CHAUTAUQUA TOBACCO ASSET SECURITIZATION CORPORATION

A COMPONENT UNIT OF THE COUNTY OF CHAUTAUQUA, NEW YORK

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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JMA

JOHNSON, MACKOWIAK
& ASSOCIATES, LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

February 23, 2016

To the Board of Directors
Chautauqua Tobacco Asset Securitization Corporation
3163 Airport Drive
Jamestown, New York 14701

Report of Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Chautauqua Tobacco Asset Securitization Corporation (CTASC), a component unit of the County of Chautauqua, New York, as of and for the years ended December 31, 2015 and 2014 and the related notes to the financial statements, which collectively comprise CTASC'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.

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 each major fund of CTASC, as of December 31, 2015 and 2014, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2016, on our consideration of CTASC's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CTASC's internal control over financial reporting and compliance.

Johnson, Mackowiak & Associates, LLP

JOHNSON, MACKOWIAK & ASSOCIATES, LLP

CHAUTAUQUA TOBACCO ASSET SECURITIZATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015

This discussion and analysis of the Chautauqua Tobacco Asset Securitization Corporation (CTASC), a blended component unit of the County of Chautauqua, New York, financial performance provides an overview of CTASC's financial activities for the year ended December 31, 2015. This document should be read in conjunction with CTASC's financial statements which begin on page 5.

FINANCIAL HIGHLIGHTS

- On November 6, 2014 CTASC refunded the 2000 Series bonds and reissued 2014 Series bonds in the amount of $34,765,000. The sale of the bonds provided for the complete refunding of the 2000 series, purchase of the 2005 series S4B, provided $600,000 of excess proceeds to Chautauqua County for the capital expansion of the Sherman Department of Public Facilities maintenance facilities, and created a $120,000 CTASC operating reserve. The highlight of the bond sale was the $600,000 payment to the county and the purchase of the 2005 S4B tranche. The S4B tranche was projected to never pay off which would have resulted in a probable default by 2060. If projected TSR's (Tobacco Settlement Revenues) maintain their rate of decline, the county may expect to once again receive residual payments from the TSRs.
- CTASC's net deficit decreased $28,012 as a result of this year's activity.
- Total assets decreased by approximately $420,000 from 2014 to 2015, primarily as a result of decreases in unamortized bond discount costs on capital appreciation bonds. Total liabilities decreased by approximately $215,000, as a result of the repayment of debt.
- Tobacco settlement revenues decreased by approximately $352,491 from 2014 to 2015.

USING THIS REPORT

The annual report consists of a series of financial statements. The statements of net position (deficit) and the statements of activities provide information regarding CTASC as a whole and present a longer-term view of CTASC's finances. Financial statements for each fund start on page 7. For governmental activities, these statements show how services were financed in the overall operation of CTASC in greater detail than CTASC-wide financial statements.

REPORTING CTASC AS A WHOLE

The Statements of Net Position (Deficit) and Statements of Activities

The statements of net position (deficit) and statements of activities show information about CTASC as a whole. These statements include all assets and liabilities of CTASC using the accrual basis of accounting which is 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 CTASC's net position (deficit) and the changes to it. CTASC's net position (deficit) – the difference between assets and liabilities – is a way to measure CTASC's financial health, or financial position. Over time, increases or decreases in CTASC's net position (deficit) are one indicator of whether its financial health is improving or deteriorating.

In the statements of net position (deficit) and the statements of activities, CTASC reports all its basic services as governmental activities. These services are primarily economic development.

REPORTING CTASC'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Our discussion and analysis of CTASC's major funds begins on page 8 and provide detail of CTASC's most significant funds on an individual basis rather than the Corporation taken as a whole. Some funds are required to be established by state or local law or by the nature of the federal and state funding for their operation. Currently CTASC utilizes two governmental funds (Capital Projects and Debt Service).

Governmental Funds

The two funds of CTASC are considered governmental funds. This section focuses on how revenue flows into and out of this fund and the balance of the fund at year-end which is available for future spending. These funds are reported using the modified accrual basis of accounting which measures cash and financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of CTASC's general operations and the basic services it provides. This information helps determine the financial resources that can be spent to finance CTASC programs. The relationship between the governmental activities (accrual basis) and the governmental funds (modified accrual basis) is provided in reconciliations on pages 9 and 11.

FACTORS BEARING ON THE CORPORATION'S FUTURE

At the time these financial statements were prepared and audited, the Corporation was aware of the following circumstances that could significantly affect its financial health in the future:

- Prior to August 2013, the Master Settlement Agreement (MSA) participants continued to withhold approximately 12% of the expected payments due to the dispute regarding the Non-Participating Manufacturers (NPM) percentage of market share growth. In August 2013, New York State was successful through arbitration in winning the NPM dispute for the payment year. The payment for this settlement on the 2003 NPM holdback was distributed to CTASC during the 2014 calendar year.
- On October 16, 2015 New York State resolved with Master Settlement Agreement (MSA) participants all outstanding Non-Participating Manufacturers (NPM) disputed holdbacks. For the 2004-10 Period, (A) the Original Participating Manufacturers ("OPMs") will receive a discount (each a "Settlement Credit") equal to a flat 10% of the allocable New York amount deposited by an OPM in the DPA for such period, and (B) the Subsequent Participating Manufacturers ("SPMs") will receive Settlement Credits pursuant to an adjusted formula based on the OPM formula for such period. For the 2011-14 period, (A) the OPMs will receive Settlement Credits based on formula relating to certain cigarettes for which the State did not collect New York Excise Tax during each year of such three year period, and (B) the SPMs will receive Settlement Credits pursuant to an adjusted formula based on the OPM formula for such period.

For 2015 and thereafter, (A) the OPMs will receive Settlement Credits tied to the total in-state sales volume of cigarettes that are manufactured on Native American reservations and sold tax-free from smoke shops on those reservations to New York consumers, and (B) the SPMs will receive Settlement Credits pursuant to an adjusted formula based on the OPM formula for such period. The Settlement Credits will be for a fixed amount per pack of cigarettes, but with a modifier based on overall volume of such cigarettes per year and an inflation adjustment. The annual volume information will be determined by a neutral, un-appealable third party agreed upon by the State and Participating Manufacturers. The payment to CTASC of NPM settlement amounts less the settlement credits is expected to occur in April of 2016.

- As of February 2013, the three Original Participating Manufacturers (OPM) in the Master Settlement agreement with a market share totaling 80% were rated at BBB- or above by Moody's Investors Service. As discussed in the notes to the financial statements, the tobacco settlement revenues are dependent upon the volume of cigarettes shipped in the United States, which is primarily a function of domestic cigarette consumption.
- Fitch, Inc. published updated Tobacco Settlement ABS Criteria on August 8, 2014. For 2014, the aggregate MSA payment was 18.46% lower than the amount in 2013. This drop is due to the one time settlement payment received by 20 settling states and territories from the tobacco companies in 2013 regarding the NPM dispute. This decline was partially offset by a settlement of 2003 disputed payments to the remaining states.

CONTACTING CTASC'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens of Chautauqua County, customers, and creditors with a general overview of CTASC's finances and to show CTASCS's accountability for the money it receives. If you have any questions or need additional information, contact Darin Schulz, 3200 Deerwood Drive, Ashville, NY 14710.

CHAUTAUQUA TOBACCO ASSET SECURITIZATION CORPORATION
A COMPONENT UNIT OF THE COUNTY OF CHAUTAUQUA, NEW YORK
STATEMENTS OF NET POSITION (DEFICIT)
DECEMBER 31, 2015 AND 2014

ASSETS

	2015	2014
Restricted cash and cash equivalents	$ 71,748	$ 66,537
Restricted investments	2,440,637	2,390,873
Capital assets, net	-	-
Unamortized bond discount:		
Series 2000 Bonds	-	-
Series 2005 Turbo Capital Appreciation Bonds	78,622,141	79,078,537
Series 2014/2005 Bonds	473,768	492,427
TOTAL ASSETS	$ 81,608,294	$ 82,028,374

LIABILITIES AND NET POSITION (DEFICIT)

	2015	2014
LIABILITIES:		
Bonds payable:		
Due and payable within one year	$ 980,000	$ 530,000
Due and payable after one year	33,570,000	34,235,000
Turbo Capital Appreciation Bonds payable	84,714,716	84,714,716
TOTAL LIABILITIES	119,264,716	119,479,716
DEFERRED INFLOWS OF RESOURCES:		
Deferred gain on refunding	3,791,686	3,968,754
TOTAL DEFERRED INFLOWS OF RESOURCES	3,791,686	3,968,754
NET POSITION (DEFICIT):		
Net investment in capital assets	-	-
Restricted for debt service	2,324,267	2,281,577
Restricted for capital program	188,118	175,833
Unrestricted deficit	(43,960,493)	(43,877,506)
TOTAL NET POSITION (DEFICIT)	(41,448,108)	(41,420,096)
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION (DEFICIT)	$ 81,608,294	$ 82,028,374

See accompanying notes to financial statements.

CHAUTAUQUA TOBACCO ASSET SECURITIZATION CORPORATION
A COMPONENT UNIT OF THE COUNTY OF CHAUTAUQUA, NEW YORK
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
EXPENSES:		
General and administrative expenses	$ 92,675	$ 63,542
Distributions to Chautauqua County for capital program	-	-
Interest expense	1,776,891	3,281,026
Bond accretion	445,820	418,476
Bond issuance costs / discount fees	29,235	48,939
TOTAL EXPENSES	2,344,621	3,811,983
REVENUES:		
Tobacco settlement :		
Revenue	2,091,368	2,443,859
Net tobacco settlement revenues	2,091,368	2,443,859
Investment income:		
Interest income	62,041	52,399
Investment gain (loss)	(13,868)	90,733
Amortization of gain on refunding	177,068	-
Total investment income (loss)	225,241	143,132
TOTAL REVENUES	2,316,609	2,586,991
CHANGE IN NET POSITION (DEFICIT)	(28,012)	(1,224,992)
NET POSITION (DEFICIT), beginning of year	(41,420,096)	(40,195,104)
NET POSITION (DEFICIT), end of year	$ (41,448,108)	$ (41,420,096)

See accompanying notes to the financial statements.

CHAUTAUQUA TOBACCO ASSET SECURITIZATION CORPORATION
A COMPONENT UNIT OF THE COUNTY OF CHAUTAUQUA, NEW YORK
BALANCE SHEETS - GOVERNMENTAL FUNDS
DECEMBER 31, 2015 AND 2014

	2015			2014		
	Capital Projects	Debt Service	Total Governmental Funds	Capital Projects	Debt Service	Total Governmental Funds
ASSETS:						
Restricted cash and cash equivalents	$ 66,691	$ 5,057	$ 71,748	$ 55,833	$ 10,704	$ 66,537
Restricted investments	121,427	2,319,210	2,440,637	120,000	2,270,873	2,390,873
TOTAL ASSETS	$ 188,118	$ 2,324,267	$ 2,512,385	$ 175,833	$ 2,281,577	$ 2,457,410
FUND BALANCES:						
Restricted for capital program	$ 188,118	$ -	$ 188,118	$ 175,833	$ -	$ 175,833
Restricted for debt service	-	2,324,267	2,324,267	-	2,281,577	2,281,577
TOTAL FUND BALANCES	$ 188,118	$ 2,324,267	$ 2,512,385	$ 175,833	$ 2,281,577	$ 2,457,410

See accompanying notes to the financial statements.

CHAUTAUQUA TOBACCO ASSET SECURITIZATION CORPORATION
A COMPONENT UNIT OF THE COUNTY OF CHAUTAUQUA, NEW YORK
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEETS
TO THE STATEMENTS OF NET POSITION (DEFICIT)
DECEMBER 31, 2015 AND 2014

	2015	2014
TOTAL FUND BALANCE - GOVERNMENTAL FUNDS	$ 2,512,385	$ 2,457,410
Amounts reported for governmental activities in the statement of net deficits are different because:		
Property and equipment used in governmental activities are not financial resources and therefore not reported in the governmental funds.		
Governmental property and equipment	34,189	34,189
Less accumulated depreciation	(34,189)	(34,189)
	-	-
Deferred inflow of resources related to the refinancing of debt are not reported in the governmental funds financial statements. The resulting gain is reported in the statement of net assets as a deferred inflow of resources. The difference between the reacquistion price and the net carrying amount of the old debt is amortized to interest expense over a period at a time that is the shorter of the remaining life of or the life of the new debt.	(3,791,686)	(3,968,754)
Bond discounts are reported as other financing uses in governmental funds financial statements. However, in the statement of net assets, bond discounts are reported as a component of bonds payable and amortized over the lives of the related debt.	79,095,909	79,570,964
Some liabilities are not due and payable in the current period from currently available financial resources and are therefore not reported in the governmental funds financial statements. Those liabilities consist of:		
Governmental bonds payable	(119,264,716)	(119,479,716)
NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	$ (41,448,108)	$ (41,420,096)

See accompanying notes to financial statements.

CHAUTAUQUA TOBACCO ASSET SECURITIZATION CORPORATION
A COMPNENT UNIT OF THE COUNTY OF CHAUTAUQUA, NEW YORK
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015			2014		
	Capital Projects	Debt Service	Total Governmental Funds	Capital Projects	Debt Service	Total Governmental Funds
REVENUES:						
Tobacco settlement revenue	$ 2,091,368	$ -	$ 2,091,368	$ 2,443,859	$ -	$ 2,443,859
Interest income	3,328	58,713	62,041	730	51,669	52,399
Investment earnings (loss)	(3,493)	(10,375)	(13,868)	-	90,733	90,733
TOTAL REVENUES	2,091,203	48,338	2,139,541	2,444,589	142,402	2,586,991
EXPENDITURES:						
Bond interest expense	-	1,776,891	1,776,891	-	3,281,026	3,281,026
Bond principal	-	215,000	215,000	-	270,000	270,000
General and administrative expenses	87,028	5,647	92,675	63,542	-	63,542
TOTAL EXPENDITURES	87,028	1,997,538	2,084,566	63,542	3,551,026	3,614,568
Excess (Deficiency) of Revenues Over Expenditures	2,004,175	(1,949,200)	54,975	2,381,047	(3,408,624)	(1,027,577)
Other Financing Sources (Uses):						
Operating transfers in	-	1,991,890	1,991,890	-	2,436,400	2,436,400
Operating transfers out	(1,991,890)	-	(1,991,890)	(2,436,400)	-	(2,436,400)
Total Other Financing Sources (Uses)	(1,991,890)	1,991,890	-	(2,436,400)	2,436,400	-
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	12,285	42,690	54,975	(55,353)	(972,224)	(1,027,577)
FUND BALANCES, beginning of year	175,833	2,281,577	2,457,410	231,186	3,253,801	3,484,987
FUND BALANCES, end of year	$ 188,118	$ 2,324,267	$ 2,512,385	$ 175,833	$ 2,281,577	$ 2,457,410

See accompanying notes to the financial statements.

CHAUTAUQUA TOBACCO ASSET SECURITIZATION CORPORATION
A COMPONENT UNIT OF THE COUNTY OF CHAUTAUQUA, NEW YORK
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENT FUNDS	$ 54,975	$ (1,027,577)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report the cost of debt issuance as expenditures. However, in the statement of activities, the cost of debt issuance is amortized over the lives of the related debt.	(29,235)	(48,939)
Governmental funds report bond proceeds net of repayment of debt. However, in the statement of activities, bond accretion, which results in an increase in the amount of the bond due is recognized.	(445,820)	(418,476)
Governmental funds report the gain on refunding of debt when the debt is issued. However, in the statement of activities these amounts are deferred and amortized over the lives of the related debt.	177,068	-
Governmental funds report bond principal payments as other financing uses. However, in the statement of activities, bond principal payments are recognized as liabilities and written down as they are paid.	215,000	270,000
CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	$ (28,012)	$ (1,224,992)

See accompanying notes to the financial statements.

NOTE 1 - ORGANIZATION

Overview

Chautauqua Tobacco Asset Securitization Corporation ("CTASC"), a component unit of Chautauqua County, New York (the County), is a special purpose, bankruptcy remote local development corporation organized under the provisions of Section 1411 of the New York State Not-For-Profit Corporation Law. CTASC is governed by a Board of three directors, consisting of the County Executive for Chautauqua County, New York; the Director of Finance for Chautauqua County, New York; and an independent director. 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.

Pursuant to a Purchase and Sale Agreement with the County, CTASC purchased from the County all of its future rights, title and interest in the Tobacco Settlement Revenues (TSR's) under the Master Settlement Agreement ("MSA"). The MSA was entered into on November 23, 1998, among the attorneys general of 46 states (including New York), the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Territory of the Northern Marianas and the four largest United States tobacco manufacturers: Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation and Lorillard Tobacco Company. The MSA resolved cigarette smoking-related litigation between the Settling States. The MSA also imposed certain tobacco advertising and marketing restrictions, among other things. Neither the County nor CTASC is a party to the MSA.

CTASC financed the purchase through the issuance of Tobacco Settlement Revenue Bonds and the Residual Certificate. The Residual Certificate represents the entitlement to receive all amounts required to be distributed after payment of debt service, operating expenses and certain other costs as set forth in the Indenture. Payments on the Residual Certificate from TSR collections are subordinate to payments on the bonds and payment of certain other costs specified in the Indenture. Excess TSR's not required by CTASC to pay various expenses, debt service or required reserves with respect to the bonds are generally transferred to the CTASC Residual Trust, as owner of the Residual Certificate. The County is the beneficial owner of the Trust and thus the funds received by the Trust are transferred to the County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus/Basis of Accounting

The entity-wide financial statements of CTASC, which include the statements of net deficit and the statements of activities, are presented to display information about the reporting entity as a whole, in accordance with Statements No. 34 of the Governmental Accounting Standards Board. The statements of net deficit and the statements of activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

CTASC's governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes susceptible to accrual, which is when it becomes both measureable and available to finance expenditures in the current fiscal period. Measureable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized when the related liability is incurred, except for unmatured interest on bonds payable, which is recognized when due.

Property, Equipment and Depreciation

Property and equipment are recorded at cost. Depreciation is computed over the estimated useful lives of the property and equipment on the straight-line method in the entity-wide financial statements. The governmental funds financial statements recognize property and equipment acquisitions as an expense in the period in which they are acquired. Depreciation is not recognized in the governmental funds financial statements.

Bond Premiums and Discounts

Bond premiums and discounts are capitalized and amortized over the lives of the related debt using the straight-line method in the entity-wide financial statements. The governmental funds financial statements recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuance are reported as other financing uses.

Interest Expense

Interest expense is recognized on the accrual basis in the entity-wide financial statements. Interest expenditures are recognized when paid in the individual governmental funds financial statements.

Use of Estimates

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

Tax Status

The Corporation is exempt from federal income tax under Section 115 of the Internal Revenue Code. The Corporation believes that it has appropriate support for any tax position taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Cash and Cash Equivalents

CTASC's cash and cash equivalents are currently limited to bank deposits, U.S. Government securities, and Insured Money Market funds. At December 31, 2015, the Corporation's cash and cash equivalents consisted of insured Money Market funds of $55,700 and bank deposits of $71,748. At December 31, 2014, the Corporation's cash and cash equivalents consisted of insured Money Market funds of $240,375 and bank deposits of $66,537. Investments with an original maturity date of three months or less are classified as cash and cash equivalents. Bank deposits up to $250,000 are insured by Federal Depository Insurance Corporation.

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

Accounting and Reporting Changes

During June 2012, Governmental Accounting Standards Board (GASB) issued Statement No. 68 - *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. Statement No. 67, *Financial Reporting for Pension Plans*, revises existing standards of financial reporting for most pension plans. This Statement and Statement 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. CTASC implemented Statement No. 68, effective for the fiscal year ending December 31, 2015 with retroactive application for the fiscal year ended December 31, 2014. The adoption of Statement No. 68 had no effect on CTASC's financial statements.

During November 2013, Governmental Accounting Standards Board (GASB) issued Statement No. 71 - *Pension Transition for Contributions Made Subsequent to the Measurement 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 - an amendment of GASB Statement No. 27*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. CTASC implemented Statement No. 71, effective for the fiscal year ending December 31, 2015 with retroactive application for the fiscal year ended December 31, 2014. The adoption of Statement No. 71 had no effect on CTASC's financial statements.

During June 2012, Governmental Accounting Standards Board (GASB) issued Statement No. 67 - *Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25.* The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. CTASC implemented Statement No. 67, effective for the fiscal year ending December 31, 2014. The adoption of Statement No. 67 had no effect on CTASC's financial statements.

During January 2013, Governmental Accounting Standards Board (GASB) issued Statement No. 69 - *Government Combinations and Disposals of Government Operations.* This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. CTASC implemented Statement No. 69, effective for the fiscal year ending December 31, 2014. The adoption of Statement No. 69 had no effect on CTASC's financial statements.

During April 2013, Governmental Accounting Standards Board (GASB) issued Statement No. 70 - *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. CTASC implemented Statement No. 70, effective for the fiscal year ending December 31, 2014. The adoption of Statement No. 70 had no effect on CTASC's financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Future Impacts of Accounting Pronouncements

CTASC has not completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (GASB) Statement No. 72 - *Fair Value Measurement and Application*, effective for the year ending December 31, 2016; GASB Statement No. 73 - *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* effective for the year ending December 31, 2017; GASB Statement No. 74 - *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for the year ending December 31, 2017; GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for the year ending December 31, 2018; GASB Statement No. 76 - *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for the year ending December 31, 2016; GASB Statement No. 77 - *Tax Abatement Disclosures*, effective for the year ending December 31, 2016; GASB Statement No. 78 - *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for the year ending December 31, 2016; GASB Statement No. 79 - *Certain External Investment Pools and Pool Participants*, effective for the year ending December 31, 2016 and GASB Statement No. 80 - *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, effective for the year ending December 31, 2017.

CTASC is therefore unable to disclose the impact that adopting these GASB Statements will have on its financial position and results of operation when such statements are adopted.

NOTE 3 - INVESTMENTS

Investments are reported at fair 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 obligations of the United States of America.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Corporation's investments at December 31, 2015 and 2014 were in U.S. Government and Municipal Obligations.

Concentration of Credit Risk - The Corporation places no limit on the amount that it may invest within any one issuer. The Corporation's investments at December 31, 2015 and 2014 were in the U.S. Government and Municipal Obligations.

Interest Rate Risk - The Corporation's investment policies are governed by resolution of the Board of Directors. It is the policy of CTASC to diversify its deposits and investments by maturity scheduling as a means of managing its exposure to fair value losses arising from interest rates.

Fair Value Measurements - Fair values of assets measured on a recurring basis at December 31, 2015 and 2014, are as follows:

	Capital Projects Fund			
	2015		2014	
Investment Description	Cost	Fair Value	Cost	Fair Value
Cash and Cash Equivalents	$ 7,449	$ 7,449	$ 120,000	$ 120,000
Debt Service -				
U.S. Government Agencies	117,150	113,978	-	-
Total Investments	$ 124,599	$ 121,427	$ 120,000	$ 120,000

	Debt Service Fund			
	2015		2014	
Investment Description	Cost	Fair Value	Cost	Fair Value
Cash and Cash Equivalents	$ 48,251	$ 48,251	$ 120,375	$ 120,375
Debt Service -				
U.S. Government Agencies	1,607,878	1,586,181	1,813,872	1,787,786
Municipal Obligations	687,525	684,778	363,895	362,712
Total Investments	$ 2,343,654	$ 2,319,210	$ 2,298,142	$ 2,270,873

Credit Quality Ratings - Municipal Obligations - The Corporation invested in various NYS Municipal Obligations during 2015 and 2014. The credit quality rating of these investments as of December 31, 2015 are as follows:

Municipal Obligation	Fair Value	CUSIP No.	Maturity Date	Moody's
Long Island New York Pwr Auth Utilities Revenue	$ 363,573	5426903R1	9/1/2022	Baa1
NYC New York Tranisitional General Obligation	99,848	64971WVC1	8/1/2024	Aa1
New York State Environmental FACS Water Revenue	221,357	64985HRT6	7/15/1930	Aaa
Total municipal obligations	$ 684,778			

NOTE 3 - INVESTMENTS, continued

The credit quality rating of these investments at December 31, 2014 are as follows:

Municipal Obligation	Fair Value	CUSIP No.	Maturity Date	Moody's
Long Island New York Pwr Auth Utilities Revenue	$ 362,712	5426903R1	9/1/2022	Baa1
Total municipal obligations	$ 362,712			

NOTE 4 - PROPERTY, EQUIPMENT AND DEPRECIATION

Property, equipment and depreciation consist of the following:

	Year ended December 31, 2015			
	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental activities:				
Property and equipment that is depreciated:				
Office improvements	$ 3,277	$ -	$ -	$ 3,277
Furniture and fixtures	30,912	-	-	30,912
Total depreciable historical cost	34,189	-	-	34,189
Less accumulated depreciation:				
Office improvements	3,277	-	-	3,277
Furniture and fixtures	30,912	-	-	30,912
Total accumulated depreciation	34,189	-	-	34,189
Total depreciable historical cost, net	$ -	$ -	$ -	$ -

Property, equipment and depreciation consist of the following:

	Year ended December 31, 2014			
	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental activities:				
Property and equipment that is depreciated:				
Office improvements	$ 3,277	$ -	$ -	$ 3,277
Furniture and fixtures	30,912	-	-	30,912
Total depreciable historical cost	34,189	-	-	34,189
Less accumulated depreciation:				
Office improvements	3,277	-	-	3,277
Furniture and fixtures	30,912	-	-	30,912
Total accumulated depreciation	34,189	-	-	34,189
Total depreciable historical cost, net	$ -	$ -	$ -	$ -

NOTE 5 - BOND REFINANCING

On November 6, 2014 CTASC refunded the Series 2000 Bonds and reissued Series 2014 Bonds in the amount of $34,765,000. The sale of the bonds provided for the complete refunding of the Series 2000 Bonds, purchase of the Series 2005 S4B Bonds, provided $600,000 of excess proceeds to Chautauqua County for the capital expansion of the Sherman Department of Public Facilities maintenance facility, and created a $120,000 operating reserve. See Note 7.

NOTE 6 - DISCOUNT FEES

The Corporation has incurred discount fees associated with the Series 2014, Series 2005 and Series 2000 Bond issues. These costs are expensed as incurred in the Corporation's governmental fund financial statements. Such discount fees are deferred and amortized over the life of related debt in the government-wide statements. Discount fees for the 2000 Series totaling $155,787 will be amortized over 40 years (9/15/2000 through 8/31/2040). This Series was refinanced on November 6, 2014 and replaced by the Series 2014 Bonds. The discount fees for the 2005 Series totaling $221,944 will be amortized over 21 years (12/01/05 - 11/20/2026). The discount fees for the 2014 Series totaling $495,738 will be amortized over 23 years (11/06/14 - 06/01/2037). This will result in a matching of the amortization of the asset with the related payment of the liability. Balances at December 31, 2015 are as follows:

	2000 Series Discount Fees	2005 Series Discount Fees	2014 Series Discount Fees
Cost	$ -	$ 221,944	$ 495,738
Less: Accumulated Amortization	-	107,523	21,970
Net	$ -	$ 114,421	$ 473,768

Balances at December 31, 2014 are as follows:

	2000 Series Discount Fees	2005 Series Discount Fees	2014 Series Discount Fees
Cost	$ -	$ 221,944	$ 495,738
Less: Accumulated Amortization	-	96,947	3,311
Net	$ -	$ 124,997	$ 492,427

NOTE 7 - BONDS PAYABLE

SERIES 2014 BONDS

Overview

As stated above the 2014 Series Bond was created in the refinancing of the 2000 Series Bonds.

The Series 2014 Bonds are issued in fully registered form in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC") who acts as Securities Depository for the Series 2014 Bonds. Individual purchases are in book-entry form only, in the principal amount of $5,000, or integral multiples thereof. Purchasers do not receive certificates representing their ownership interest in the Series 2014 Bonds.

Interest on the Series 2014 Bonds is payable semi-annually on June 1 and December 1 in each year until maturity or prior redemption. Principal of and interest on the Series 2014 Bonds will be paid by the Indenture Trustee to DTC which will in turn remit such principal and interest to its Participants, for subsequent distribution to the Beneficial Owners of the Series 2014 Bonds.

Security for the Series 2014 Bonds

Pursuant to a Purchase and Sale Agreement, dated September 1, 2000 (the "TSR Purchase Agreement"), the County sold to CTASC all of its rights, title and interest under the MSA and the Decree, including the County's right to be paid its portion of the State of New York's (the "State") allocable shares of future initial Payments and Annual Payments under the MSA (the "Tobacco Settlement Revenues").

Debt Service Reserve Account

Under the Indenture, the Indenture Trustee has established and holds a Debt Service Reserve Account which is funded from Series 2014 Bond proceeds. Except after an Event of Default, CTASC is required to maintain a balance in the Debt Service Reserve Account to the extent of available funds equal to the maximum annual debt service on the Series 2014 Bonds in the current year or any future year. The amount in this account at December 31, 2015 was $2,319,211. A simillar agreement existed related to the Series 2000 Bonds which was refinanced during 2014. The amount in the corresponding debt service reserve account at December 31, 2014 was $2,270,873.

NOTE 7 - BONDS PAYABLE, Continued

Maturity

The following is a summary of maturity of indebtedness:

Description of Issue	Issue Date	Final Maturity	Interest Rate	Outstanding at December 31, 2015
Serial Bonds	11/6/2014	6/1/2037	3.125 - 5.000%	$ 34,550,000

The following is a summary of maturing debt service requirements for the year ending December 31:

Year	Principal	Interest	Total
2016	$ 980,000	$ 1,642,619	$ 2,622,619
2017	675,000	1,615,228	2,290,228
2018	975,000	1,586,384	2,561,384
2019	1,000,000	1,549,822	2,549,822
2020	1,035,000	1,504,150	2,539,150
2021 - 2025	5,925,000	6,678,750	12,603,750
2026 - 2030	7,710,000	5,001,406	12,711,406
2031 - 2035	10,060,000	2,854,831	12,914,831
2036 - 2037	6,190,000	346,500	6,536,500
	$ 34,550,000	$ 22,779,690	$ 57,329,690

The Series 2014 Bonds consist of various Term and Serial Bonds with varying maturity dates. The following is a summary of the maturing debt service requirements that make up the Series 2014 Bonds.

2022 Turbo Term Bond

Year	Principal	Interest	Total
2016	$ 980,000	$ 62,344	$ 1,042,344
2017	325,000	41,953	366,953
2018	625,000	27,109	652,109
2019	555,000	8,672	563,672
	$ 2,485,000	$ 140,078	$ 2,625,078

Serial Bonds

Year	Principal	Interest	Total
2016	$ -	$ 70,500	$ 70,500
2017	350,000	63,500	413,500
2018	350,000	49,500	399,500
2019	400,000	32,500	432,500
2020	450,000	11,250	461,250
	$ 1,550,000	$ 227,250	$ 1,777,250

2029 Turbo Term Bond

Year	Principal	Interest	Total
2016	$ -	$ 223,500	$ 223,500
2017	-	223,500	223,500
2018	-	223,500	223,500
2019	45,000	222,375	267,375
2020	585,000	206,625	791,625
2021 - 2024	3,840,000	338,500	4,178,500
	$ 4,470,000	$ 1,438,000	$ 5,908,000

2034 Turbo Term Bond

Year	Principal	Interest	Total
2016	$ -	$ 282,500	$ 282,500
2017	-	282,500	282,500
2018	-	282,500	282,500
2019	-	282,500	282,500
2020	-	282,500	282,500
2021 - 2025	2,085,000	1,321,375	3,406,375
2026 - 2029	3,565,000	234,875	3,799,875
	$ 5,650,000	$ 2,968,750	$ 8,618,750

NOTE 7 - BONDS PAYABLE, Continued

2039 Turbo Term Bond

Year	Principal	Interest	Total
2016	$ -	$ 303,525	$ 303,525
2017	-	303,525	303,525
2018	-	303,525	303,525
2019	-	303,525	303,525
2020	-	303,525	303,525
2021 - 2025	-	1,517,625	1,517,625
2026 - 2030	4,145,000	1,265,281	5,410,281
2031 - 2034	2,245,000	74,456	2,319,456
	$ 6,390,000	$ 4,374,987	$ 10,764,987

2048 Turbo Term Bond

Year	Principal	Interest	Total
2016	$ -	$ 700,250	$ 700,250
2017	-	700,250	700,250
2018	-	700,250	700,250
2019	-	700,250	700,250
2020	-	700,250	700,250
2021 - 2025	-	3,501,250	3,501,250
2026 - 2030	-	3,501,250	3,501,250
2031 - 2035	7,815,000	2,780,375	10,595,375
2036 - 2037	6,190,000	346,500	6,536,500
	$ 14,005,000	$ 13,630,625	$ 27,635,625

SERIES 2005 BONDS

Overview

The New York Counties Tobacco Trust V issued $202,792,505 aggregate principal amount of Tobacco Settlement Pass-Through Bonds in four series. These Series 2005 NYCTT Bonds represent direct, pass-through interest in corresponding bonds of certain series of tobacco settlement asset-backed bonds issued by one or more of the 24 tobacco asset securitization corporations ("TASC") of which CTASC is one. These bonds are subordinate to the Series 2014 bonds discussed above.

There are not scheduled payments of principal or interest on the Series 2005 NYCTT Bonds other than on their respective maturity dates because the bonds are Capital Appreciation Bonds. All interest accretes until both principal and accreted interest is paid. Turbo (accelerated) amortization payments are required to be made against the outstanding principal providing that CTASC receives sufficient TSR's to make the Turbo payments. Since there is no certainty that CTASC will receive sufficient TSR's to make these Turbo payments, the outstanding amount of the bonds and the related discount have not been reduced on the statements of net deficits.

Security for the Series 2005 Bonds

In order to secure payment of its Prior Bonds and Series 2005 TASC Bonds, each TASC has pledged to the TASC Trustee all of the TASC's rights, title, and interest whether now owned or hereafter acquired, in (i) the TSR Purchase Agreement and the TSR's (ii) the Pledged Series 2005 Accounts, and all investment earnings on amounts on deposit in or credited to the Pledged Series 2005 Accounts; and (iii) all present and future claims, demands, and causes in action in respect to the foregoing.

Series 2005 Bond Fund

A Series 2005 Bond Fund will be established with the Trustee and money will be deposited therein as provided in the Series 2005 Supplemental Indenture. The money in the Bond Fund will be held in trust and, except as otherwise provided in the Series 2005 Supplemental Indenture, will be applied solely to the payment of Debt Service. The Series 2005 Bond Fund includes a Series 2005 Turbo Redemption Account, a Series 2005 Lump Sum Redemption Account and a Series 2005 Extraordinary Payment Account.

Maturity

CTASC originally issued bonds out of three series of the 2005 issuances. As described in Note 5 above, the Series S4B tranche was repurchased during 2014 in the refinancing of CTASC's debt. The total bonds issued and their terms are summarized as follows:

Series	Issuance Amount	Maturity Amount	Interest Rate	Maturity
Series S2	$ 2,400,150	$ 3,481,000	6.10%	June 1, 2050
Series S3	$ 1,820,337	$ 51,090,000	6.85%	June 1, 2055

NOTE 7 - BONDS PAYABLE, Continued

What follows is a schedule of Projected TASC Turbo Redemption Payments for the portion of the bonds attributable to CTASC. Although not mandatory redemptions, these are the redemptions originally anticipated based upon projected cash flows. Because these bonds are capital appreciation bonds, there is not differentiation between principal and interest with respect to each payment.

Year	Series 2005 S2	Series 2005 S3	Total
2037	$ 1,016,494	$ -	$ 1,016,494
2038	2,601,330	-	2,601,330
2039	2,604,935	-	2,604,935
2040	2,607,262	-	2,607,262
2041	885,066	1,729,291	2,614,357
2042	-	2,616,311	2,616,311
2043	-	2,620,363	2,620,363
2044	-	2,624,178	2,624,178
2045	-	2,625,985	2,625,985
2046	-	2,628,973	2,628,973
2047	-	2,631,269	2,631,269
2048	-	2,630,497	2,630,497
2049	-	2,636,862	2,636,862
2050	-	2,652,770	2,652,770
2051	-	2,005,028	2,005,028
	$ 9,715,087	$ 27,401,527	$ 37,116,614

NOTE 8 - EQUITY CLASSIFICATIONS

A. Government-wide Statements

In the entity-wide statements, there are three classes of net assets:

Net Investment in Capital Assets - This class consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvements of these assets.

Restricted Net Assets - Restricted net assets report constraints placed on assets that are either legally imposed by creditors (such as through covenants), grantors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Restrictions of net assets have been recorded in the entity-wide financial statements of the Corporation at December 31, 2015 and 2014 as follows:

Restricted for Capital - represents resources that are committed for future transfers to the CTASC Residual Trust.

Restricted for Debt Service - represents resources that are committed to retiring the outstanding obligations of the corporation.

Unrestricted Net Assets - Designations are not legally required restrictions, but are segregated for a specific purpose. At December 31, 2015 and 2014, the Corporation had not designated any unrestricted net assets. The unrestricted net deficit balance represents the outstanding bond liability to be paid off with future rights to receive tobacco revenues.

B. Fund Statements

In the fund basis statements there are five classifications of fund balance:

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. The Corporation did not have any nonspendable fund balance at December 31, 2015 and 2014.

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. The Corporation has established the following restricted fund balances.

Restricted For Capital - represents resources that are restricted for future transfers to the CTASC Residual Trust.

Restricted For Debt Service - represents resources that are contractually committed to the retirement of outstanding debt obligations of the Corporation.

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., the Board of Directors. At December 31, 2015 and 2014 the Corporation did not have any committed fund balances.

Assigned - Includes amounts that are constrained by the Corporation's intent to be used for specific purposes, but are neither restricted nor committed. The Corporation did not have any assigned fund balances at December 31, 2015 or 2014.

Unassigned - Includes all other General Fund net assets that do not meet the definition of the above four classifications and are deemed to be available for general use by the Corporation.

NOTE 8 - EQUITY CLASSIFICATIONS, continued

Order of Use of Fund Balance - 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.

NOTE 9 - INTERFUND TRANSACTIONS

The operations of the Corporation give rise to certain transactions between funds. Net interfund transfers of $1,996,383 and $2,436,400 were made between the governmental funds primarily for debt service during 2015 and 2014, respectively.

NOTE 10 - OPERATING LEASE

CTASC entered into a three-year operating lease with Chautauqua County for office space for the period January 1, 2014 through December 31, 2016. Annual rents amounted to $8,500 for the years ended December 31, 2015 and 2014.

NOTE 11 - RELATED PARTY TRANSACTIONS

As part of the purchase price of the Master Settlement Agreement ("MSA"), CTASC has created a residual trust that is funded by Tobacco Settlement Revenues received by CTASC that are not required to pay expenses, debt service or required reserves with respect to the Series 2000 and Series 2014 Bonds. During the years ended December 31, 2015 and 2014, no residual proceeds were transferred to the trust. The County appoints the governing board of CTASC but is not responsible for the operations of the Corporation.

Chautauqua County provides CTASC financial services. Payments to Chautauqua County for services rendered totaled $5,000 for each of the years ended December 31, 2015 and December 31, 2014.

NOTE 12 - ECONOMIC DEPENDENCY

The primary security and source of payments for the principal and interest on the Series 2000 and Series 2014 Bonds is Tobacco Settlement Revenues pursuant to the Master Settlement Agreement and the decree. The Tobacco Settlement Revenues are primarily dependent upon the volume of cigarettes shipped in the United States, which is primarily a function of domestic cigarette consumption.

NOTE 13 - CONTINGENCIES

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

NOTE 14 - SUBSEQUENT EVENTS

Events and transactions which have occurred from December 31, 2015 through February 23, 2016, the date of these financial statements, have been evaluated by management for the purpose of determining whether there were any events that might require disclosure in these financial statements.

JMA

JOHNSON, MACKOWIAK
& ASSOCIATES, LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTER BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

February 23, 2016

To the Board of Directors
Chautauqua Tobacco Asset Securitization Corporation
3163 Airport Drive
Jamestown, New York 14701

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Chautauqua Tobacco Asset Securitization Corporation ("CTASC"), as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise CTASC's basic financial statements and have issued our report thereon dated February 23, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CTASC'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 CTASC's internal control. Accordingly, we do not express an opinion on the effectiveness of CTASC'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 statement 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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Compliance and Other Matters

As part of obtaining reasonable assurance about whether CTASC'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 result 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.

Johnson, Mackowiak & Associates, LLP

JOHNSON, MACKOWIAK & ASSOCIATES, LLP