

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

BASIC FINANCIAL STATEMENTS

For The Years Ended December 31, 2011 and 2010

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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

We have audited the accompanying financial statements of the governmental activities and major fund 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, 2011 and 2010, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Corporation's December 31, 2010 financial statements and, in our report dated March 15, 2011 we expressed an unqualified opinion on those statements.

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 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 respective financial position of the governmental activities and major fund of the Ontario Tobacco Asset Securitization Corporation as of December 31, 2011 and 2010, and the respective changes in financial position thereof and for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2012 on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 to 5 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Raymond F. Wager CPA PC". The signature is written in a cursive style with a large initial 'R'.

March 7, 2012

ONTARIO TOBACCO ASSET SECURITIZATION CORPORATION

A COMPONENT UNIT OF ONTARIO COUNTY, NEW YORK

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2011

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, 2011. 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 ASSETS AND THE STATEMENT OF ACTIVITIES

The Statement of Net Assets includes all assets and liabilities of the Ontario TASC, with the difference between assets and liabilities reported as Net Assets. The Statement of Activities presents financial information as to how the TASC's Net Assets changed during the year, with all of the changes being reported. Over time, increases or decreases in the TASC's Net Assets 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 assets at the close of the 2011 year were (\$22,889,988). Net assets decreased by \$139,241 from the previous year as illustrated below:

	<u>2011</u>	<u>2010</u>
	<u>Total</u>	<u>Total</u>
Operating Revenues	\$ 1,427,312	\$ 1,267,986
Operating Expenses	<u>1,623,614</u>	<u>1,549,920</u>
Operating Income (Loss)	\$ (196,302)	\$ (281,934)
Non-Operating Revenues	102,020	64,241
Non-Operating (Expenses)	<u>(44,959)</u>	<u>(44,959)</u>
Increase (Decrease) in Net Assets	<u><u>\$ (139,241)</u></u>	<u><u>\$ (262,652)</u></u>

The decrease in net assets in 2011 is explained in the following revenue and expense summaries.

OPERATING REVENUES

The Ontario TASC's operating revenues increased by \$159,326 in 2011. This increase in revenues can be attributed to an increase in the accrued tobacco settlement revenues in anticipation of the April 2012 payment.

OPERATING EXPENSES

The Ontario TASC's operating expenses increased by \$73,694 in 2011. This increase in expenses can be attributed to an increase in the amount of debt service interest paid in 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.

2011 FINANCIAL ACTIVITIES

In 2011, the cash balance of the TASC increased by \$9,987 to a year ending balance of \$165,683 at December 31, 2011. This increase was caused by an increased amount in the operating checking account.

While the TASC has \$165,683 of cash on hand at December 31, 2011, the Statement of Net Assets 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 \$16,410,000 and \$9,961,170 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 (\$900,000 on June 1, 2012) 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 asset balance at December 31, 2011 of (\$22,889,988) which is the difference between the total liabilities as listed above at December 31, 2011 of (\$26,448,608) less the sum of cash currently on hand to pay those bondholders of \$165,683, investments of \$1,460,412, accounts receivable of \$1,428,871 and bond issuance costs – net of \$503,654. The following is a summary of the Ontario TASC's net assets as of December 31, 2011 and December 31, 2010:

	<u>2011</u>	<u>2010</u>
<u>ASSETS:</u>		
Current Assets	\$ 3,054,966	\$ 2,863,220
Other Assets	503,654	528,613
Total Assets	<u>\$ 3,558,620</u>	<u>\$ 3,391,833</u>
<u>LIABILITIES:</u>		
Current Liabilities	\$ 977,438	\$ 738,998
Noncurrent Liabilities	25,471,170	25,403,582
Total Liabilities	<u>\$ 26,448,608</u>	<u>\$ 26,142,580</u>
<u>NET ASSETS:</u>		
Restricted	\$ 3,054,966	\$ 2,863,220
Unrestricted	(25,944,954)	(25,613,967)
Total Net Assets	<u>\$ (22,889,988)</u>	<u>\$ (22,750,747)</u>

The decrease in net assets of \$139,241 was primarily due to increased bonds payable offset by tobacco settlement revenue receivable.

FACTORS BEARING ON THE TASC'S FUTURE

The ability of tobacco companies to make annual tobacco settlement payments to Ontario TASC is a risk that affects the TASC's ability to repay the bondholders.

The original bonding agreements also contained a provision 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 ASSETS

December 31, 2011 and 2010

	Governmental Activities	
	<u>2011</u>	<u>2010</u>
<u>ASSETS:</u>		
<u>Current Assets -</u>		
Restricted cash	\$ 165,683	\$ 155,696
Restricted investments	1,460,412	1,460,412
Tobacco settlement receivables	1,428,871	1,247,112
Total Current Assets	\$ 3,054,966	\$ 2,863,220
<u>Non-Current Assets -</u>		
Bond issuance costs - net	\$ 503,654	\$ 528,613
TOTAL ASSETS	\$ 3,558,620	\$ 3,391,833
 <u>LIABILITIES:</u>		
<u>Current Liabilities -</u>		
Bonds payable	\$ 900,000	\$ 660,000
Accrued liabilities	77,438	78,998
Total Current Liabilities	\$ 977,438	\$ 738,998
<u>Non-Current Liabilities -</u>		
Bonds payable - net of discount	\$ 25,471,170	\$ 25,403,582
TOTAL LIABILITIES	\$ 26,448,608	\$ 26,142,580
 <u>NET ASSETS:</u>		
Restricted for debt service	\$ 3,054,966	\$ 2,863,220
Unrestricted	(25,944,954)	(25,613,967)
TOTAL NET ASSETS	\$ (22,889,988)	\$ (22,750,747)

ONTARIO TOBACCO ASSET SECURITIZATION CORPORATION

A COMPONENT UNIT OF ONTARIO COUNTY, NEW YORK

STATEMENT OF ACTIVITIES

For the Years Ended December 31, 2011 and 2010

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
<u>OPERATING REVENUES:</u>		
Tobacco settlement revenues	\$ 1,427,312	\$ 1,267,986
TOTAL OPERATING REVENUES	<u>\$ 1,427,312</u>	<u>\$ 1,267,986</u>
<u>OPERATING EXPENSES:</u>		
Debt service - interest	\$ 1,594,647	\$ 1,520,471
Insurance	1,135	19,049
Professional fees	27,832	10,400
TOTAL OPERATING EXPENSES	<u>\$ 1,623,614</u>	<u>\$ 1,549,920</u>
OPERATING INCOME (LOSS)	<u>\$ (196,302)</u>	<u>\$ (281,934)</u>
<u>NON-OPERATING REVENUES (EXPENSES):</u>		
Interest	\$ 102,020	\$ 46,887
Miscellaneous	-	17,354
Amortization of bond issuance costs	(24,959)	(24,959)
Distribution to Ontario County, New York	(20,000)	(20,000)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>\$ 57,061</u>	<u>\$ 19,282</u>
CHANGE IN NET ASSETS	<u>\$ (139,241)</u>	<u>\$ (262,652)</u>
NET ASSETS - BEGINNING OF YEAR	<u>(22,750,747)</u>	<u>(22,488,095)</u>
NET ASSETS - END OF YEAR	<u><u>\$ (22,889,988)</u></u>	<u><u>\$ (22,750,747)</u></u>

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

BALANCE SHEET
GOVERNMENTAL FUNDS

December 31, 2011 and 2010

	Debt Service Fund	
	<u>2011</u>	<u>2010</u>
<u>ASSETS:</u>		
Cash and cash equivalents	\$ 165,683	\$ 155,696
Investments	1,460,412	1,460,412
TOTAL ASSETS	\$ 1,626,095	\$ 1,616,108
 <u>FUND BALANCES:</u>		
<u>Fund Balance</u>		
Reserved for,		
Liquidity reserve	\$ 1,460,412	\$ 1,460,412
Restricted fund balance	165,683	155,696
TOTAL FUND BALANCE	\$ 1,626,095	\$ 1,616,108
Amounts reported in the statement of net assets are different because:		
Receivables related to tobacco settlement revenues are not available financial resources and therefore, are not reported in the governmental funds	\$ 1,428,871	\$ 1,247,112
Bond issuance costs	503,654	528,613
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.	(77,438)	(78,998)
Long-term liabilities, including bonds payable, are not due in the current period and therefore, are not reported in the fund.	(26,371,170)	(26,063,582)
Net Assets of Governmental Activities	\$ (22,889,988)	\$ (22,750,747)

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, 2011 and 2010

	Debt Service Fund	
<u>REVENUES:</u>	<u>2011</u>	<u>2010</u>
Tobacco settlement revenues	\$ 1,245,553	\$ 1,313,761
Interest income	102,020	46,887
Miscellaneous	-	17,354
TOTAL REVENUES	\$ 1,347,573	\$ 1,378,002
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 1,347,573	\$ 1,378,002
<u>EXPENDITURES:</u>		
<u>Current -</u>		
General governmental support	\$ 28,967	\$ 29,449
Distributions to the County	20,000	20,000
<u>Debt Service -</u>		
Principal	350,000	400,000
Interest	938,619	958,638
TOTAL EXPENDITURES	\$ 1,337,586	\$ 1,408,087
NET CHANGE IN FUND BALANCE	\$ 9,987	\$ (30,085)
FUND BALANCE - BEGINNING OF YEAR	1,616,108	1,646,193
FUND BALANCE - END OF YEAR	\$ 1,626,095	\$ 1,616,108

**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, 2011 and 2010

NET CHANGE IN FUND BALANCE - DEBT SERVICE FUND	<u>2011</u>	<u>2010</u>
	\$ 9,987	\$ (30,085)
 Amounts reported in the statement of activities are different because:		
<p>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 issuance 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.</p>	(330,987)	(186,792)
<p>Receivables related to tobacco settlement revenues are not available financial resources and therefore, are not reported in the governmental funds</p>	<u>181,759</u>	<u>(45,775)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (139,241)</u></u>	<u><u>\$ (262,652)</u></u>

ONTARIO TOBACCO ASSET SECURITIZATION CORPORATION

A COMPONENT UNIT OF ONTARIO COUNTY, NEW YORK

Notes to Financial Statements

December 31, 2011

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 Bulletins No. 2004-1 – *Tobacco Settlement Recognition and Financial Reporting Entity Issues* and No. 2004-2 – *Recognition of Pension and Other Post Employment Benefits Expenditures/Expenses and Liabilities by Cost-Sharing Employers*. Only 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.

B. Changes in Accounting Standards

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 has implemented this statement as of January 1, 2011.

C. Comparative Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended December 31, 2010, from which the summarized information was derived.

D. 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.

E. 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.

(II.) (Continued)

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.

F. 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.

G. 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.

H. Amortized Bond Issuance Costs and Discounts

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

I. Net Assets

Resources are classified for accounting purposes into applicable net asset categories. The Corporation has both restricted and unrestricted net assets.

Net assets are reported as restricted when constraints placed on net assets 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. Restricted net assets of the Corporation are those net assets that are restricted based on externally imposed conditions.

Unrestricted net assets are considered all other net assets that are not restricted and may be internally designated.

The Corporation has adopted a practice of generally utilizing their restricted net assets when available, prior to unrestricted net assets.

(II.) (Continued)

J. 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.

K. 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, 2011, total cash and cash equivalents aggregated \$1,626,095 , 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 United States of America; obligations guaranteed by agencies of the United 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, 2011 the Corporation's investments were as follows:

	<u>Issued</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Cost</u>	<u>Market Value</u>
FCAR Owner Trust Discount Commerical Paper	9/7/2011	6/1/2012	0.680%	<u>\$ 1,460,412</u>	<u>\$ 1,498,969</u>

IV. Long-Term Liabilities:

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

	<u>2011</u>	<u>2010</u>
Interest paid	\$ 938,619	\$ 958,638
<u>Less: interest accrued in the prior year</u>	<u>(78,998)</u>	<u>(130,781)</u>
<u>Plus: current amortization of bond discount / accrued interest</u>	<u>657,588</u>	<u>613,616</u>
<u>Plus: interest accrued in the current year</u>	<u>77,438</u>	<u>78,998</u>
Total Interest Expense	<u>\$ 1,594,647</u>	<u>\$ 1,520,471</u>

Bond payable activity for the year ended December 31, 2011 is summarized below:

<u>Governmental Activities:</u>	<u>Balance</u> <u>12/31/2010</u>	<u>Redeemed</u>	<u>Change in</u> <u>Discount</u>	<u>Balance</u> <u>12/31/2011</u>	<u>Classified As</u>	
					<u>Current</u>	<u>Non-Current</u>
<u>Bonds and Notes Payable -</u>						
Series 2001 NY Counties Trust II Tobacco Settlement Pass- Through Bonds	\$ 16,760,000	\$ 350,000	\$ -	\$ 16,410,000	\$ 900,000	\$ 15,510,000
Series 2005 S1, S2, S3, & S4B Subordinate Turbo Capital Appreciation NY Counties Trust V Tobacco Settlement Pass-Through Bonds	9,303,582	-	657,588	9,961,170	-	9,961,170
Total Long-Term Obligations	<u>\$ 26,063,582</u>	<u>\$ 350,000</u>	<u>\$ 657,588</u>	<u>\$ 26,371,170</u>	<u>\$ 900,000</u>	<u>\$ 25,471,170</u>

(IV) (Continued)

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, 2011 for liquidation of the \$16,410,000 bonds are as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Amortization Assuming Super</u> <u>Sinker Payments</u>		<u>Amortization Assuming No Super</u> <u>Sinker Payments</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 900,000	\$ 905,245	\$ 155,000	\$ 924,800
2013	630,000	864,269	170,000	915,456
2014	650,000	829,456	180,000	905,394
2015	665,000	792,538	195,000	894,369
2016	720,000	752,797	225,000	881,769
2017-21	3,805,000	3,281,219	285,000	4,375,094
2022-26	6,355,000	1,724,284	1,800,000	4,179,082
2027-31	2,685,000	145,906	3,180,000	3,369,250
2032-36	-	-	3,280,000	2,477,791
3037-41	-	-	4,600,000	1,372,238
2042-43	-	-	2,340,000	136,563
Total	<u>\$ 16,410,000</u>	<u>\$ 9,295,714</u>	<u>\$ 16,410,000</u>	<u>\$ 20,431,806</u>

(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, 2011, the outstanding principal, net of change in discount, totaled \$9,961,170. 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
2011	\$ -	\$ 35,205,831	\$ (25,244,661)	\$ 9,961,170
2012	-	35,205,831		
2013	-	35,205,831		
2014	-	35,205,831		
2015	-	35,205,831		
2016-19	-	35,205,831		
2020-24	2,520,808	32,685,023		
2025-29	8,896,581	23,788,442		
2030-34	11,278,665	12,509,777		
2035-39	11,981,330	528,447		
2040	385,884	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 Assets/Reserves:

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

- A. **Liquidity Reserve** – in the amount of \$1,460,412 to fund future debt service payments if needed.
- B. **Trapping Reserve** – established as a result of a financial rating downgrade of a major tobacco corporation. This reserve had a balance of \$0 at December 31, 2011.
- C. **Restricted Fund Balance** – with a balance of \$165,683 this reserve is available 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 Assets – Deficit:

The deficit unrestricted net asset 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***

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

We have audited 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, 2011 and 2010, and have issued our report thereon dated March 7, 2012. 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.

Internal Control Over Financial Reporting

The management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures 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 Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of 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*.

We noted certain matters that we reported to the management of the Ontario Tobacco Asset Securitization Corporation, a Component Unit of Ontario County, New York in a separate letter dated March 7, 2012.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Raymond F. Wager, CPA, PC". The signature is written in a cursive style.

March 7, 2012