

**OSWEGO TOBACCO ASSET
SECURITIZATION CORPORATION**

Oswego, New York

REPORT ON AUDIT OF FINANCIAL STATEMENTS

December 31, 2011

OSWEGO TOBACCO ASSET SECURITIZATION CORPORATION
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Oswego Tobacco Asset
Securitization Corporation
Oswego, New York

We have audited the accompanying financial statements of the governmental activities and the major fund of the Oswego Tobacco Asset Securitization Corporation (the Corporation), a component unit of the County of Oswego, as of and for the year ended December 31, 2011, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Oswego Tobacco Asset Securitization Corporation's management. Our responsibility is to express opinions on these basic 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and fund information of the Oswego Tobacco Asset Securitization Corporation, as of December 31, 2011, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

During the year ended December 31, 2011, the Oswego Tobacco Asset Securitization Corporation implemented Governmental Accounting Standards Board Statement Number 54, "Fund Balance Reporting and Governmental Fund Type Definitions."

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2012 on our consideration of the Oswego Tobacco Asset Securitization Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 2c 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.

Cinchi, Dickelgren, Little, Mickelson & Co., LLP

February 29, 2012
Ithaca, New York

OSWEGO TOBACCO ASSET SECURITIZATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011 AND 2010

The following is a discussion and analysis of the Oswego Tobacco Asset Securitization Corporation's (the Corporation) financial performance for the fiscal years ended December 31, 2011. This section is a summary of the Corporation's financial activities based on currently known facts, decisions, or conditions. It is also based on both the Government-wide and fund-based financial statements. The Management's Discussion and Analysis (MD&A) section is only an introduction and should be read in conjunction with the Corporation's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- Net deficit of \$(10,751,539) grew by \$624,241 in 2011, from \$(10,127,298) in 2010.
- Total fund balance of \$4,332,004 showed a decrease of \$(1,302,840) in 2011, from \$5,634,844 in 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts: MD&A (this section) and the basic financial statements and supplementary information. The basic financial statements present different views of the Corporation.

- The Statement of Net Assets and the Statement of Activities columns shown in the financial statements provide both short-term and long-term information about the Corporation's overall financial status.
- The Governmental Fund Type columns are fund financial statements that focus on individual parts of the Corporation.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Statement of Net Assets and Statement of Activities Columns

The Statement of Net Assets and Statement of Activities columns in the basic financial statements report information about the Corporation as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Corporation's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

These two columns in the basic financial statements report the Corporation's net assets and how they have changed. Net assets - the difference between the Corporation's assets and liabilities - are one way to measure the Corporation's financial health or position. Over time, increases or decreases in the Corporation's net assets are an indicator of whether its financial position is improving or deteriorating.

Governmental Fund Type Columns

The Governmental Fund type columns are accounting devices the Corporation uses to keep track of specific sources of funding and spending. The Corporation's basic services are included in Governmental Funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the Governmental Funds columns provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the Corporation's programs. Because this information does not encompass the additional long-term focus of the Statement of Net Assets and Statement of Activities columns, additional information in the notes to the financial statements explains the relationship (or differences) between them.

OSWEGO TOBACCO ASSET SECURITIZATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011 AND 2010

FINANCIAL ANALYSIS OF THE CORPORATION AS A WHOLE

The Corporation's total net assets for fiscal years ended December 31, 2011 and 2010 decreased by \$(624,241) and \$(700,037), respectively. Our analysis below focuses on the net assets (*Figure 1*) and changes in net assets (*Figure 2*) of the Corporation's Governmental Activities.

Figure 1

Condensed Statement of Net Assets

Condensed Statement of Net Assets	Governmental Activities and Total Corporation		Total Dollar Change
	2010	2011	2010 - 2011
<i>Current assets</i>	\$ 1,813,736	\$ 1,645,180	\$ (168,556)
<i>Noncurrent assets</i>	4,022,902	2,867,066	(1,155,836)
Total assets	5,836,638	4,512,246	(1,324,392)
<i>Current liabilities</i>	2,087,611	2,703,875	616,264
<i>Noncurrent liabilities</i>	13,876,325	12,559,910	(1,316,415)
Total liabilities	15,963,936	15,263,785	(700,151)
<i>Unrestricted</i>	(11,750,553)	(12,375,187)	(624,634)
<i>Restricted for debt service</i>	1,623,255	1,623,648	393
Total net assets (deficit)	\$ (10,127,298)	\$ (10,751,539)	\$ (624,241)

In December 2003, the Corporation issued debt, and received investments in return. The investments are to be used to pay debt service on the County of Oswego refunded serial bonds. See Note 3.C. The decrease in noncurrent assets reflects the annual transfer of investment funds to cover debt service of the County of Oswego.

During 2006 through 2011, the Corporation did not receive adequate tobacco settlement receipts to cover the turbo redemption payment on the serial bonds; the shortfall in 2011 and 2010 was \$515,000 and \$365,000, respectively. This does not represent a default as turbo redemption payments are not required payments. The Corporation is allowed to make up the shortfall if the funds are available. Therefore, the total underpayment of \$1,310,000 is classified as a current liability.

OSWEGO TOBACCO ASSET SECURITIZATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011 AND 2010

Our analysis in *Figure 2* considers the operations of the Corporation's activities.

Figure 2

Changes in Net Assets

Changes in Net Assets	Governmental Activities and Total Corporation		Total Dollar Change
	2010	2011	2010 - 2011
<i>Revenues:</i>			
<i>Tobacco settlement proceeds</i>	\$ 1,481,484	\$ 1,497,941	\$ 16,457
<i>Interest income</i>	196,160	148,061	(48,099)
Total revenues	1,677,644	1,646,002	(31,642)
<i>Expenses:</i>			
<i>Interest expense</i>	1,037,877	998,924	(38,953)
<i>Insurance expense</i>	5,302	5,317	15
<i>Professional fees</i>	28,061	28,553	492
<i>Other expenses</i>	3,044	2,752	(292)
<i>Amortization of bond issue costs</i>	19,147	19,147	-0-
Total expenses	1,093,431	1,054,693	(38,738)
<i>Transfers to Oswego County:</i>			
<i>Debt service</i>	1,284,250	1,215,550	(68,700)
Total transfers	1,284,250	1,215,550	(68,700)
(DECREASE) IN NET ASSETS	\$ (700,037)	\$ (624,241)	\$ 75,796

Transfers to Oswego County are made in accordance with the County's debt amortization schedule. More information on future transfers can be found in Note 3.C. of the footnotes accompanying the financial statements.

FINANCIAL ANALYSIS OF THE CORPORATION'S FUNDS

Figure 3 shows the changes in fund balance for the year. As the Corporation completed the year, its Governmental Fund, as presented in the basic financial statements, reported a fund balance of \$4,332,004.

Figure 3

Governmental Fund Balance

Governmental Fund Balances - Major Funds			Total Dollar Change
	2010	2011	2010 - 2011
Total fund balance	\$ 5,634,844	\$ 4,332,004	\$ (1,302,840)

OSWEGO TOBACCO ASSET SECURITIZATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011 AND 2010

FACTORS BEARING ON THE CORPORATION'S FUTURE

- In 2006 through 2010, the Corporation's principal debt payment deviated from the expected turbo redemption debt service schedule by \$365,000, \$170,000, \$105,000, and \$120,000 and \$35,000, respectively, or \$795,000 in total. In 2011, the Corporation's principal debt payment deviated from the expected turbo redemption by an additional \$515,000. This does not represent a default, as turbo redemption payments are not required payments; however, it does indicate a trend of tobacco settlement revenues falling below those expected to be available for debt service.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Corporation's citizens, customers, investors, and creditors with a general overview of the Corporation's finances and to demonstrate the Corporation's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Oswego County, at 46 East Bridge Street, Oswego, NY 13126.

OSWEGO TOBACCO ASSET SECURITIZATION CORPORATION
 GOVERNMENTAL FUND BALANCE SHEET / STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Governmental Fund Type General	Adjustments	Statement of Net Assets
<u>ASSETS</u>			
Current Assets:			
Cash and cash equivalents	\$ 118,118	\$	\$ 118,118
Accrued interest		27,062	27,062
Tobacco Settlement Receivable	1,500,000		1,500,000
Total Current Assets	1,618,118	27,062	1,645,180
Investments	2,713,886		2,713,886
Bond issuance and closing costs, net		153,180	153,180
Total Assets	\$ 4,332,004	180,242	4,512,246
<u>LIABILITIES</u>			
Current Liabilities:			
Accrued interest payable	\$	77,460	77,460
Current portion of bonds payable, net		2,626,415	2,626,415
Total Current Liabilities	-0-	2,703,875	2,703,875
Bonds payable, net		12,559,910	12,559,910
Total Liabilities	-0-	15,263,785	15,263,785
<u>FUND BALANCE/NET ASSETS</u>			
Fund Balance:			
Restricted for debt service	1,623,648	(1,623,648)	-0-
Unassigned	2,708,356	(2,708,356)	-0-
Total Fund Balance	4,332,004	(4,332,004)	-0-
Total Liabilities and Fund Balance	\$ 4,332,004		
Net Assets:			
Restricted for debt service		1,623,648	1,623,648
Unrestricted		(12,375,187)	(12,375,187)
Total Net Assets		\$ (10,751,539)	\$ (10,751,539)

See Independent Auditor's Report and Notes to Financial Statements

OSWEGO TOBACCO ASSET SECURITIZATION CORPORATION
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Governmental Fund Type General</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenue:			
Tobacco settlement proceeds	\$ 1,497,941	\$	\$ 1,497,941
Interest income	<u>150,466</u>	<u>(2,405)</u>	<u>148,061</u>
 Total Revenues	 <u>1,648,407</u>	 <u>(2,405)</u>	 <u>1,646,002</u>
Expenses:			
Debt service/interest expense	1,699,075	(700,151)	998,924
Insurance expense	5,317		5,317
Professional fees	28,553		28,553
Other expenses	2,752		2,752
Amortization of bond issue costs		<u>19,147</u>	<u>19,147</u>
 Total Expenses	 <u>1,735,697</u>	 <u>(681,004)</u>	 <u>1,054,693</u>
 EXCESS OF (EXPENSES) OVER REVENUES	 (87,290)	 678,599	 591,309
Transfers to Oswego County:			
Debt service	<u>(1,215,550)</u>	<u></u>	<u>(1,215,550)</u>
 Change in Fund Balance/Net Assets	 (1,302,840)	 678,599	 (624,241)
 Fund Balance/Net Assets, January 1,	 <u>5,634,844</u>	 <u>(15,762,142)</u>	 <u>(10,127,298)</u>
 Fund Balance/Net Assets, December 31,	 <u>\$ 4,332,004</u>	 <u>\$ (15,083,543)</u>	 <u>\$ (10,751,539)</u>

See Independent Auditor's Report and Notes to Financial Statements

OSWEGO TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 1 - Summary of Significant Accounting Policies

The financial statements of the Oswego Tobacco Asset Securitization Corporation (the Corporation) have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the Corporation's accounting policies are described below.

A. Reporting Entity

The Corporation is a component unit of the County of Oswego. The Corporation was organized as a local development corporation pursuant to Section 1411 of the Not-For-Profit Corporation Law of the State of New York. The Oswego TASC is one of three New York County TASC's created in 2003 for the purpose of purchasing the tobacco settlement rights from each respective county with the net proceeds of bonds issued to the New York Counties Tobacco Trust III (NYCTT). The trust in-turn issued \$79,680,000 aggregate principal amount Tobacco Settlement Pass-Through Bonds - Series 2003, dated December 18, 2003. The Trust bonds represent a direct, pass-through interest in the corresponding TASC bonds. All payments of the TASC bonds will be made directly by the Trust with the future proceeds of the Tobacco Settlement Revenues.

The Corporation is controlled by a group of 5 directors who are appointed by the Oswego County Legislature. At this time, one director is a member of the County Legislature, one is a member of the management team of the County, and three members have no affiliation with the County. The Corporation is deemed to be a component unit of Oswego County and is presented in the annual financial statements of Oswego County as a blended component unit.

B. Basis of Presentation

The Corporation's basic financial statements include columns for governmental fund types prepared on the modified accrual basis of accounting and for governmental activities prepared on the accrual basis of accounting.

The Statement of Net Assets and the Statement of Activities present summaries of activities for the Corporation. The focus of these columns is more on the sustainability of the Corporation as an entity and the change in the Corporation's net assets from the current year's activities.

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The Corporation records its transactions in the fund types described below:

1. Fund Categories

Governmental Fund Types - those through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources, and the related liabilities are accounted for through Governmental Funds. The measurement focus of the Governmental Funds is based upon determination of financial position and changes in financial position.

OSWEGO TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

The following is the Oswego Tobacco Asset Securitization Corporation's Governmental Fund Type:

General Fund - the principal operating fund which includes all operations not required to be recorded in other funds.

C. Basis of Accounting/Measurement Focus

Basis of accounting refers to when revenues and expenditures and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus. Measurement focus is the determination of what is measured, i.e. expenditures or expenses.

The Statement of Net Assets and the Statement of Activities 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. Nonexchange transactions, in which the Corporation gives or receives value without directly receiving or giving equal value in exchange, include grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Governmental 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 measurable and available. The Corporation considers all revenues reported in the Governmental Funds to be available if the revenues are collected within six months 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 sources.

D. Equity Classifications

- **Restricted Net Assets**
Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or 2) law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets/Unassigned Fund Balance**
Consists of all other net assets that do not meet the definition of "restricted".

E. Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

OSWEGO TOBACCO ASSET SECURITIZATION CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 2 - Explanation of Certain Differences between Governmental Fund Columns and the Statement of Net Assets and Statement of Activities Columns

Due to the differences in the measurement focus and basis of accounting used in the Governmental Fund column and the Statement of Net Assets and Statement of Activities columns, certain financial transactions are treated differently. The differences result primarily from the economic focus of the Statement of Activities, compared with the current financial resources focus of the Governmental Funds.

A. Explanation of Difference between Fund Balances of Governmental Funds and Net Assets of Governmental Activities

Total fund balances of the Corporation's Governmental Funds differ from "net assets" of Governmental Activities reported in the Statement of Net Assets. This difference primarily results from the additional long-term economic focus of the Statement of Net Assets versus the solely current financial resources focus of the Governmental Fund Balance Sheet.

Total Fund Balances of Governmental Funds vs. Net Assets of Governmental Activities

Total fund balances as reported in the Governmental Fund type column	\$	4,332,004
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Long-term liabilities are reported in the Statement of Net Assets, but not in the Governmental Funds, because they are not due and payable in the current period. Balances at year end were:

Bonds payable	\$ (15,655,000)	
Less unamortized discount	<u>468,675</u>	

Addition of long-term liabilities	(15,186,325)
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Bond issuance and closing costs are reported in the Statement of Net Assets, but not in the Governmental Funds because they are not due and receivable in the current period. The balance of unamortized bond issuance and closing costs at year end was:

Unamortized bond issuance and closing costs	153,180
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Interest accruals are reported in the Statement of Net Assets, but not in the Governmental Funds because they are not due and receivable in the current period. Interest was accrued as:

Accrued interest revenue	27,062	
Accrued interest expense	<u>(77,460)</u>	

Total Net Assets as Reported in the Statement of Net Assets	<u>\$ (10,751,539)</u>
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OSWEGO TOBACCO ASSET SECURITIZATION CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

B. Explanation of Difference between Governmental Fund Type Column in the Operating Statement and the Statement of Activities Column

Differences between the Governmental Fund Type column in the Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities column are as follows:

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the Governmental Fund statements, whereas interest payments are recorded in the Statements of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Assets.

Change in Fund Balance as reported in the Governmental Fund type column \$ (1,302,840)

Bond issuance and closing costs are not recorded as expenditures in the Statement of Activities; they will be amortized over the useful life of the associated debt. However, these expenditures are recorded when incurred in the Governmental Fund. (19,147)

Interest income and interest expense are recorded in the fund financial statements when payments are due. Interest income and interest expense are accrued in the Statement of Net Assets from the last payment date to the end of the year. 1,331

Reductions in the Corporation's long-term liabilities are reported as expenditures in the Governmental Funds, but as a reduction of the liability in the Statement of Net Assets. 696,415

Total Change in Net Assets of Governmental Activities in the Statement of Activities \$ (624,241)

Note 3 - Detail Notes

A. Assets

1. Cash and Investments

The Oswego Tobacco Asset Securitization Corporation's investment policies are governed by state statutes. In addition, the Oswego Tobacco Asset Securitization Corporation follows its written investment policy. The Treasurer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State or its localities.

Collateral (security) is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance at 105%. Obligations that may be pledged as collateral are obligations of the United States and its agencies, and obligations of the State and its municipalities and Corporations as set forth in the investment policy.

The written investment policy requires repurchase agreements to be purchased from banks located within the state and that underlying securities be obligations of the federal government. Underlying securities must have a market value of at least the cost of the repurchase agreements.

OSWEGO TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of three months or less.

Deposits and investments are valued at cost or cost plus interest, and are categorized as either (1) insured and for which the collateral is held by the Oswego Tobacco Asset Securitization Corporation's agent in the Corporation's name, (2) collateralized, and for which the securities are held by the pledging financial institution's trust department or agent in the Oswego Tobacco Asset Securitization Corporation's name, or (3) uncollateralized.

At December 31, 2011, the Corporation had no cash balances that exceeded FDIC coverage. Amounts included in cash and cash equivalents include highly liquid investments. The commercial paper included in investments is not subject to FDIC coverage.

Investments at December 31, 2011 consist of the following:

Discount commercial paper dated 08/31/11, maturing 2/29/12 @ 1.300%	\$ 1,600,825
U.S. Treasury securities dated 8/26/04, maturing 06/15/12 @ 4.430%	<u>1,113,061</u>
 Total	 \$ <u>2,713,886</u>

Maturities of investments at December 31, 2011 are as follows:

Commercial paper - Expiring within one year	\$ 1,600,825
U.S. Treasury securities - Expiring 2012	<u>1,113,061</u>
 Total	 \$ <u>2,713,886</u>

B. Long-term Debt

The following is a summary of the Corporation's long-term debt for the year ended December 31, 2011:

<u>Description of Issue</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Outstanding December 31, 2011</u>
Tobacco settlement pass-through bonds	12/03	6/43	5.64%	\$ 15,655,000
Less: Unamortized bond discount				<u>(468,675)</u>
 Total Pass-through Bonds				 \$ <u>15,186,325</u>

OSWEGO TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

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

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Bonds payable	\$ 16,410,000	\$	\$ (755,000)	\$ 15,655,000	\$ 2,685,000
Less:					
Bond discount	<u>(527,260)</u>	<u></u>	<u>58,585</u>	<u>(468,675)</u>	<u>(58,585)</u>
 Total Bonds Payable	 <u>\$ 15,882,740</u>	 <u>\$ -0-</u>	 <u>\$ (696,415)</u>	 <u>\$ 15,186,325</u>	 <u>\$ 2,626,415</u>

The bonds issued by the Corporation include an option to make principal and interest payments in advance of the amortization schedule. Annually, the Corporation makes a determination as to the amount of principal and interest paid.

Interest expense for the year ending December 31, 2011 was as follows:

Interest paid	\$ 944,075
Less interest accrued in the prior year	(81,196)
Add interest accrued in the current year	77,460
Amortization of bond discount	<u>58,585</u>
 Total	 <u>\$ 998,924</u>

The following is a summary of the current estimated repayment of the Corporation's bonds, as estimated by the Corporation's bond agent.

	<u>Component Unit Bonds Principal</u>	<u>Component Unit Bonds Interest</u>	<u>Total</u>
2012	\$ 2,685,000	\$ 812,743	\$ 3,497,743
2013	1,485,000	730,518	2,215,518
2014	1,595,000	640,613	2,235,613
2015	1,725,000	541,650	2,266,650
2016	1,855,000	434,250	2,289,250
2017 - 2019	<u>6,310,000</u>	<u>558,900</u>	<u>6,868,900</u>
 Total	 <u>\$ 15,655,000</u>	 <u>\$ 3,718,674</u>	 <u>\$ 19,373,674</u>

OSWEGO TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

C. Transfers to Oswego County

Proceeds from issuance of the Corporation's bonds were deposited into an escrow account, which is used to make annual debt service payments on \$18,150,000 refunded Oswego County debt. During the year, the Corporation transferred \$1,143,452 of principal and \$67,098 of interest payments. In addition, the Corporation transferred \$5,000 to Oswego County for administrative costs. The following is a summary of the use of proceeds to refund outstanding bonds of Oswego County.

	Oswego County Bonds Principal	Oswego County Bonds Interest	Total
	\$ <u>1,114,449</u>	\$ <u>22,400</u>	\$ <u>1,136,849</u>
2012 Total	\$ <u><u>1,114,449</u></u>	\$ <u><u>22,400</u></u>	\$ <u><u>1,136,849</u></u>

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**Ciaschi • Dietershagen • Little • Mickelson
& Company, LLP**

Certified Public Accountants and Consultants

Frederick J. Ciaschi, C.P.A.

**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**

Board of Directors
Oswego Tobacco Asset
Securitization Corporation
Oswego, New York

We have audited the financial statements of the governmental activities and the major fund of the Oswego Tobacco Asset Securitization Corporation (the Corporation), a component unit of the County of Oswego, as of and for the year ended December 31, 2011, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated February 29, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Oswego Tobacco Asset Securitization Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Oswego Tobacco Asset Securitization Corporation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Corporation's financial statements that is more than inconsequential will not be prevented or detected by the Corporation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Corporation's internal control.

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

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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*.

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

Cianchi, Nutcracker, Little, Middleman, & Company, LLP

February 29, 2012
Ithaca, New York