

**CHEMUNG TOBACCO ASSET SECURITIZATION  
CORPORATION  
FINANCIAL STATEMENTS  
DECEMBER 31, 2019 and 2018**

**CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Chemung Tobacco Asset Securitization Corporation  
Elmira, New York

### Report on the Financial Statements

We have audited the accompanying financial statements of the Chemung Tobacco Asset Securitization Corporation, a blended component unit of the County of Chemung, New York, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Chemung Tobacco Asset Securitization Corporation's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 Corporation'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 Corporation'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 opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chemung Tobacco Asset Securitization Corporation as of December 31, 2019 and 2018, and the changes in financial position, and, where applicable, cash flows thereof 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 to 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 6, 2020, on our consideration of the Chemung Tobacco Asset Securitization Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Corporation's on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Chemung Tobacco Asset Securitization Corporation's internal control over financial reporting and compliance.

EFPR Group, CPAs, PLLC

EFPR Group, CPAs, PLLC  
Corning, New York  
February 6, 2020

**CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2019**

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### **Introduction**

Our discussion and analysis of the Chemung Tobacco Asset Securitization Corporation's (the "Corporation") financial performance provides an overview of the Corporation's financial activities for the fiscal years ended December 31, 2019 and 2018. It also provides a description and understanding of the various financial statements and other financial and statistical information contained herein. This section is only an introduction and should be read in conjunction with the Corporation's financial statements, which immediately follow this section.

### **Financial Highlights**

- The Corporation's assets, totaled \$1,416,252 and \$1,392,289 as of December 31, 2019 and 2018, respectively.
- The Corporation's bonds payable, net of amortization, were \$3,962,784 and \$4,165,409 as of December 31, 2019 and 2018, respectively.
- The Corporation's net position, as of December 31, 2019 and 2018, on the financial statements amounted to a deficit of \$2,546,532 and \$2,773,120, respectively. Restricted net position amounted to \$1,416,252 and \$1,392,289, respectively, while unrestricted net position amounted to a deficit of \$3,962,784 and \$4,165,409, respectively, for the years ended December 31, 2019 and 2018.
- The Corporation's tobacco settlement proceeds, for the years ended December 31, 2019 and 2018, amounted to \$500,208 and \$537,383, respectively.
- The Corporation's change in net position, for the years ended December 31, 2019 and 2018, on the financial statements was an increase of \$226,588 and \$234,922, respectively.

### **Overview of the Financial Statements**

The financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board. The financial statement presentation consists of the statements of net position, the statements of revenues, expenses and changes in net position and statements of cash flows.

The statement of net position presents financial information on all of the Corporation's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating. Net position is classified into two components as follows:

**Restricted Net Position** - This amount is restricted by external creditors, grantors, contributors or laws or regulations of other governments.

**Unrestricted Net Position** - This amount is all net position that is not reported as restricted net position.

The statement of revenues, expenses and changes in net position presents information showing how the Corporation's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods.

**CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2019**

**Notes to the Financial Statements**

The notes to the financial statements provide additional information that is necessary to acquire a full understanding of the data provided in the financial statements. The notes to the financial statements also provide a detailed description of the Corporation's significant accounting policies.

**Government-Wide Overall Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The statement of net position provides the perspective of the Corporation as a whole. The condensed statements of net position and condensed statements of revenues, expenses, and changes in net position are located, in table 1 and table 2, respectively, present summarized financial data located in the basic financial statements. This information is presented in comparative form, with totals from the financial statements for the fiscal years ended December 31, 2019 and 2018.

**Table 1**

**Condensed Statements of Net Position**  
**December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>	<u>Total Percentage Change</u>
<b>Assets</b>			
Current assets	\$ 758,379	\$ 736,061	3.0 %
Other assets	<u>657,873</u>	<u>656,228</u>	0.3 %
<b>Total Assets</b>	<u>\$ 1,416,252</u>	<u>\$ 1,392,289</u>	1.7 %
<b>Liabilities</b>			
Long-term liabilities	\$ <u>3,962,784</u>	\$ <u>4,165,409</u>	(4.9)%
<b>Net Position</b>			
Restricted	1,416,252	1,392,289	1.7 %
Unrestricted	<u>(3,962,784)</u>	<u>(4,165,409)</u>	4.9 %
<b>Total Net Position</b>	<u>(2,546,532)</u>	<u>(2,773,120)</u>	8.2 %
<b>Total Liabilities and Net Position</b>	<u>\$ 1,416,252</u>	<u>\$ 1,392,289</u>	1.7 %

**CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2019**

**Table 2**

**Condensed Statements of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>	<u>Total Percentage Change</u>
<b>Operating Revenues</b>			
Tobacco settlement proceeds	\$ 500,208	\$ 537,383	(6.9)%
<b>Nonoperating Revenues</b>			
Interest income	<u>18,915</u>	<u>14,470</u>	30.7 %
<b>Total Revenues</b>	<u>519,123</u>	<u>551,853</u>	(5.9)%
<b>Operating Expenses</b>			
Bank fees	469	387	21.2 %
Insurance expense	4,343	4,260	1.9 %
Investment fees	8,459	9,552	(11.4)%
Professional fees	<u>7,200</u>	<u>7,200</u>	0.0 %
Total operating expenses	20,471	21,399	(4.3)%
<b>Nonoperating Expenses</b>			
Interest expense	272,064	285,532	(4.7)%
Transfer to Chemung County	-	<u>10,000</u>	(100.0)%
Total nonoperating expenses	<u>272,064</u>	<u>295,532</u>	(7.9)%
<b>Total Expenses</b>	<u>292,535</u>	<u>316,931</u>	(7.7)%
<b>Change in Net Position</b>	<u>\$ 226,588</u>	<u>\$ 234,922</u>	(3.5)%

**Long-Term Obligations**

The bonds were issued on December 7, 2000, as part of the New York State Counties Tobacco Trust/Tobacco Settlement Pass-Through Bond Series 2000. Face value of the bonds issued was \$8,090,000. The bonds were sold at a discount of \$116,695, for a net issue price of \$7,973,305. The discount will be amortized over the maturity period of the bonds. The weighted average maturity period of the bonds is 15.914 years with a final maturity date of June 1, 2025. Interest on the bonds ranges from 5.000% to 6.300%. The repayment schedule is based on the flexible amortization payments which accelerates the maturity date. In the event sufficient funds are not available to meet maturities, rated maturity dates will be used to extend the maturity schedule of the bonds. The New York State Counties Tobacco Trust/Tobacco Settlement Pass-Through Bond Series 2000 had a credit rating of A1 at December 31, 2019.

**Contacting the Corporation's Financial Management**

This financial report is designed to provide 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, please contact:

**Chemung Tobacco Asset Securitization Corporation**  
Attn: Steve Hoover  
203 Lake Street  
Elmira, New York 14902

**CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION**  
**Statements of Net Position**  
**December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 230,644	\$ 186,039
Tobacco settlement proceeds receivable	<u>527,735</u>	<u>550,022</u>
Total current assets	758,379	736,061
<b>Other Assets</b>		
Cash and investments - restricted	<u>657,873</u>	<u>656,228</u>
<b>Total Assets</b>	<b>\$ <u>1,416,252</u></b>	<b>\$ <u>1,392,289</u></b>
<b>LIABILITIES AND NET POSITION</b>		
<b>Liabilities</b>		
Bonds payable - net	\$ <u>3,962,784</u>	\$ <u>4,165,409</u>
<b>Net Position</b>		
Restricted	1,416,252	1,392,289
Unrestricted	<u>(3,962,784)</u>	<u>(4,165,409)</u>
<b>Total Net Position</b>	<u>(2,546,532)</u>	<u>(2,773,120)</u>
<b>Total Liabilities and Net Position</b>	<b>\$ <u>1,416,252</u></b>	<b>\$ <u>1,392,289</u></b>

The accompanying notes are an integral part of these financial statements.



**CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Operating Revenues</b>		
Tobacco settlement proceeds	\$ <u>500,208</u>	\$ <u>537,383</u>
<b>Operating Expenses</b>		
Bank fees	469	387
Insurance expense	4,343	4,260
Investment fees	8,459	9,552
Professional fees	<u>7,200</u>	<u>7,200</u>
Total expenses	<u>20,471</u>	<u>21,399</u>
<b>Operating Income</b>	<u>479,737</u>	<u>515,984</u>
<b>Other Income (Expense)</b>		
Interest income	18,915	14,470
Interest expense	(272,064)	(285,532)
Transfer to Chemung County	-	(10,000)
Total other income (expense)	<u>(253,149)</u>	<u>(281,062)</u>
<b>Change in Net Position</b>	226,588	234,922
<b>Net Position - Beginning</b>	<u>(2,773,120)</u>	<u>(3,008,042)</u>
<b>Net Position - Ending</b>	<u>\$ (2,546,532)</u>	<u>\$ (2,773,120)</u>

The accompanying notes are an integral part of these financial statements.

**CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from tobacco settlement	\$ 522,495	\$ 551,461
Cash paid for other operating expenses	<u>(20,471)</u>	<u>(21,399)</u>
Net cash flows from operating activities	<u>502,024</u>	<u>530,062</u>
<b>Cash Flows from Investing Activities</b>		
Interest income	17,270	10,795
Transfer to Chemung County	<u>-</u>	<u>(10,000)</u>
Net cash flows from investing activities	<u>17,270</u>	<u>795</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Principal repayment of bonds payable	(205,000)	(215,000)
Interest payment on bonds payable	<u>(269,689)</u>	<u>(282,989)</u>
Net cash flows from noncapital financing activities	<u>(474,689)</u>	<u>(497,989)</u>
<b>Net Change in Cash and Cash Equivalents</b>	44,605	32,868
<b>Cash and Cash Equivalents - Beginning</b>	<u>186,039</u>	<u>153,171</u>
<b>Cash and Cash Equivalents - Ending</b>	<u>\$ 230,644</u>	<u>\$ 186,039</u>
<b>Reconciliation of Operating Income to Net Cash Flows from Operating Activities</b>		
Operating income	\$ 479,737	\$ 515,984
Changes in assets and liabilities		
Change in tobacco proceeds receivable	<u>22,287</u>	<u>14,078</u>
Net cash flows from operating activities	<u>\$ 502,024</u>	<u>\$ 530,062</u>

The accompanying notes are an integral part of these financial statements.

**CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION**  
**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies**

**Nature of Organization**

In January 1997, the State of New York filed a lawsuit against the tobacco industry, seeking to recover the costs that the State and local governments had incurred in treating smoking related illnesses. Chemung Tobacco Asset Securitization Corporation (the "Corporation") was established to acquire from Chemung County (the "County") all or a portion of the rights, title and interest under the Master Settlement Agreement (the "MSA") and the Consent Decree and Final Judgment (the "Decree") as described herein.

The MSA includes New York and 45 other states, 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 four of the largest United States tobacco product manufacturers: Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown and Williamson Tobacco Company (B&W), and Lorillard Tobacco Company (collectively, the "Original Participating Manufacturers" or "OPMs"). On January 5, 2004, Reynolds American Inc. was incorporated as a holding company to facilitate the combination of the U.S. assets, liabilities, and operations of B&W with those of Reynolds Tobacco. The agreement was entered into in settlement of certain smoking-related litigation and the Decree entered in New York Supreme Court, including the County's right to receive certain initial and annual payments to be made by the OPMs under the MSA.

The Corporation was formed to raise funds by issuing bonds, use those funds to acquire the rights to future proceeds from a settlement agreement with various tobacco companies payable to the County, and remain in existence during the term of the bonds to collect the tobacco settlement proceeds and service the debt.

The Corporation is dependent on future proceeds from the settlement agreement. Proceeds received in excess of the Corporation's operational expenses, debt service and required reserves are transferred to the County, as the beneficial owner of the residual certificate, subject to restrictions imposed by certain trapping events.

During 2003, the Corporation adopted its first amendment to the indenture, dated as of December 1, 2000, between the Corporation and Manufacturers and Traders Trust Company (M&T), as Trustee. The amendment effectively modifies the indenture to be consistent with the official statement concerning downgrade trapping events as being immediate, in the year in which the event occurred.

The Corporation is a local development corporation created in October 2000 under Section 1411 of the New York State Not-for-Profit Corporation Law. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and Technical Bulletin 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, the Corporation is required to be included in the basic financial statements of Chemung County, New York. Accordingly, the Corporation is presented as a blended component unit of the County.

**Financial Reporting Entity**

In accordance with the Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity* and Statement No. 61, *The Financial Reporting Entity: Omnibus*, the Corporation has reviewed and evaluated its relationship with various entities. The decision to include a potential component unit in a government's reporting entity is based on several criteria set forth in GASB Statements No. 14 and No. 61, including legal standing, fiscal dependency and financial accountability. Based on the application of these criteria, the Corporation is included in the financial statements of the County of Chemung, State of New York (the "County") as a blended component unit. Separately issued financial statements for the County can be obtained from their respective administrative offices:

Chemung County Treasurer  
320 East Market Street  
Elmira, New York 14902

**CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION**  
**Notes to Financial Statements**

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**Basis of Presentation**

The financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Corporation follows the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement codifies all sources of accounting principles generally accepted in the United States of America into GASB's authoritative literature. The Corporation also complies with the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides guidance on presenting deferred outflows, deferred inflows and net position. The Corporation also follows the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement provides guidance on presenting items that were previously reported as assets and liabilities. The Corporation's most significant accounting policies to the financial statements are described in the following paragraphs.

The Corporation's basic financial statements consist of proprietary fund financial statements, which include the statements of net position, the statements of revenues, expenses and changes in net position and the statements of cash flows.

**Fund Financial Statements**

The accounting system is organized and separated on a fund basis. A fund is defined as a fiscal accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities of the County and attaining certain objectives in accordance with special regulations, restrictions or limitations. The Corporation is determined to be a proprietary fund of the County.

**Proprietary Funds** - The proprietary funds are used to account for ongoing activities which are similar to those often found in the private sector. The proprietary fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Measurement Focus and Basis of Accounting**

Measurement focus refers to what is being measured. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting also relates to the timing of the measurement made, regardless of the measurement focus applied.

**Accrual Basis** - Proprietary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The economic resources measurement focus means that all of the assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operations (whether current or non-current) of the Corporation are included in the statements of net position. The statements of revenues, expenses and changes in net position present increases (revenues) and decreases (expenses) in total net position.

**CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION**  
**Notes to Financial Statements**

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**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

For purposes of reporting in the statements of net position and the statement of cash flows, the Corporation includes cash accounts and all highly liquid debt instruments purchased with an original maturity of three months or less in cash and cash equivalents.

**Tobacco Settlement Proceeds Receivable**

Tobacco settlement proceeds receivable consisted of receivables for tobacco settlement revenues, net of residual payments. The Corporation has not recorded an allowance for doubtful accounts related to the tobacco settlement revenues and does not anticipate future write-offs.

**Restricted Cash and Investments - Liquidity Reserve**

The Corporation maintains a liquidity reserve account, which was initially funded from the New York State Counties Tobacco Trust/Tobacco Settlement Pass-Through Bond Series 2000. This account must be maintained until all bonds are paid. All amounts withdrawn from this account are replenished, as needed and amounts in excess of the required amount are transferred out.

**Bonds Payable**

In the statements of net position, bonds payable are reported as long-term liabilities. Bond discounts resulting from a difference between the debt amount to be repaid by the Corporation and the amount of proceeds received by the Corporation. Bond discounts are amortized as a component of interest expense over the life of the debt obligation using the effective interest rate method. In accordance with Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the Corporation expenses all debt issuance costs, excluding bond insurance, in the year incurred.

**Net Position**

At times the Corporation will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Corporation's policy to consider restricted net position to have been depleted before unrestricted net position is applied. Restricted net position amounted to \$1,416,252 and \$1,392,289, respectively, while unrestricted net position amounted to a deficit of \$3,962,784 and \$4,165,409, respectively, at December 31, 2019 and 2018.

**Transfer to Chemung County**

During 2018 the Corporation transferred \$10,000 to Chemung County. Proceeds from the recurring annual tobacco settlement and settlement with the MSA tobacco companies funded the transfer. There were no such transfers made in 2019.

**CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION**  
**Notes to Financial Statements**

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**Note 2. Deposits and Investments**

**Investment and Deposit Policy**

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

**Interest Rate Risk**

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. The Corporation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk**

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

- Obligations of the United States of America;
- Obligations guaranteed by the United States of America where payment of principal and interest are guaranteed by the United States of America;
- Obligations of the State of New York;
- Special time deposit accounts;
- Certificates of deposit;
- Obligations of public authorities, public housing authorities, urban renewal agencies, and industrial development agencies where the general State statutes governing such entities or whose specific enabling legislation authorizes such investments; and
- Obligations issued pursuant to New York State Local Finance Law Section 24.00 and 25.00 (with approval of the New York State Comptroller) by any municipality, school district or district corporation other than the Corporation.
- Eligible investments, as defined in the Indenture between the Corporation and Manufacturers and Traders Trust Company, as Trustee as amended from time to time.

**Custodial Credit Risk - Deposits and Investments**

Custodial credit risk - deposits is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the Corporation's investment and deposit policy, all deposits of the Corporation including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIA) shall be secured by a pledge of securities with an aggregate value equal to the aggregate amount of deposits. Eligible securities used for collateralizing deposits shall be held by a third party bank, trust company or trust department of the bank subject to security and collateral agreements at the discretion of the Corporation. The security and custodial agreements shall provide that securities held by the bank or trust company or agent of and custodian for, the Corporation, will be kept separate and apart from the general assets of the custodial bank or trust company. The security and collateral agreement shall provide that eligible securities are being pledged to secure the Corporation deposits and investments together with agreed upon interest, if any, and any costs or expenses arising out of the collection of such deposits upon default.

Deposits are valued at cost or cost plus interest and are categorized as either (1) insured, or collateralized with securities held by the Corporation's agent in the Corporation's name, (2) uninsured, and for which the

**CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION**  
**Notes to Financial Statements**

securities are held by the financial institution or its trust department in the Corporation's name, or (3) uncollateralized. At December 31, 2019, the bank balance of deposits held was \$888,517, including investments. These deposits are categorized as follows:

	<u>Categories</u>			<u>Total</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Total</u>
Deposits	\$ <u>476,814</u>	\$ <u>411,703</u>	\$ <u>          </u> -	\$ <u>888,517</u>

Accounts held by FDIC insurance coverage for a government unit are insured up to \$250,000 for the combined amount of all time and savings accounts (including NOW accounts) and up to \$250,000 for all demand deposit accounts (interest-bearing and noninterest-bearing).

As of December 31, 2019 and 2018, the Corporation's investments, with maturities of less than one year, were in compliance with the investment and deposit policy as follows:

<u>Investment Type</u>	<u>2019</u>	<u>2018</u>
Federal Home Loan Mortgage Corp Zero Coupon Bonds	\$ <u>657,873</u>	\$ <u>656,228</u>

United States obligations are considered level 1 investments. The Corporation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Corporation has fair value measurements of federal home loan mortgage corporation zero coupon bonds as of December 31, 2019 which are considered level 1 inputs.

**Note 3. Tobacco Settlement Proceeds Receivable**

This asset represents estimated annual payments to be received from the MSA between various tobacco manufacturers and state and local governments. The MSA resolved cigarette smoking-related litigation between the manufacturers and the states. The right to receive the payments was acquired by the Corporation through a purchase from the County. A residual certificate exists that represents the County's entitlement to receive all amounts required to be distributed after payment of debt service, operating expenses, and certain other costs set forth in the indenture. Tobacco settlement proceeds receivable were recorded net of residual payments owed to the County. As of December 31, 2019 and 2018, the annual tobacco settlement proceeds receivable amounted to \$527,735 and \$550,022, respectively.

**Note 4. Bonds Payable**

The bonds were issued on December 7, 2000, as part of the New York State Counties Tobacco Trust/Tobacco Settlement Pass-Through Bond Series 2000. Face value of the bonds issued by the Corporation was \$8,090,000. The bonds were sold at a discount of \$116,695, for a net issue price of \$7,973,305. The discount will be amortized over the maturity period of the bonds. The weighted average maturity period of the bonds is 15.914 years with a final maturity date of June 1, 2025. Interest on the bonds ranges from 5.000% to 6.300%. The repayment schedule is based on the flexible amortization payments which accelerates the maturity date. In the event sufficient funds are not available to meet maturities, rated maturity dates will be used to extend the maturity schedule of the bonds.

During the years ended December 31, 2019 and 2018, sufficient funds were not available to meet maturities, therefore, principal payments amounted to \$205,000 and \$215,000 for the years ended December 31, 2019 and 2018, respectively. The unpaid principal amounts on the flexible amortization will be added to the flexible maturities for the year ended December 30, 2020. At December 31, 2019 and 2018, the face value of the bonds was \$4,000,000 and \$4,205,000 with a remaining unamortized discount of \$37,216 and \$39,591, respectively. Future maturities of bonds payable are as follows:

**CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION**  
**Notes to Financial Statements**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,505,000	\$ 214,250	\$ 1,719,250
2021	555,000	146,909	701,909
2022	595,000	108,816	703,816
2023	630,000	68,238	698,238
2024	655,000	25,672	680,672
2025	<u>60,000</u>	<u>1,988</u>	<u>61,988</u>
Total maturities	4,000,000	\$ <u>565,873</u>	\$ <u>4,565,873</u>
Less, unamortized discount	<u>(37,216)</u>		
Bonds payable - net	<u>\$ 3,962,784</u>		

This bond shall not be a debt of either the State or the County of Chemung, New York, and neither the State nor the County shall be liable hereon, nor shall it be payable out of any funds other than those of the Corporation pledged therefore.

**Note 5. Residual Receivable/Payable to Chemung County**

The Corporation receives 100% of the County's tobacco settlement proceeds, although only 40% are applicable to the Corporation. The residual 60% is refundable to the County. The tobacco asset settlement proceeds receivable recognized in the statements of net position recognize only the portion of the residual proceeds applicable to the Corporation. As of December 31, 2019 and 2018, none of the residual assets from previous tobacco settlement proceeds received and due to the County were held by the Corporation.

**Note 6. Related Organization**

The Corporation is a special purpose local development corporation, and is considered by legal counsel to be bankruptcy-remote from the County. However, the Corporation's Board of Directors is comprised of four elected or appointed officials of the County, and one independent director. For financial statement purposes, the Corporation is considered to be a blended component unit of the County.

**Note 7. Net Deficit**

The net deficit is due to various expenses associated with the bonds. The future cash receipts from the Master Settlement Agreement (MSA) are expected to offset this deficit. The largest payments provided for in the MSA are called initial payments and annual payments. Both are subject to certain adjustments, reductions and offsets, which are described in the following paragraphs.

Initial payments to New York State were made in the first five years of the agreement, starting with \$2.4 billion in 1999; the last four of these were subject to the volume adjustments, the non-settling states reduction, and the offset for miscalculated or disputed payments.

Annual MSA payments to the State commenced on April 15, 2000, starting at \$2.5 billion in 2000 and continuing into perpetuity at a cap of \$9 billion reached in 2018. The annual payments are subject to inflation adjustment, the volume adjustment, the previously settled states reduction, the non-settling states reduction, the non-participating manufacturer's adjustment, the offset for miscalculated or disputed payments, the federal tobacco legislation offset, the litigating parties offset, and the offsets for claims. The Corporation started receiving the County's portion of the annual payments on April 15, 2001.





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

To the Board of Directors  
Chemung Tobacco Asset Securitization Corporation  
Elmira, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Chemung Tobacco Asset Securitization Corporation, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Chemung Tobacco Asset Securitization Corporation's basic financial statements, and have issued our report thereon dated February 6, 2020.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Chemung Tobacco Asset Securitization Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

EFPR Group, CPAs, PLLC

EFPR Group, CPAs, PLLC  
Corning, New York  
February 6, 2020