FINANCIAL STATEMENTS

ONONDAGA TOBACCO ASSET SECURITIZATION COPORATION

DECEMBER 31, 2013

ONONDAGA TOBACCO ASSET SECURITIZATION CORPORATION

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Testone, Marshall & Discenza, LLP

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Onondaga Tobacco Asset Securitization Corporation
Syracuse, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Onondaga Tobacco Asset Securitization Corporation (the "Corporation"), a blended component unit of the County of Onondaga, New York as of and for the year ended December 31, 2013, 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 entity'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 entity'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 opinions.

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 the major fund of Onondaga Tobacco Asset Securitization Corporation, as of December 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 8 to the financial statements, in 2013 the Corporation adopted the provisions of GASB No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-8 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 January 28, 2014 on our consideration of the Corporation's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Corporation's internal control over financial reporting and compliance.

Testone, Marshall & Discenza, LLP

January 28, 2014
Syracuse, New York

Our discussion and analysis of Onondaga Tobacco Asset Securitization Corporation's (the "Corporation") financial performance provides an overview of the Corporation's financial activities during 2013. It should be read in conjunction with the financial statements and their associated notes that follow this section to properly evaluate the Corporation's financial position. The financial statements present only the information for the year ended December 31, 2013.

FINANCIAL HIGHLIGHTS

As discussed further in the notes to the financial statements, the Corporation was formed to acquire from the County of Onondaga all future right, title and interest in the Tobacco Settlement Revenues ("TSRs") under the Master Settlement Agreement ("MSA") with respect to tobacco related litigation among various states and participating manufacturers. The Corporation is a component unit of Onondaga County and, accordingly, is included in the County's financial statements as a blended component unit. The Corporation is classified as a special-purpose government under *GASB Statement No. 14* and consists of one governmental fund. The fund and government-wide financial statements are presented together and include a reconciliation of the individual line items between the two statement types in a separate column.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. The statement of net position and statement of activities provide information about the Corporation's activity and present a long-term view of the Corporation's finances. The fund financial statements tell how the governmental activity's services were financed in the short term as well as what remains for future spending.

REPORTING THE CORPORATION AS A WHOLE

Government-wide Financial Statements

The Corporation presents its government-wide financial statements as the statement of net position and the statement of activities. These include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

(Continued)

REPORTING THE CORPORATION AS A WHOLE (CONT'D)

Government-wide Financial Statements (Cont'd)

These two statements report the Corporation's net position and changes in them. You can think of the Corporation's net position, the difference between assets and liabilities, as one way to measure the Corporation's financial health or financial position. Over time, increases or decreases in the Corporation's net position is one indicator of whether its financial health is improving or deteriorating.

Below is a condensed version of the government-wide financial statements for the years ended December 31:

	2013	2012 as restated
Assets	$ 9,567,127	$ 9,593,728
Liabilities	137,374,153	136,480,183
Net Position	(127,807,026)	(126,886,455)
Revenues	7,282,970	7,304,189
Expenses	8,203,541	8,118,036
Change in Net Position	(920,571)	(813,847)

The Corporation's assets decreased by approximately $22,600 and the Corporation's liabilities increased by approximately $894,000. Net position decreased by approximately $920,600.

There was minimal variance between years in program revenues. Under the Master Settlement Agreement, the tobacco companies are required to make annual payments to the Corporation. During 2013, approximately $6.8 million in tobacco revenues were received, lower by only $4,200 from 2012's revenues. Year-to-year variance in expenses was minor with 2013 expenses increasing by approximately $85,500, attributable to higher interest accretion expense.

During the year ended December 31, 2013, no new bonds were issued and no distributions were made to the County. However, during 2013, interest expense of $3 million was accreted on the Series 2005 bonds, while $2.8 million was accreted during 2012. The higher accreted interest resulted in the decreased net position.

No residual payments have been made to the County since 2003 due to the trapping events that occurred. Under a trapping event, those monies that would have been paid out to the County are now required to fund a trapping account as required by the Corporation's Indenture. In addition, as a result of the issuance of the 2005 Series Bonds, the County relinquished the right to use these monies for anything other than Corporation debt retirement.

The recognition of the bonds payable liability in 2001 and 2005 has created a deficit in the Corporation's net assets. The deficit is expected to be satisfied over time as the tobacco settlement proceeds are received.

(Continued)

REPORTING THE CORPORATION AS A WHOLE (CONT'D)

Fund Financial Statements

A governmental entity can have various types of funds such as governmental and proprietary. The Corporation only has one fund, the debt service fund, which is a governmental fund.

Governmental funds focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Corporation's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Corporation's programs.

Below is a condensed version of the fund financial statement for the years ended December 31:

	2013	2012
Assets	$ 8,748,914	$ 8,747,700
Fund Balance	8,748,914	8,747,700
Revenues	7,282,970	7,304,189
Expenditures	7,281,756	7,274,104
Excess of Revenues over Expenditures	1,214	30,085

There was minimal variance between years in revenues and expenditures. Just over $6.8 million in tobacco revenues were received in both years with 2013 being lower than 2012 by only $4,200. Under the Master Settlement Agreement, the tobacco companies are required to make annual payments to the Corporation. Expenditures in 2013 were approximately $8,000 higher than the previous year. The payments from the tobacco companies continued to fall below anticipated levels, and in 2013, for the fourth consecutive year, the Corporation was not able to make the full super-sinker payment on the 2001 bonds. Projected principal payment was $6,245,000, but actual was only $2,070,000. There were no unanticipated funds to make a payment on 2005 bonds during 2010-2013. The Corporation's 2013 principal and interest payments on the bonds were essentially at the 2012 level.

The debt service fund has two distinct fund balances: restricted for debt service and assigned. Assigned fund balance is generated from general operations and is the residual amount of fund balance. Fund balance restricted for debt service results from monies set aside for future payment of the bond principal and interest.

(Continued)

REPORTING THE CORPORATION AS A WHOLE (CONT'D)

Unlike the government-wide financial statements, in the fund financial statements, the bond payable is not recognized as a liability as it is long-term in nature. Because of this, there is not the issue of the large fund balance deficit under this methodology that is present in the government-wide presentation.

Long-Term Debt Activity

The Corporation-issued debt will be repaid by its purchases from the County of the future right, title and interest in the Tobacco Settlement Revenues. Serial Bonds principal payments are due annually and interest semiannually. At December 31, 2013, the Corporation had $137 million in bonds outstanding, a slight increase from the previous year. The $2.1 million of principal payments made in 2013 was offset by the interest accretion of approximately $3 million on the 2005 bonds.

Analysis of Overall Financial Position

Under the government-wide methodology, the Corporation showed a decrease to its net position. This decrease results from the tobacco settlement proceeds and interest income providing insufficient revenue to meet the Corporation's current expenditure/expense demands. Specifically, the government-wide financial statements show a decrease to the Corporation's net position of $920,600. The Corporation is behind the expectations of the super sinker payment structure due to lower tobacco revenues since 2010, but otherwise is fully meeting its mandatory obligations.

Budget

GASB requires an analysis of significant variants between the original budget and final budget amounts and between final budget amounts and actual budget results. Actual revenues from the Tobacco Companies were +4% or $262,000 over budget. Based on history, revenues have been budgeted down 2% from 2011 levels; actuals came in essentially at 2012 levels, down just $21,000 or .03%. Interest income slightly exceeded budget by $5,800, but was lower than 2012 actual by $17,000. Interest rates continue to decline. Expenses were below budget due to lower than anticipated interest payments. OTASC's budget does not assume any super-sinker payments. With the ability to pay $1.25 million in additional principal during 2013, required interest payments dropped. Total 2013 operating expenses were only slightly above 2012 actuals. The actual decrease in net position at year end 2013 was lower than anticipated due to the tobacco revenue receipts coming in above budget.

(Continued)

REPORTING THE CORPORATION AS A WHOLE (CONT'D)

Other Known Facts

Three trapping events have occurred and one is still continuing. The first was a Downgrade Trapping event that occurred in 2003. According to the Master Settlement Agreement ("MSA"), each of the four original participating manufacturers ("OPM") had a market share of 7% or more in 2003. The credit ratings of each were monitored. The rating of R.J. Reynolds Tobacco Holdings, Inc. was below the allowable threshold as described in the Official Statement, therefore a downgrade-trapping event occurred. However, in 2009, the rating of R.J. Reynolds returned to the necessary level and the Downgrade Trapping event is no longer occurring. The second trapping event occurred in 2004 when the non-participating manufacturers ("NPM") market share was greater than 7% in 2003. According to the MSA Report, the NPM Market Share in the year 2005 and subsequently has been less than 7%, and, therefore, the NPM Trapping Event is no longer occurring. The third event - a Consumption Decline Trapping Event - occurred in 2012, based on the shipments of cigarettes in 2011. It means that shipments of cigarettes were less than any year preceding a deposit date. Whenever a trapping event exists, the Corporation is required to withhold residual payments to the County until the time that the trapping events have been resolved. Those payments to the County that would have been made on the Residual Certificate are required to be deposited into a trapping account to the extent required by the Corporation's Indenture.

As a result of the issuance of the 2005 Series Bonds, the County relinquished the right to use these monies for anything other than Corporation debt retirement. Since the trapping events were satisfied in 2009, the $3.6 million in the NYCTTII Trapping account was released and used to make the first payment on the 2005 bonds. Based on the turbo redemption structure of the issue, $769,000 was used to pay interest and $2,876,000 was used to redeem $19,655,000 in principal during 2009. No funds were available to make debt service payments on the 2005 bonds during 2010 - 2013.

Contacting the Corporation's Financial Management

This financial report is designed to provide to the readers of these financial statements an overview of the Corporation's finances and to show the Corporation's accountability for the money it received. If you have questions about this report or need additional financial information, contact the Corporation's President, Steven Morgan, at 421 Montgomery Street, Syracuse, NY 13202.

(Concluded)

ONONDAGA TOBACCO ASSET SECURITIZATION CORPORATION
GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET POSITION
DECEMBER 31, 2013

ASSETS

	Debt Service Fund	Adjustments	Statement of Net Position
CURRENT ASSETS:			
Cash and cash equivalents	$ 124,333	$ -	$ 124,333
Bond discount fees, net of accumulated amortization	-	818,213	818,213
Total current assets	124,333	818,213	942,546
RESTRICTED ASSETS:			
Restricted cash and cash equivalents	240,292	-	240,292
Restricted investments	8,384,289	-	8,384,289
Total restricted assets	8,624,581	-	8,624,581
TOTAL	$ 8,748,914	$ 818,213	$ 9,567,127

LIABILITIES AND FUND BALANCE/NET POSITION

	Debt Service Fund	Adjustments	Statement of Net Position
CURRENT LIABILITIES:			
Accrued interest payable	$ -	$ 411,150	$ 411,150
Bonds payable - due within one year	-	1,005,000	1,005,000
Total current liabilities	-	1,416,150	1,416,150
LONG-TERM LIABILITIES:			
Bonds payable - due after one year	-	135,958,003	135,958,003
Total liabilities	-	137,374,153	137,374,153
FUND BALANCE:			
Restricted for debt service	$ 8,624,581	(8,624,581)	-
Assigned	124,333	(124,333)	-
Total fund balance	8,748,914	(8,748,914)	-
Total liabilities and fund balance	$ 8,748,914		
NET POSITION:			
Restricted for debt service		8,624,581	8,624,581
Unrestricted net deficit		(136,431,607)	(136,431,607)
Total net position		$(127,807,026)	$ (127,807,026)

See Notes to Financial Statements

ONONDAGA TOBACCO ASSET SECURITIZATION CORPORATION
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

	Debt Service Fund	Adjustments	Statement of Activities
OPERATING REVENUES:			
Tobacco settlement proceeds	$ 6,817,145	$ -	$ 6,817,145
Interest income	465,825	-	465,825
Total operating revenues	7,282,970	-	7,282,970
OPERATING EXPENSES:			
Insurance	4,243	-	4,243
Audit fee	5,500	-	5,500
Legal fees	3,500	-	3,500
Trustee fee	7,557	-	7,557
Administrative agency fee	29,938	-	29,938
Rating agency fee	10,175	-	10,175
General and administrative costs	48,549	-	48,549
Amortization	-	27,815	27,815
Principal	2,070,000	(2,070,000)	-
Interest	5,102,294	2,963,970	8,066,264
Total operating expenses	7,281,756	921,785	8,203,541
CHANGE IN FUND BALANCE/ DECREASE IN NET POSITION	1,214	(921,785)	(920,571)
FUND BALANCE/NET POSITION - BEGINNING OF YEAR, AS RESTATED	8,747,700		(126,886,455)
FUND BALANCE/NET POSITION - END OF YEAR	$ 8,748,914		$ (127,807,026)

See Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Onondaga Tobacco Asset Securitization Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America. Those principles are prescribed by the Governmental Accounting Standards Board ("GASB"), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

Onondaga Tobacco Asset Securitization Corporation, New York (the "Corporation") is a Not-For-Profit Local Development Corporation under Section 1411 of the Not-For-Profit Corporation Law of the State of New York. The Corporation was established on July 3, 2001 and became active August 8, 2001.

The Corporation is primarily dependent on the future proceeds from the Tobacco Settlement Revenues ("TSRs") to meet future obligations under the indenture agreement. The collections of the Corporation will be comprised of TSRs remaining after payment on prior bonds and earnings on funds held by the Trust.

The Corporation was formed to acquire from the County of Onondaga, New York (the "County") all future rights, title and interest in the Tobacco Settlement Revenues under the Master Settlement Agreement ("MSA") with respect to tobacco related litigation among various states and participating manufacturers. The County's future right, title and interest in the TSRs has been pledged to repay the serial bonds issued by the Corporation. The County is the beneficial owner of the Trust and thus the funds received by the Trust will ultimately transfer to the County.

The Corporation is classified as a special purpose government under GASB. A special purpose government is defined as a legally separate entity that performs only one activity. 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.

Basis of Presentation

The Corporation is classified as a single-program special-purpose government. Consistent with governmental accounting and financial reporting principles, the fund and government-wide financial statements are presented together and include a reconciliation of the individual line items between the two statement types in a separate column.

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of Presentation (Cont'd)

Fund Financial Statements

The fund financial statements provide information about the Corporation's fund. The emphasis of fund financial statements is on major governmental funds.

Government-wide Statements

The statement of net position and statement of activities present financial information about the Corporation's governmental activities. These statements include the financial activities of the Corporation.

The Corporation reports the debt service fund as its major governmental fund. This fund is used to account for and report on the accumulation of resources to be used for redemption of general long-term indebtedness and supports the operations of the Corporation.

Measurement Focus and Basis of Accounting

The fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measureable and available. The Corporation considers all revenues reported in the governmental fund to be available if the revenues are collected within 60 days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recognized as expenditures to the extent they have matured. Proceeds of general long-term debt are reported as other financing resources.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place.

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 revenues and expenses during the reporting period. Actual results could differ from these estimates.

Equity Classifications

Government-wide Statements

Equity is classified as net position and displayed in two components:

a. Restricted net position - net position with constraints placed on the use either by (1) external groups such as creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

b. Unrestricted net position - net position that does not meet the definition of "restricted" are deemed to be available for general use by the Corporation.

Fund Statements

Fund balance is classified as five components:

a. Non-spendable - includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

b. Restricted - includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

c. Committed - includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the Corporation's highest level of decision making authority, i.e., Board of Directors.

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Equity Classifications (Cont'd)

d. Assigned - includes amounts that are subject to constraint that represents an intended use established by the government's highest level of decision-making authority, or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance.

e. Unassigned - includes all other fund balances that do not meet the definition of the above four classifications and are deemed to be available for general use by the Corporation.

Order of Use of Fund Balance

The Corporation's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year. For all funds, non-spendable fund balances are determined first and then restricted fund balances for specific purposes are determined. Any remaining fund balance amounts are classified as assigned fund balance.

Cash and Cash Equivalents

The Corporation considers all short-term instruments purchased with original maturities of three months or less to be cash equivalents.

Income Tax Status

The Corporation is exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3).

Subsequent Events

Subsequent events have been evaluated by management through January 28, 2014, which is the date the financial statements were available to be issued.

(Continued)

2. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN FUND STATEMENT AND GOVERNMENT-WIDE STATEMENT

Due to the differences in the measurement focus and basis of accounting used in the fund statement and the government-wide statement, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic focus on the statement of activities, compared with the current financial resources focus on the statement of governmental fund revenues, expenditures and change in fund balance.

Total Fund Balance of the Fund Statement versus Net Position of Government-wide Statement

Total fund balance of the Corporation's fund statement differs from net position of government-wide statement reported in the statement of net position. This difference primarily results from the additional long-term economic focus on the statement of net position versus the solely current financial resources focus on the fund balance sheet.

(Continued)

2. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN FUND STATEMENT AND GOVERNMENT-WIDE STATEMENT (CONT'D)

Explanation of differences between the Governmental Fund Balance Sheet and the Statement of Net Position:

Fund Balance - Governmental Fund	$	8,748,914
The cost associated with the Series 2001 Bond discount is reported as an expenditure in the year it is incurred. As a result, this is not recorded as an asset on the balance sheet. However, the statement of net position includes the discount fees among the assets of the Corporation, and their original costs are expensed annually over the life of the related debt.		818,213
Bonds payable are reported in the statement of net position, but not in the governmental fund balance sheet because they are not due and payable in the current period.		(136,963,003)
Accrued interest payable is reported in the statement of net position, but not in the governmental fund balance sheet because it is not due and payable in the current period.		(411,150)
Total net position	$	(127,807,026)

(Continued)

2. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN FUND STATEMENT AND GOVERNMENT-WIDE STATEMENT (CONT'D)

Statement of Governmental Fund Revenues, Expenditures and Change in Fund Balance Versus Statement of Activities

Differences between the statement of governmental fund revenues, expenditures and change in fund balance and the Statement of Activities fall into one of three broad categories. The amounts shown below represent:

Change in fund balance	$ 1,214
The amount charged to amortization expense in the current year for bond discount fees is an expense in the statement of activities, whereas, in governmental fund financial statements, expenditures for the total amount were recorded in the year when incurred.	(27,815)
Repayment of bond principal is an expenditure in the governmental fund financial statements, but it reduces long-term liabilities in the statement of net position, and does not affect the Statement of Activities.	2,070,000
In the statement of activities, interest is accrued on outstanding bonds, whereas, in governmental fund financial statements, interest expenditures are reported when due.	(2,963,970)
Change in net position - Statement of Activities	$ (920,571)

3. CASH AND CASH EQUIVALENTS

The Corporation maintains its cash and cash equivalents accounts with various banks. As of December 31, 2013, the Corporation did not have deposit amounts in excess of the insurance limit established by the Federal Deposit Insurance Corporation ("FDIC").

(Continued)

4. INVESTMENTS

Investments are reported at fair market value. The Corporation's trustee holds investments for the funds included in the financial statements. The Corporation invests in authorized investments as described in the bond resolution such as commercial paper or finance company paper; special time deposit accounts; certificates of deposit and obligations of the United States of America.

All investments are insured, registered or held by the Corporation's trustee in the Corporation's name. Investments are stated at fair value, which approximates cost, and consists of commercial paper. At December 31, 2013, investments totaled $8,384,289.

Credit Risk - commercial paper has an original maturity of 6 months.

Concentration of Credit Risk - The Corporation places no limit on the amount that it may invest in any one issuer. The entire amount of the Corporation's investments is in M&T Investment Group commercial paper and represents 100% of the investments of the Corporation.

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

A trustee holds the Corporation's investments in the following accounts:

Debt Service Account

This is the account from which payments to bondholders are made with money transferred in from the collection account.

Liquidity Reserve Account

This reserve has been established pursuant to the Corporation's indenture and was initially funded in an amount equal to the maximum annual debt service on the Series 2001 Bonds. Amounts exceeding the reserve requirement will be transferred to the debt service account and will be available to make flexible amortization bond payments.

Collection Account

This account has been established to receive the Tobacco Settlement Revenues under the MSA agreement. The monies received in this account will be transferred to the debt service account to pay the Corporation's bondholders.

(Continued)

5. DISCOUNT FEES

The Corporation has incurred discount fees associated with the Series 2001 Bond issues. As is stated previously in the notes to the financial statements, these costs are expensed as incurred in the Corporation's fund financial statements. Discount fees are deferred and amortized over the life of related debt in the government-wide statements. The balance at December 31, 2013 is as follows:

Cost	$ 1,298,952
Less: Accumulated Amortization	480,739
Net	$ 818,213

Amortization charged to expense in 2013 for bond discount fees was $27,815.

6. LONG-TERM LIABILITIES

On August 8, 2001, the Corporation, along with six other counties, created a trust known as New York Counties Tobacco Trust II (NYCTT II). The trust issued $215,220,000 in aggregate principal Tobacco Settlement Pass-Through Bonds Series 2001. The Corporation issued $111,470,000 in variable rate bonds bearing interest rates ranging from 5% to 6%. The debt is payable solely from and secured by pledged Tobacco Settlement Rights and investment earnings on amounts on deposit.

(Continued)

6. LONG-TERM LIABILITIES (CONT'D)

On November 29, 2005, the Corporation, along with twenty-three other counties, created a New York Counties Tobacco Trust V (NYCTT V) to issue $199,375,348 in aggregate principal Tobacco Settlement Pass-Through Bond-Series 2005. Series 2005 NYCTT Bonds represent a direct, pass-through interest in corresponding Tobacco Asset Securitization Corporation ("TASC") bonds held by the trust and are subordinate to the 2001 Series bonds. The debt is payable from pledged Tobacco Settlement Rights and investment earnings on amounts on deposit. The Series 2005 Bonds are also payable from certain amounts released from Liquidity Reserve Accounts upon retirement of the prior bonds and amounts released from the Trapping Account. These capital appreciation bonds were issued with a final maturity value of $700,630,000 and included bond issuance costs of $836,558 and a distribution to the County of $30,565,586. The bonds bear interest at rates ranging from 6.00% to 7.15%. During 2013, interest of $2,976,858 accreted on these bonds. There are no scheduled principal or interest payments on the Series 2005 bonds outside of their final maturity dates. The bonds are subject to potential redemption prior to maturity through turbo redemption payments made from surplus collections on deposit with the Corporation. Redemption will take place in order of maturity date at their accreted value.

In 2009, the R.J. Reynolds bonds, which served as backing on the 2005 series bonds, rose to above investment grade.

The following is a summary of the Corporation's bonds payable for the year ended December 31, 2013:

	Issue Date	Final Maturity	Interest Rate	Balance December 31, 2013
Tobacco Settlement Pass - through Series 2001	8/01	6/43	5.0 - 6.0%	$ 89,070,000
Tobacco Settlement Pass - through Series 2005	11/05	6/60	6.0 - 7.15%	28,525,438
Add: interest accretion - Series 2005				19,367,566
Carrying Value of Series 2005				$ 47,893,004

(Continued)

6. LONG-TERM LIABILITIES (CONT'D)

Long-term liability balances and activity for the year are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds payable - Series 2001	$ 91,140,000	$ -	$2,070,000	$ 89,070,000	$ 1,005,000
Bonds payable - Series 2005	28,525,438	-	-	28,525,438	-
Subtotal	119,665,438	-	2,070,000	117,595,438	1,005,000
Add: accreted interest - Series 2005	16,390,707	2,976,859	-	19,367,566	-
Total bonds payable and accreted interest	$136,056,145	$ 2,976,859	$2,070,000	$ 136,963,004	$ 1,005,000

The Corporation's required principal and interest payments at December 31, 2013, on the Series 2001 bonds are as follows:

	Series 2001		
	Principal	Interest	Total
2014	$ 1,005,000	$ 5,016,700	$ 6,021,700
2015	1,100,000	4,954,806	6,054,806
2016	1,260,000	4,884,006	6,144,006
2017	-	4,846,206	4,846,206
2018	-	4,846,206	4,846,206
2019-2023	810,000	24,209,769	25,019,769
2024-2028	17,095,000	21,743,825	38,838,825
2029-2033	17,510,000	16,841,844	34,351,844
2034-2038	20,645,000	11,656,384	32,301,384
2039-2043	29,645,000	4,497,794	34,142,794
Total	$ 89,070,000	$103,497,540	$192,567,540

Depending on the extent of actual collections from TSR payments and availability of funds, the Corporation has agreed to make principal payments in accordance with a Super Sinker payment schedule that allows for increased payments and a final maturity of December 31, 2028 on the Series 2001 Bonds.

(Continued)

6. LONG-TERM LIABILITIES (CONT'D)

Under the Super Sinker payment schedule, the Corporation's payments at December 31, 2013, on the Bonds are as follows:

	Series 2001		
	Principal	Interest	Total
2014	$ 7,700,000	$ 4,840,956	$ 12,540,956
2015	3,680,000	4,532,388	8,212,388
2016	3,855,000	4,317,672	8,172,672
2017	4,055,000	4,092,841	8,147,841
2018	5,155,000	3,833,809	8,988,809
2019-2023	30,580,000	14,334,531	44,914,531
2024-2028	34,045,000	4,439,431	38,484,431
Total	$ 89,070,000	$40,391,628	$129,461,628

The Series 2005 Bonds are capital appreciation bonds, upon which the investment return on the investment principal is reinvested at a compounded rate until maturity. There are no scheduled principal and interest payments on these bonds other than their respective maturity dates, at which time a single payment is made representing principal and investment return. Such payments are as follows:

	Principal	Interest	Total
Series 2005 S1 payable in full June 1, 2038	$ 6,127,360	$ 34,716,541	$ 40,843,901
Series 2005 S2 payable in full June 1, 2050	9,604,046	126,233,419	135,837,465
Series 2005 S3 payable in full June 1, 2055	4,963,972	130,489,947	135,453,919
Series 2005 S4A payable in full June 1, 2060	7,830,060	342,240,747	350,070,807
Total	$ 28,525,438	$633,680,654	$662,206,092

Depending on the extent of actual collections from TSR payments available after payment on the Series 2001 Bonds, the Corporation has agreed to make principal payments in accordance with a turbo redemption payment schedule that allows for increased payments and a final maturity of June 1, 2033 on the Series 2005 Bonds.

(Continued)

6. LONG-TERM LIABILITIES (CONT'D)

The following is a summary of the amount of accretion on the series 2005 capital appreciation bonds assuming the projected debt service amortization:

	Amount of Yearly Accretion
2014	$ 3,168,940
2015	3,383,293
2016	3,608,815
2017	3,849,459
2018	4,106,247
2019-2023	25,028,598
2024-2028	34,592,015
2029-2033	47,837,701
2034-2038	63,704,130
2039-2043	76,744,749
2044-2048	106,935,038
2049-2053	112,155,882
2054-2058	105,476,901
2059	23,721,320
Future Total Accretion	614,313,088
Cumulative Accreted Interest - December 31, 2013	19,367,566
Principal - December 31, 2013	28,525,438
Estimated Total Debt Service	$662,206,092

7. CONCENTRATION OF CREDIT RISK

During 2001, the Corporation purchased the rights to receive TSRs from the County of Onondaga. There are a number of risks associated with receipts of such TSRs, including litigation affecting participating manufacturers and possible bankruptcy as a result thereof, and future adjustments to the calculation of the TSRs. The Corporation's financial existence is contingent upon the County receiving TSR from the tobacco manufacturers.

(Continued)

8. NEW AND UPCOMING PRONOUNCEMENTS

As of January 1, 2013, the Corporation adopted the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statement No. 14 and No. 34*. This statement modifies certain requirements for inclusion of component units in the financial reporting entity by requiring that a financial benefit or burden relationship also be present between the primary government and the potential component unit. The implementation of this guidance did not have a significant effect on the Corporation's financial statements as the Corporation will continue to be considered a blended component unit of the County of Onondaga, New York.

As of January 1, 2013 the Corporation adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement clarifies the appropriate reporting for items previously classified as assets and liabilities consistent with the definitions in GASB Concepts Statement No. 4. The implementation of this statement in 2013 caused the Corporation to expense its Bond Issuance Cost. The effect was retroactive restatement, resulting in a decrease in beginning net position of approximately $2.1 million from the amounts previously reported for the year ended December 31, 2012.

(Concluded)

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INDEPENDENT AUDITOR'S 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
Onondaga Tobacco Asset Securitization Corporation
Syracuse, 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 governmental activities and the major fund of Onondaga Tobacco Asset Securitization Corporation (the "Corporation"), a blended component unit of the County of Onondaga, New York, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated January 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Onondaga Tobacco Asset Securitization Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 entity'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.

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 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.*

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Testone, Marshall & Discenza, LLP

January 28, 2014
Syracuse, New York

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SECTION 2925(3)(f) OF THE NEW YORK STATE PUBLIC AUTHORITIES LAW

To the Board of Directors
Onondaga Tobacco Asset Securitization Corporation
Syracuse, 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 governmental activities and the major fund of Onondaga Tobacco Asset Securitization Corporation (the "Corporation"), a blended component unit of the County of Onondaga, New York, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated January 28, 2014.

In connection with our audit, nothing came to our attention that caused us to believe that the Corporation failed to comply with the Corporation's Investment Guidelines, The New York State ("NYS") Comptroller's Investment Guidelines and Section 2295 of the NYS Public Authorities Law (collectively, the "Investment Guidelines"), which is the responsibility of the Corporation's management, insofar as they relate to the financial accounting knowledge of noncompliance with such Investment Guidelines.

This report is intended solely for the information and use of management, the Board of Directors, and the Office of the State Comptroller of the State of New York. It is not intended to be and should not be used by anyone other than these parties.

Testone, Marshall & Discenza, LLP

January 28, 2014
Syracuse, New York