full accrual basis of accounting, changes in long-term assets and liabilities are incorporated into the financial statements and revenues and expenses are recorded based on the timing of the underlying transaction without regard for the timing of cash flows. Since the fund financial statements are prepared on a different measurement focus and basis of accounting than the Corporation-wide financial statements, a reconciliation is presented to explain differences between the fund based financial statements and the Corporation-wide financial statements.

D. Restatement of Net Position

The Corporation implemented the guidance under GASB Statement 65. The guidance requires the Corporation to recognize the expenditures associated with the issuance of debt during the period in which the debt was issued rather than amortized over the period of the debt. Therefore the following restatement was made.

Net Position balance as previously reported at January 1, 2011	$ (22,750,747)
Adjustments - remaining unamortized debt issuance costs	(528,613)
Net Position as restated at January 1, 2011	$ (23,279,360)

E. Cash, Cash Equivalents and Investments

The Corporation considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

F. Interest Expenditures/Expense

The Corporation recognizes all interest paid as interest expenditures for the statement of governmental fund revenues, expenditures and changes in fund balance, and as expenses as incurred on the full accrual basis for the statement of activities.

G. Amortized Bond Discounts

The Corporation recognizes bond discounts fully in the year of issuance for the governmental fund statements. Bond discounts are deferred and are amortized over the life of the related bonds for the Corporation-wide statements.

H. Equity Classifications

1. Government-Wide Statements

Equity is classified for accounting purposes into applicable net position categories. The Corporation has the following:

a. **Restricted Net Position** - Net Position is reported as restricted when constraints placed on net position use are either externally imposed by creditors, grantors, contributions, or law or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The restricted net position of the Corporation is those net positions that are restricted based on externally imposed conditions.

b. **Unrestricted Net Position** - any remaining net position that does not meet the definition of "restricted" and can be internally designated.

2. Financial Statements – Fund Balance

Beginning with the year ended December 31, 2011, the Corporation implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used.

a. **Restricted fund balance** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

b. **Unassigned fund balance** – Amounts that are available for Corporation purposes pursuant to any Law restrictions.

3. The following policies relate to GASB No. 54:

a. **Spending policy** – Resources will generally be spent from Budgetary Appropriations first. Utilization of reserve funds will be determined based on the legal appropriation of such funds which require Board approval.

b. **Order of fund balance** – The County's policy is to apply expenditures against restricted fund balance and unassigned fund balance at the end of the year.

It is possible for the fund to have negative unassigned fund balance when the restricted fund balances for specific purposes amounts exceed the positive fund balance.

I. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America require the Corporation's management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

J. Tax Status

The Corporation is exempt from federal income tax under Section 115 of the Internal Revenue Code.

III. Cash, Cash Equivalents and Investments:

The Corporation's cash and cash equivalents including restricted amounts, consist of bank deposits and short term liquid debt instruments held by the Corporation's agent in the Corporation's name. At December 31, 2012, total cash and cash equivalents aggregated $1,611,007 and the Corporation's book value equaled the bank balance.

The Corporation's trustee holds investments for the funds included in the basic financial statements. The Corporation invests in authorized investments as described in the bond resolution including: commercial paper or finance company paper rated "P-1" by Moody's; special time deposit accounts; certificates of deposit; obligations of the Untied States of America; obligations guaranteed by agencies of the Untied States of America; obligations of the State of New York; obligations issued pursuant to Local Finance Law Sect. 24.00 or 25.00 (with approval of the State Comptroller) by any municipality, school district or district corporation other than the County of Ontario, New York, obligations of public authorities, public housing authorities, urban renewal agencies and industrial development agencies where general State statutes governing such entities or whose specific enabling legislation authorizes such investments; and repurchase agreements limited to obligations of the United States of America and obligations guaranteed by agencies of the United States of America.

All deposits of the Corporation, including money market deposits, are insured under the provisions of the Federal Deposit Insurance Act. Excess deposits are not secured.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Corporation's investment in commercial paper, $1,460,412, is held by the counterparty in the Corporation's name and is not insured.

Concentration of Credit Risk – The Corporation places no limit on the amount that it may invest with in any one issuer. The entire amount of the Corporation's investments are in commercial paper and represent 100% of the investments of the Corporation. This investment has an original maturity of six months.

Interest Rate Risk – The Corporation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rates.

(III.) (Continued)

As of December 31, 2012 the Corporation's investments were as follows:

	Issued	Maturity	Interest Rate	Cost	Market Value
FCAR Owner Trust Discount Commerical Paper	12/3/2012	6/3/2013	0.0557%	$ 1,460,412	$ 1,500,681

IV. Long-Term Liabilities:

Interest on long-term debt for the year was composed of:

	2012	2011
Interest paid	$ 918,631	$ 938,619
Less: interest accrued in the prior year	(77,438)	(78,998)
Plus: current amortization of bond discount / accrued interest	704,757	657,588
Plus: interest accrued in the current year	75,667	77,438
Total Interest Expense	**$ 1,621,617**	**$ 1,594,647**

Bond payable activity for the year ended December 31, 2012 is summarized below:

Governmental Activities:	Balance 12/31/2011	Redeemed	Change in Discount	Balance 12/31/2012	Classified As Current	Classified As Non-Current
Bonds and Notes Payable -						
Series 2001 NY Counties Trust II Tobacco Settlement Pass-Through Bonds	$ 16,410,000	$ 390,000	$ -	$ 16,020,000	$ 1,140,000	$ 14,880,000
Series 2005 S1, S2, S3, & S4B Subordinate Turbo Capital Appreciation NY Counties Trust V Tobacco Settlement Pass-Through Bonds	9,961,170	-	704,757	10,665,927	-	10,665,927
Total Long-Term Obligations	**$ 26,371,170**	**$ 390,000**	**$ 704,757**	**$ 26,685,927**	**$ 1,140,000**	**$ 25,545,927**

Series 2001 NY Counties Trust II Bonds:

As discussed in Note 1, the purchase price of the County's future rights, title and interest in the TSRs, was financed through the issuance of Series 2001 Bonds in the amount of $19,985,000 bearing interest at rates ranging from 5.25% to 5.75%. The bonds are secured by a perfected security interest in, which includes, among other things, the TSRs and all investment earnings on amounts on deposit in the accounts established under the Indenture (collectively, the Collections). Among the accounts so established are the Liquidity Reserve Account and the Trapping Account. The Corporation retains TSRs in an amount sufficient to service its debt, not otherwise provided for from bond proceeds, and pay its operating expenses, and remits the remaining balance to the Trust (Note I).

Principal and interest debt service requirements for required maturities and flexible amortization payments at December 31, 2012 for liquidation of the $16,020,000 bonds are as follows:

Year Ended	Amortization Assuming Super Sinker Payments		Amortization Assuming No Super Sinker Payments	
December 31,	Principal	Interest	Principal	Interest
2013	$ 1,140,000	$ 877,656	$ 170,000	$ 903,119
2014	650,000	829,456	180,000	893,056
2015	665,000	792,538	195,000	882,031
2016	720,000	752,797	225,000	869,431
2017	760,000	710,750	-	862,681
2018-22	5,380,000	2,724,019	-	4,313,407
2023-27	6,705,000	963,844	2,475,000	4,043,660
2028-32	-	-	3,170,000	3,190,656
2033-37	-	-	3,455,000	2,286,956
2038-42	-	-	4,945,000	1,097,819
2043	-	-	1,205,000	34,644
Total	**$ 16,020,000**	**$ 7,651,060**	**$ 16,020,000**	**$ 19,377,460**

(IV) (Continued)

Series 2005 S1, S2, S3, and S4B Subordinate Turbo Capital Appreciation Bonds:

On November 15, 2005, the Corporation issued $7,111,340 in Series 2005 S1, S2, S3, and S4B Subordinate Turbo Term NY Counties Trust IV Tobacco Settlement Pass-Through Capital Appreciation Bonds bearing interest ranging from 6.00% to 7.85%, collateralized by future TSR revenues. Capital Appreciation Bonds do not pay current interest. Interest accretes until both principal and accreted interest are paid. Future interest accretion has been recorded as bond discount, amortized as the current interest accretes.

At December 31, 2012, the outstanding principal, net of change in discount, totaled $10,665,927. The amortization schedule for the turbo amortization payments is as follows:

Amortization Schedule Assuming Turbo Amortization Payments

Year Ended December 31,	Turbo Redemption Payments	Gross Bond Balance	Remaining Discount	Net Bond Balance
2012	$ -	$ 35,205,831	$ (24,539,904)	$ 10,665,927
2013	-	35,205,831		
2014	-	35,205,831		
2015	-	35,205,831		
2016	-	35,205,831		
2017-2021	-	35,205,831		
2022-2026	4,487,423	30,718,408		
2027-2031	11,352,785	19,365,623		
2032-2036	11,567,764	7,797,859		
2037-2040	7,655,296	142,563		

Any debt service amounts not paid in accordance with the above turbo amortization schedule will be due and payable on the following final maturity dates:

Series 2005 S1	June 1, 2038
Series 2005 S2	June 1, 2050
Series 2005 S3	June 1, 2055
Series 2005 S4B	June 1, 2060

V. Restricted Net Position/Reserves:

As required by the Corporation Indenture, the Corporation has the following reserves at December 31, 2012 and 2011:

	2012	2011
Liquidity reserve	$ 1,460,412	$ 1,460,412
Trapping reserve	3,094	-
Restricted fund balance	147,501	165,683
Total Restricted Funds	**$ 1,611,007**	**$ 1,626,095**

Liquidity Reserve –to fund future debt service payments if needed.

Trapping Reserve – established as a result of a financial rating downgrade of a major tobacco corporation.

Restricted Fund Balance – to fund future costs of the TASC.

Upon retirement of the outstanding bonds payable, any funds available in any of these reserves will be distributed to Ontario County, New York.

VI. Contingencies:

Future tobacco settlement revenues are subject to adjustment based upon tobacco consumption, inflation and other potential reductions. Pursuant to the Purchase and Sale Agreement these adjustments and other events could trigger additional debt service reserve requirements.

VII. Unrestricted Net Position – Deficit:

The deficit unrestricted net position balance represents the outstanding bond liability to be paid off with future rights to receive tobacco revenues.

Raymond F. Wager, CPA, P.C.
Certified Public Accountants

Shareholders:

Raymond F. Wager, CPA
Thomas J. Lauffer, CPA
Thomas C. Zuber, CPA

Members of
American Institute of
Certified Public Accountants
and
New York State Society of
Certified Public Accountants

Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditors' Report

To the Board of Directors
Ontario Tobacco Asset Securitization Corporation
A Component Unit of Ontario County, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Ontario Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of Ontario County, New York, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Ontario Tobacco Asset Securitization Corporation, a blended component unit of Ontario County, New York's basic financial statements, and have issued our report thereon dated March 12, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Ontario Tobacco Asset Securitization Corporation, a blended component unit of Ontario County, New York 's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Ontario Tobacco Asset Securitization Corporation, a blended component unit of Ontario County, New York's internal control. Accordingly, we do not express an opinion on the effectiveness of Ontario Tobacco Asset Securitization Corporation, a blended component unit of Ontario County, New York's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ontario Tobacco Asset Securitization Corporation, a blended component unit of Ontario County, New York's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Raymond F. Wager CPA PC

March 12, 2013