

**CHEMUNG TOBACCO ASSET SECURITIZATION
CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

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 Audit of the Financial Statements

Opinion

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, 2023 and 2022, 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.

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, a blended component unit of the County of Chemung, New York, as of and for the years ended December 31, 2023 and 2022, and the changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Chemung Tobacco Asset Securitization Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Chemung Tobacco Asset Securitization Corporation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Chemung Tobacco Asset Securitization Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Chemung Tobacco Asset Securitization Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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 March 12, 2024, 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 on the effectiveness of the Corporation's 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
March 12, 2024

CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION
Management's Discussion and Analysis
For the Year Ended December 31, 2023

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, 2023, 2022 and 2021. 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.

2023-2022 Financial Highlights

- The Corporation's assets totaled \$1,680,239 and \$1,613,697 as of December 31, 2023 and 2022, respectively.
- The Corporation's bonds payable, net of amortization, were \$2,561,018 and \$2,944,149 as of December 31, 2023 and 2022, respectively.
- The Corporation's net position, as of December 31, 2023 and 2022, on the financial statements amounted to a deficit of \$880,779 and \$1,330,452, respectively. Restricted net position amounted to \$1,680,239 and \$1,613,697, respectively, while unrestricted net position amounted to a deficit of \$2,561,018 and \$2,944,149, respectively, for the years ended December 31, 2023 and 2022.
- The Corporation's tobacco settlement proceeds, for the years ended December 31, 2023 and 2022, amounted to \$628,685 and \$667,626, respectively.
- The Corporation's change in net position, for the years ended December 31, 2023 and 2022, on the financial statements was an increase of \$449,673 and \$433,214, respectively.

2022-2021 Financial Highlights

- The Corporation's assets totaled \$1,613,697 and \$1,563,569 as of December 31, 2022 and 2021, respectively.
- The Corporation's bonds payable, net of amortization, were \$2,944,149 and \$3,327,235 as of December 31, 2022 and 2021, respectively.
- The Corporation's net position, as of December 31, 2022 and 2021, on the financial statements amounted to a deficit of \$1,330,452 and \$1,763,666, respectively. Restricted net position amounted to \$1,613,697 and \$1,563,569, respectively, while unrestricted net position amounted to a deficit of \$2,944,149 and \$3,327,235, respectively, for the years ended December 31, 2022 and 2021.
- The Corporation's tobacco settlement proceeds, for the years ended December 31, 2022 and 2021, amounted to \$667,626 and \$650,272, respectively.
- The Corporation's change in net position, for the years ended December 31, 2022 and 2021, on the financial statements was an increase of \$433,214 and \$379,798, 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.

CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION
Management's Discussion and Analysis
For the Year Ended December 31, 2023

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.

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 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, 2023, 2022 and 2021.

Table 1

Condensed Statements of Net Position
December 31, 2023, 2022 and 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2023-2022</u> <u>Total</u> <u>Percentage</u> <u>Change</u>	<u>2022-2021</u> <u>Total</u> <u>Percentage</u> <u>Change</u>
Assets					
Current assets	\$ 1,017,158	\$ 965,089	\$ 920,672	5.4 %	4.8 %
Other assets	<u>663,081</u>	<u>648,608</u>	<u>642,897</u>	2.2 %	0.9 %
Total Assets	<u>\$ 1,680,239</u>	<u>\$ 1,613,697</u>	<u>\$ 1,563,569</u>	4.1 %	3.2 %
Liabilities					
Long-term liabilities	\$ <u>2,561,018</u>	\$ <u>2,944,149</u>	\$ <u>3,327,235</u>	(13.0)%	(11.5)%
Net Position					
Restricted	1,680,239	1,613,697	1,563,569	4.1 %	3.2 %
Unrestricted	<u>(2,561,018)</u>	<u>(2,944,149)</u>	<u>(3,327,235)</u>	(13.0)%	(11.5)%
Total Net Position	<u>(880,779)</u>	<u>(1,330,452)</u>	<u>(1,763,666)</u>	(33.8)%	(24.6)%
Total Liabilities and Net Position	<u>\$ 1,680,239</u>	<u>\$ 1,613,697</u>	<u>\$ 1,563,569</u>	4.1 %	3.2 %

CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION
Management's Discussion and Analysis
For the Year Ended December 31, 2023

Table 2

Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2023, 2022 and 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2023-2022</u> <u>Total</u> <u>Percentage</u> <u>Change</u>	<u>2022-2021</u> <u>Total</u> <u>Percentage</u> <u>Change</u>
Operating Revenues					
Tobacco settlement proceeds	\$ 628,685	\$ 667,626	\$ 650,272	(5.8)%	2.7 %
Nonoperating Revenues					
Interest and dividend income	<u>39,463</u>	<u>9,259</u>	<u>39</u>	326.2 %	23,641.0 %
Total Revenues	<u>668,148</u>	<u>676,885</u>	<u>650,311</u>	(1.3)%	4.1 %
Operating Expenses					
Bank fees	32	348	417	(90.8)%	(16.5)%
Insurance expense	5,142	5,142	4,927	0.0 %	4.4 %
Investment fees	9,553	9,553	12,445	0.0 %	(23.2)%
Professional fees	7,810	7,620	7,510	2.5 %	1.5 %
Transfer to Chemung County	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	0.0 %	0.0 %
Total operating expenses	32,537	32,663	35,299	(0.4)%	(7.5)%
Nonoperating Expenses					
Interest expense	<u>185,938</u>	<u>211,008</u>	<u>235,214</u>	(11.9)%	(10.3)%
Total Expenses	<u>218,475</u>	<u>243,671</u>	<u>270,513</u>	(10.3)%	(9.9)%
Change in Net Position	<u>\$ 449,673</u>	<u>\$ 433,214</u>	<u>\$ 379,798</u>	3.8 %	14.1 %

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 Baa1 at December 31, 2023. At December 31, 2023, 2022 and 2021, the face value of the bonds was \$2,590,000, \$2,975,000 and \$3,360,000 with a remaining unamortized discount of \$28,982, \$30,851 and \$32,765, respectively.

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
203 Lake Street, P.O. Box 588
Elmira, New York 14902

CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION
Statements of Net Position
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 396,450	\$ 344,825
Tobacco settlement proceeds receivable	<u>620,708</u>	<u>620,264</u>
Total current assets	1,017,158	965,089
Other Assets		
Cash and investments - restricted	<u>663,081</u>	<u>648,608</u>
Total Assets	<u>\$ 1,680,239</u>	<u>\$ 1,613,697</u>
LIABILITIES AND NET POSITION		
Liabilities		
Bonds payable - net	<u>\$ 2,561,018</u>	<u>\$ 2,944,149</u>
Net Position		
Restricted	1,680,239	1,613,697
Unrestricted	<u>(2,561,018)</u>	<u>(2,944,149)</u>
Total Net Position	<u>(880,779)</u>	<u>(1,330,452)</u>
Total Liabilities and Net Position	<u>\$ 1,680,239</u>	<u>\$ 1,613,697</u>

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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Revenues		
Tobacco settlement proceeds	\$ <u>628,685</u>	\$ <u>667,626</u>
Operating Expenses		
Bank fees	32	348
Insurance expense	5,142	5,142
Investment fees	9,553	9,553
Professional fees	7,810	7,620
Transfer to Chemung County	<u>10,000</u>	<u>10,000</u>
Total expenses	<u>32,537</u>	<u>32,663</u>
Operating Income	<u>596,148</u>	<u>634,963</u>
Other Income (Expense)		
Interest and dividend income	39,463	9,259
Interest expense	<u>(185,938)</u>	<u>(211,008)</u>
Total other income (expense)	<u>(146,475)</u>	<u>(201,749)</u>
Change in Net Position	449,673	433,214
Net Position - Beginning	<u>(1,330,452)</u>	<u>(1,763,666)</u>
Net Position - Ending	\$ <u>(880,779)</u>	\$ <u>(1,330,452)</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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities		
Cash received from tobacco settlement	\$ 628,241	\$ 664,841
Cash paid for other operating expenses	(22,537)	(22,663)
Transfer to Chemung County	<u>(10,000)</u>	<u>(10,000)</u>
Net cash flows from operating activities	<u>595,704</u>	<u>632,178</u>
Cash Flows from Investing Activities		
Interest and dividend income	<u>39,463</u>	<u>9,259</u>
Cash Flows from Noncapital Financing Activities		
Principal repayment of bonds payable	(385,000)	(385,000)
Interest payment on bonds payable	<u>(184,069)</u>	<u>(209,094)</u>
Net cash flows from noncapital financing activities	<u>(569,069)</u>	<u>(594,094)</u>
Net Change in Cash and Cash Equivalents	66,098	47,343
Cash and Cash Equivalents - Beginning	<u>993,433</u>	<u>946,090</u>
Cash and Cash Equivalents - Ending	<u>\$ 1,059,531</u>	<u>\$ 993,433</u>
Cash and cash equivalents - unrestricted	\$ 396,450	\$ 344,825
Cash and cash equivalents - restricted	<u>663,081</u>	<u>648,608</u>
Cash and Cash Equivalents - Ending	<u>\$ 1,059,531</u>	<u>\$ 993,433</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities		
Operating income	\$ 596,148	\$ 634,963
Changes in assets and liabilities		
Change in tobacco proceeds receivable	<u>(444)</u>	<u>(2,785)</u>
Net cash flows from operating activities	<u>\$ 595,704</u>	<u>\$ 632,178</u>

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

CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION
Notes to Financial Statements

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

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. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

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 a blended component unit of the County and therefore is presented as a proprietary fund.

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

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 resulted 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 \$1,680,239 and \$1,613,697, respectively, while unrestricted net position amounted to a deficit of \$2,561,018 and \$2,944,149, respectively, at December 31, 2023 and 2022.

Transfer to Chemung County

During 2023 and 2022 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.

CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION
Notes to Financial Statements

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.
- 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.

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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 securities are held by the financial institution or its trust department in the Corporation's name, or (3) uncollateralized. At December 31, 2023, the bank balance of deposits held was \$1,059,531, including investments. These deposits are categorized as follows:

	<u>Categories</u>			<u>Total</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Deposits	\$ <u>396,450</u>	\$ <u>663,081</u>	\$ <u>-</u>	\$ <u>1,059,531</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, 2023 and 2022, 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>2023</u>	<u>2022</u>
U.S. Treasury bills	\$ <u>663,081</u>	\$ <u>648,608</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 in U.S. Treasury bills as of December 31, 2023 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, 2023 and 2022, the annual tobacco settlement proceeds receivable amounted to \$620,708 and \$620,264, 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, 2023 and 2022, sufficient funds were not available to meet maturities, therefore, principal payments amounted to \$385,000 for the years ended December 31, 2023 and 2022. The unpaid principal amounts on the flexible amortization will be added to the flexible maturities for the year ended December 31, 2024. At December 31, 2023 and 2022, the face value of the bonds was \$2,590,000 and \$2,975,000 with a remaining unamortized discount of \$28,982 and \$30,851, respectively. Future maturities of bonds payable are as follows:

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	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 2,530,000	\$ 87,766	\$ 2,617,766
2025	<u>60,000</u>	<u>1,988</u>	<u>61,988</u>
Total maturities	2,590,000	\$ <u>89,754</u>	\$ <u>2,679,754</u>
Less, unamortized discount	<u>(28,982)</u>		
Bonds payable - net	<u>\$ 2,561,018</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, 2023 and 2022, 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.

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, a blended component unit of the County of Chemung, New York, as of and for the year ended December 31, 2023, 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 March 12, 2024.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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
March 12, 2024