ONONDAGA TOBACCO ASSET SECURITIZATION COPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF ONONDAGA, NEW YORK)

Financial Statements as of
December 31, 2015
Together with
Independent Auditor's Report

Bonadio & Co., LLP
Certified Public Accountants

ONONDAGA TOBACCO ASSET SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF ONONDAGA, NEW YORK)

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Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

February 24, 2016

To the Board of Directors
Onondaga Tobacco Asset Securitization Corporation:

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities and the major governmental 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, 2015, 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.

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(Continued)

INDEPENDENT AUDITOR'S REPORT (Continued)

Opinions

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 governmental fund of Onondaga Tobacco Asset Securitization Corporation, as of December 31, 2015, 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.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 February 24, 2016 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.

Other Reporting Required by New York State Public Authorities Law

In accordance with New York State Public Authorities Law, we have also issued our report dated February 24, 2016, on our consideration of the Corporation's compliance with Section 2925(3)(f) of the New York State (NYS) Public Authorities Law. The purpose of that report is to describe anything that came to our attention that caused us to believe the Corporation failed to comply with the Corporation's Investment Guidelines, the NYS Comptroller's Investment Guidelines and Section 2925 of the NYS Public Authorities Law (collectively, the Investment Guidelines).

Bonadio & Co., LLP

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 2015. 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, 2015.

FINANCIAL HIGHLIGHTS

As discussed further in the notes to the financial statements, the Corporation was formed to acquire from the County of Onondaga, New York (the County), 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 the Government Accounting Standards Board 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.

OVERVIEW OF THE FINANCIAL STATEMENTS

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.

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.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Government-wide Financial Statements (Continued)

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

	2015	2014
Assets	$ 14,929,159	$ 9,542,875
Liabilities	138,785,854	137,452,385
Net Position	(123,856,695)	(127,909,510)
Revenues	12,397,611	8,175,897
Expenses	8,344,796	8,278,381
Change in Net Position	$ 4,052,815	$ (102,484)

The Corporation's assets increased by approximately $5,385,000 and the Corporation's liabilities increased by approximately $1,300,000. Net position increased by approximately $4,000,000.

There was an increase between years in program revenues. Under the Master Settlement Agreement, the tobacco companies are required to make annual payments to the Corporation. During 2015, approximately $12.4 million in tobacco revenues were received, which was an increase of approximately $4,200,000 from 2014 revenues. This increase was due to a settlement that was reached in October 2015 between New York State and Non-Participating Tobacco Manufacturers. Year-to-year variance in expenses was minor with 2015 expenses increasing by approximately $66,000 due to the higher accreted interest.

During the year ended December 31, 2015, no new bonds were issued and no distributions were made to the County. However, during 2015, interest expense of approximately $3.4 million was accreted on the Series 2005 bonds, while approximately $3.2 million was accreted during 2014. The receivable of $5.3 million recorded for the settlement with Non-Participating Tobacco Manufacturers (known as NPM) has resulted in the increase to net position of approximately $4 million.

No residual payments have been made to the County since 2003 due to the trapping events that have 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.

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.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Fund Financial Statements (Continued)

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

	2015	2014
Assets	$ 8,820,576	$ 8,752,477
Fund Balance	8,820,576	8,752,477
Revenues	7,051,611	8,175,897
Expenditures	6,983,512	8,172,334
Excess of Revenues over Expenditures	68,099	3,563

The variance between years in revenues is due to a disputed amount being paid in 2014 that did not occur in 2015. Approximately $6.6 million in tobacco revenues were received in in 2015 and $7.7 million were received in 2014. Under the Master Settlement Agreement, the tobacco companies are required to make annual payments to the Corporation. Expenditures in 2015 were approximately $1.1 million lower than the previous year due to lower Super Sinker payments. The payments from the tobacco companies continued to fall below anticipated levels, and in 2015, for the sixth consecutive year, the Corporation was not able to make the full super-sinker payment on the 2001 bonds. Projected principal payment was approximately $8.3 million, but actual was only $2.0 million. There were no unanticipated funds to make a payment on the 2005 bonds during 2010-2015. The Corporation's 2015 principal payment on the 2001 bonds was $1 million lower than the prior year, interest payments were $150,000 less the prior year.

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.

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, 2015, the Corporation had approximately $138 million in bonds outstanding, a slight increase from the previous year. The approximate $2 million of principal payments made in 2015 was offset by the interest accretion of approximately $3.4 million on the 2005 bonds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Under the government-wide methodology, the Corporation showed an increase to its net position. This increase results from the receivable of approximately $5.3 million booked for the NPM settlement. Specifically, the government-wide financial statements show an increase to the Corporation's net position of approximately $4 million. 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Budget
GASB requires an analysis of significant variances between the original budget and final budget amounts and between final budget amounts and actual budget results. Actual revenues from the Tobacco Companies were 77% or approximately $5,200,000 higher than budget, due to the receivable for the Non-Participating Manufacturer settlement. Interest income was lower than budget by $8,000, due to lower market value in the Liquidity account. Interest rates continue to decline. Expenses were below budget due to lower than anticipated interest payments. The Corporation's budget does not assume any supersinker payments. With the ability to pay approximately $2.1 million in additional principal on the 2001 Series Bonds during 2014, required interest payments dropped. Total 2015 operating expenses were below 2014 actuals by approximately $1.2 million due to a decrease in Super Sinker principal payments on the 2001 Series Bonds.

FACTORS BEARING ON THE CORPORATION'S FUTURE

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 93% 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 - 2015.

REQUESTS FOR INFORMATION

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.

ONONDAGA TOBACCO ASSET SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF ONONDAGA, NEW YORK)

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET POSITION
DECEMBER 31, 2015

	Debt Service Fund	Adjustments	Statement of Net Position
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 129,198	$ -	$ 129,198
Accounts receivable	-	5,346,000	5,346,000
Bond discount fees, net of accumulated amortization	-	762,583	762,583
Total current assets	129,198	6,108,583	6,237,781
RESTRICTED ASSETS:			
Restricted cash and cash equivalents	322,279	-	322,279
Restricted investments	8,369,099	-	8,369,099
Total restricted assets	8,691,378	-	8,691,378
Total assets	$ 8,820,576	6,108,583	14,929,159
LIABILITIES AND FUND BALANCE/NET POSITION			
CURRENT LIABILITIES:			
Accrued interest payable	$ -	405,617	405,617
Bonds payable - due within one year	-	1,260,000	1,260,000
Total current liabilities	-	1,665,617	1,665,617
LONG-TERM LIABILITIES:			
Bonds payable - due after one year	-	137,120,237	137,120,237
Total liabilities	-	138,785,854	138,785,854
FUND BALANCE:			
Restricted for debt service	8,691,378	(8,691,378)	-
Assigned	129,198	(129,198)	-
Total fund balance	8,820,576	(8,820,576)	-
Total liabilities and fund balance	$ 8,820,576		
NET POSITION:			
Restricted for debt service		8,691,378	8,691,378
Unrestricted net deficit		(132,548,073)	(132,548,073)
		$ (123,856,695)	$ (123,856,695)

The accompanying notes are an integral part of these statements.

ONONDAGA TOBACCO ASSET SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF ONONDAGA, NEW YORK)

STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Debt Service Fund	Adjustments	Statement of Activities
OPERATING REVENUES:			
Program revenue:			
Tobacco settlement proceeds	$ 6,600,032	$ 5,346,000	$ 11,946,032
Interest income	451,579	-	451,579
Total operating revenues	7,051,611	5,346,000	12,397,611
OPERATING EXPENSES:			
General government:			
Insurance	4,035	-	4,035
Audit fee	6,500	-	6,500
Legal fees	4,000	-	4,000
Trustee fee	10,307	-	10,307
Administrative agency fee	29,938	-	29,938
Rating agency fee	11,326	-	11,326
General and administrative costs	57,000	-	57,000
Amortization	-	27,815	27,815
Principal	2,040,000	(2,040,000)	-
Interest	4,820,406	3,373,469	8,193,875
Total operating expenses	6,983,512	1,361,284	8,344,796
CHANGE IN FUND BALANCE/ CHANGE IN NET POSITION	68,099	3,984,716	4,052,815
FUND BALANCE / NET POSITION - beginning of year	8,752,477		(127,909,510)
FUND BALANCE / NET POSITION - end of year	$ 8,820,576		$ (123,856,695)

The accompanying notes are an integral part of these statements.

1. ORGANIZATION

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 TSRs 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 the Government Accounting Standards Board (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. In 2015, the Corporation paid $57,000 to the County for general and administrative expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America. Those principles are prescribed by the GASB, which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 financial 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.

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:

- 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.

- Unrestricted net deficit - net position that does not meet the definition of "restricted" are deemed to be available for general use by the Corporation. The Corporation has a deficit in net position as a result of the outstanding bonds, including the accretion on capital appreciation bonds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Classifications (Continued)

Fund Financial Statements

Fund balance is classified as five components:

- Nonspendable - includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.
- Restricted - includes amounts 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.
- 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.
- 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 positive fund balance.
- 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.

The debt service fund has restricted and assigned fund balance. Restricted fund balance represents monies set aside for future payment of bond principal and interest and equals the restricted assets of $8,691,378. Assigned fund balance represents amounts generated from general operations and is the residual amount of fund balance as it is the County's intent for it to be utilized for the Corporation.

Order of Use of Fund Balance/Net Position

The Corporation's policy is to apply expenditures against nonspendable 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, nonspendable 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.

The Corporation's policy is to apply expenses against restricted net position and then unrestricted net position as needed.

Cash and Cash Equivalents

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

The Corporation maintains its cash and cash equivalents accounts with various banks. As of December 31, 2015, the bank balance and carrying amount of the Corporation's cash and cash equivalents was $129,198 and the Corporation did not have deposit amounts in excess of the insurance limit established by the Federal Deposit Insurance Corporation (FDIC).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable
Accounts receivable at December 31, 2015, are comprised of amounts due to the Corporation as a result of a settlement between New York State and Non-Participating Tobacco Manufacturers in October 2015. The payment due from the settlement is an estimate at this time. The Corporation considers the amount to be fully collectible. If collection becomes doubtful, the Corporation will either set up an allowance for doubtful accounts, or if deemed completely uncollectible, the amount will be charged against income in the current period. Management does not believe a reserve for uncollectible receivables is necessary at December 31, 2015.

3. 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 financial 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.

Governmental Fund Balance Sheet vs. Statement of Net Position
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.

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

Fund balance	$ 8,820,576
Accounts receivable that are not both measurable and available in the governmental fund balance sheet	5,346,000
Net cost of bond discount	762,583
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.	(138,380,237)
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.	(405,617)
Total net position	$ (123,856,695)

3. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN FUND STATEMENT AND GOVERNMENT-WIDE STATEMENT (Continued)

Statement of Governmental Fund Revenues, Expenditures and Change in Fund Balance vs. 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	$	68,099
Revenues that are not both measurable and available in the statement of governmental fund revenues, expenditures and change in fund balance		5,346,000
The amount charged to amortization expense in the current year for bond discount 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)
Payment 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.		2,040,000
In the statement of activities, interest is accrued on outstanding bonds, whereas, in governmental fund financial statements, interest expenditures are reported when paid.		(3,373,469)
Change in net position - Statement of Activities	$	4,052,815

4. INVESTMENTS AND DEPOSITS

Investment and Deposit Policy

The Corporation follows an investment and deposit policy as outlined in the Indenture, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conformance with federal, state and other legal requirements; provide sufficient liquidity of invested funds in order to meet obligations as they become due; and attainment of a market rate of return. Oversight of investment activity is the responsibility of the trustee as appointed by the Board of Directors.

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. 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.

Credit Risk

The Corporation's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations. The Corporation's investment and deposit policy authorizes the reporting entity to purchase the following types of investments:

- Obligations of the United States of America;
- Obligations guaranteed by the United States of America where payment of principal and interest are guaranteed by the United States of America;
- Obligations of the State of New York;

4. INVESTMENTS AND DEPOSITS (Continued)
Credit Risk (Continued)

- Special time deposit accounts;
- Certificates of deposit;
- Commercial paper;
- Obligations of public authorities, public housing authorities, urban renewal agencies, and industrial development agencies where the general State statutes governing such entities or whose specific enabling legislation authorizes such investments;
- Obligations issued pursuant to New York State Local Finance Law Section 24.00 and 25.00 (with approval of the New York State Comptroller) by any municipality, school district or district corporation other than the County; and
- Reserves under the Indenture shall be invested in obligations on the United States, obligations guaranteed by the United States or as recommended by the Chief Fiscal Officer of the County, consistent with the Onondaga County Investment Policy.

Custodial Credit Risk

Custodial credit risk is the risk that an entity will not be able to recover the value of deposits, investments or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails. The Corporation's trustee holds deposits and investments for the funds included in the financial statements. 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 that has an original maturity of 6 months. As of December 31, 2015, the Corporation's deposits and investments, with maturities of less than one year, were in compliance with the investment and deposit policy and totaled $8,691,378.

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 Toyota Motor Credit Corporation commercial paper and represents 100% of the investments of the Corporation.

A trustee holds the Corporation's investments and restricted cash and cash equivalents 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 TSRs under the MSA agreement. The monies received in this account will be transferred to the debt service account to pay the Corporation's bondholders.

Trapping Account

In 2015, a transfer was made from the collection account of $83,000. There was a May 13, 2015 MSA payment made to OTASC. This payment was too late to be used for the June 2015 super sinker bond payment (due to the 30 day call provision) so this payment flowed to the Trapping account. This MSA receipt will be used for the June 2016 bond payment.

5. DISCOUNT FEES

The Corporation has incurred a discount 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. Bond discounts are deferred and amortized over the life of related debt in the government-wide statements. The balance at December 31, 2015 is as follows:

Cost	$ 1,298,952
Less: Accumulated Amortization	(536,369)
Net	$ 762,583

Amortization charged to expense in 2015 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.

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 2015, interest of $3,383,293 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.

6. LONG-TERM LIABILITIES (Continued)

The following is a summary of the Corporation's bonds payable for the year ended December 31, 2015:

	Issue Date	Final Maturity	Interest Rate	Balance December 31
Tobacco Settlement Pass - through Series 2001	8/01	6/43	5.0 - 6.0%	$ 83,935,000
Tobacco Settlement Pass - through Series 2005	11/05	6/60	6.0 - 7.15%	28,525,438
Add: interest accretion - Series 2005				25,919,799
Carrying Value of Series 2005				$ 54,445,237

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	$ 85,975,000	$ -	$ 2,040,000	$ 83,935,000	$ 1,260,000
Bonds payable – Series 2005	28,525,438	-	-	28,525,438	-
	114,500,438	-	2,040,000	112,460,438	1,260,000
Add: accreted interest – Series 2005	22,536,506	3,383,293	-	25,919,719	-
Total bonds payable and accreted interest	$ 137,036,944	$ 3,383,293	$ 2,040,000	$ 138,380,237	$ 1,260,000

The Corporation's required principal and interest payments at December 31, 2015, on the Series 2001 bonds are as follows:

	Principal	Interest	Total
2016	$ 1,260,000	$ 4,724,931	$ 5,984,931
2017	-	4,687,131	4,687,131
2018	-	4,687,131	4,687,131
2019	-	4,687,131	4,687,131
2020	-	4,687,131	4,687,131
2021-2025	4,535,000	23,256,500	27,791,500
2026-2030	17,530,000	19,818,594	37,348,594
2031-2035	17,675,000	14,872,391	32,547,391
2036-2040	23,910,000	9,107,425	33,017,425
2041-2043	19,025,000	1,688,056	20,713,056
Total	$ 83,935,000	$ 92,216,421	$ 176,151,421

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.

6. LONG-TERM LIABILITIES (Continued)

Under the Super Sinker payment schedule, the Corporation's payments at December 31, 2015, on the Series 2001 Bonds are as follows:

	Principal	Interest	Total
2016	$ 10,100,000	$ 4,484,809	$ 14,584,809
2017	4,055,000	4,092,841	8,147,841
2018	5,155,000	3,833,809	8,988,809
2019	5,420,000	3,536,388	8,956,388
2020	5,770,000	3,221,669	8,991,669
2021-2025	34,175,000	10,651,719	44,826,719
2026-2028	19,260,000	1,364,188	20,624,188
Total	$ 83,935,000	$ 31,185,423	$ 115,120,423

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
	$ 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.

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

2016	$ 3,608,815
2017	3,849,459
2018	4,106,247
2019	4,380,267
2020	4,672,683
2021-2025	28,485,355
2026-2030	39,378,851
2031-2035	54,470,258
2036-2040	67,460,631
2041-2045	87,629,832
2046-2050	113,704,303
2051-2055	110,277,502
2056-2059	85,736,652
Future Total Accretion	607,760,855
Cumulative Accreted Interest December 31, 2015	25,919,799
Principal	28,525,438
Estimated Total Debt Service	$ 662,206,092

7. CONTINGENCIES

During 2001, the Corporation purchased the rights to receive TSRs from the County. 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.

8. NEW AND FUTURE PRONOUNCEMENTS

New Pronouncements
As of January 1, 2015 the Corporation adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The objective of this Statement is to establish accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of these provisions. The Corporation adopted the provisions of this Statement with no material effect on the financial statements.

In November 2013, the GASB issued Statement No. 71, *Pension Transitions for Contributions Made Subsequent to the Transition Date - an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The Corporation adopted the provisions of this Statement with no material effect on the financial statements.

Upcoming Pronouncements
In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application.* This standard addresses accounting and financial reporting issues related to fair value measurements and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Corporation is required to adopt the provisions of Statement No. 72 for the year ending December 31, 2016.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provision of GASB Statement 67 and 68.* The objective of this Statement is to improve the usefulness of information about pensions included in the general purposes external financial reports of statement local governments for making decision and assessing accountability. The Corporation is required to adopt portions of the provisions of Statement No. 73 for the years ending December 31, 2016 and 2017, pending applicability.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pension (other postemployment benefits or OPEB)included in the general purposes external financial reports of statement local governmental OPEB plans for making decisions and assessing accountability. The Corporation is required to adopt the provisions of Statement No. 74 for the year ending December 31, 2017.

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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*

February 24, 2016

To the Board of Directors
Onondaga Tobacco Asset Securitization Corporation:

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 governmental 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, 2015, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated February 24, 2016.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the 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.

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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*
(Continued)

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Corporation'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 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.

Bonadio & Co., LLP

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Certified Public Accountants

REPORT ON SECTION 2925(3)(f) OF THE NEW YORK STATE PUBLIC AUTHORITIES LAW

February 24, 2016

To the Board of Directors
Onondaga Tobacco Asset Securitization Corporation:

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 governmental 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, 2015, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated February 24, 2016.

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 2925(3)(f) 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. However, our audit was not directed primarily towards obtaining knowledge of noncompliance with such Investment Guidelines. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Corporation's noncompliance with the 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.

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