

**CHEMUNG TOBACCO ASSET
SECURITIZATION CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012**

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, 2013 and 2012, and the related notes to the 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, 2013 and 2012, 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.

Emphasis of Matter

As discussed in Note 1, the financial statements present information on the Chemung Tobacco Asset Securitization Corporation and do not purport to, and do not, present fairly the financial position of the County of Chemung, New York, as of December 31, 2013 and 2012, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, during the fiscal year ended December 31, 2013, the Chemung Tobacco Asset Securitization Corporation adopted the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Correction of a Material Misstatement in Previously Issued Financial Statements

As discussed in Note 8 to the financial statements, the December 31, 2012 financial statements have been restated to correct misstatements. Our opinion is not modified with respect to this matter.

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 3-5 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 March 6, 2014, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Chemung Tobacco Asset Securitization Corporation's internal control over financial reporting and compliance.

EFP Rotenberg, LLP

EFP Rotenberg, LLP
Corning, New York
March 6, 2014

CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION
Management's Discussion and Analysis
For the Year Ended December 31, 2013

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, 2013 and 2012. 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 \$1,334,232 and \$1,375,443 at as of December 31, 2013 and 2012, respectively.
- ◇ The Corporation's bonds payable, net of amortization, were \$5,709,910 and \$5,861,028 at as of December 31, 2013 and 2012, respectively.
- ◇ The Corporation's net position, as of December 31, 2013 and 2012, on the financial statements amounted to a deficit of \$4,375,678 and \$4,485,585, respectively. The entire net position was unrestricted for the years ended December 31, 2013 and 2012.
- ◇ The Corporation's tobacco settlement proceeds, for the years ended December 31, 2013 and 2012, amounted to \$591,011 and \$594,361, respectively.
- ◇ The Corporation's change in net position, for the years ended December 31, 2013 and 2012, on the financial statements was an increase of \$109,907 and \$179,900, 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 three components as follows:

Net Investment in Capital Assets - This amount consists of capital assets, net of accumulated depreciation and reduced by outstanding debt, excluding unspent bond proceeds, bond premiums and discounts, and deferred refunding proceeds.

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 invested in capital assets or 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.

CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION
Management's Discussion and Analysis
For the Year Ended December 31, 2013

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 statements of activities 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, 2013 and 2012, along with totals for the primary government as a whole.

Table 1

Condensed Statements of Net Position
December 31, 2013 and 2012

	<u>2013</u>	<u>(Restated)</u> <u>2012</u>	<u>Total</u> <u>Percentage</u> <u>Change</u>
Assets			
Current assets	\$ 685,977	\$ 727,188	(5.7)%
Other assets	<u>648,255</u>	<u>648,255</u>	0.0 %
Total Assets	\$ <u>1,334,232</u>	\$ <u>1,375,443</u>	(3.0)%
Liabilities			
Long-term liabilities	\$ 5,709,910	\$ 5,861,028	(2.6)%
Net Position			
Unrestricted	<u>(4,375,678)</u>	<u>(4,485,585)</u>	2.5 %
Total Liabilities and Net Position	\$ <u>1,334,232</u>	\$ <u>1,375,443</u>	(3.0)%

Table 2

Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>(Restated)</u> <u>2012</u>	<u>Total</u> <u>Percentage</u> <u>Change</u>
Operating Revenues			
Tobacco settlement proceeds	\$ 591,011	\$ 594,361	(0.6)%
Nonoperating Revenues			
Interest income	<u>93</u>	<u>108</u>	(13.9)%
Total Revenues	<u>591,104</u>	<u>594,469</u>	(0.6)%
Operating Expenses			
Administrative fees	835	63	100.0 %
Insurance expense	6,100	5,545	10.0 %
Investment fees	9,196	9,560	(3.8)%
Professional fees	<u>6,450</u>	<u>6,350</u>	1.6 %
Total operating expenses	<u>22,581</u>	<u>21,518</u>	4.9 %
Nonoperating Expenses			
Interest expense	383,616	393,051	(2.4)%
Transfer to Chemung County	<u>75,000</u>	<u>-</u>	100.0 %
Total nonoperating expenses	<u>458,616</u>	<u>393,051</u>	16.7 %
Total Expenses	<u>481,197</u>	<u>414,569</u>	16.1 %
Change in Net Position	\$ <u>109,907</u>	\$ <u>179,900</u>	(38.9)%

CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION
Management's Discussion and Analysis
For the Year Ended December 31, 2013

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 December 31, 2025. Interest on the bonds ranges from 5.000% to 6.625%. 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 BBB+ at December 31, 2013.

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: Mr. Steven Hoover
203 Lake Street
Elmira, New York 14902

CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION
Statements of Net Position
December 31, 2013 and 2012

	<u>2013</u>	<u>(Restated)</u> <u>2012</u>
Current Assets		
Cash and cash equivalents	\$ 94,967	\$ 132,828
Tobacco settlement proceeds receivable	<u>591,010</u>	<u>594,360</u>
Total current assets	<u>685,977</u>	<u>727,188</u>
Restricted Cash - Liquidity Reserve	<u>648,255</u>	<u>648,255</u>
Total Assets	<u>\$ 1,334,232</u>	<u>\$ 1,375,443</u>
LIABILITIES AND NET POSITION		
Liabilities		
Bonds payable - net	\$ 5,709,910	\$ 5,861,028
Net Position		
Unrestricted	<u>(4,375,678)</u>	<u>(4,485,585)</u>
Total Liabilities and Net Position	<u>\$ 1,334,232</u>	<u>\$ 1,375,443</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, 2013 and 2012

	<u>2013</u>	<u>(Restated)</u> <u>2012</u>
Operating Revenues		
Tobacco settlement proceeds	\$ <u>591,011</u>	\$ <u>594,361</u>
Operating Expenses		
Administrative fees	835	63
Insurance expense	6,100	5,545
Investment fees	9,196	9,560
Professional fees	<u>6,450</u>	<u>6,350</u>
Total expenses	<u>22,581</u>	<u>21,518</u>
Operating Income	<u>568,430</u>	<u>572,843</u>
Other Income (Expense)		
Interest income	93	108
Interest expense	(383,616)	(393,051)
Transfer to Chemung County	<u>(75,000)</u>	<u>-</u>
Total other income (expense)	<u>(458,523)</u>	<u>(392,943)</u>
Change in Net Position	<u>109,907</u>	<u>179,900</u>
Net Position - Beginning, As Previously Stated	(4,485,585)	(4,383,511)
Restatement	<u>-</u>	<u>(281,974)</u>
Net Position - Beginning, As Restated	<u>(4,485,585)</u>	<u>(4,665,485)</u>
Net Position - Ending	<u>\$ (4,375,678)</u>	<u>\$ (4,485,585)</u>

CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION
Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>(Restated)</u> <u>2012</u>
Cash Flows from Operating Activities		
Cash received from tobacco settlement	\$ 594,361	\$ 595,116
Cash paid for other operating expenses	<u>(22,581)</u>	<u>(21,518)</u>
Net cash flows from operating activities	<u>571,780</u>	<u>573,598</u>
Cash Flows from Investing Activities		
Interest income	93	108
Transfer to Chemung County	<u>(75,000)</u>	<u>-</u>
Net cash flows from investing activities	<u>(74,907)</u>	<u>108</u>
Cash Flows from Noncapital Financing Activities		
Principal repayment of bonds payable	(155,000)	(155,000)
Interest payment on bonds payable	<u>(379,734)</u>	<u>(389,132)</u>
Net cash flows from noncapital financing activities	<u>(534,734)</u>	<u>(544,132)</u>
Net Change in Cash and Cash Equivalents	(37,861)	29,574
Cash and Cash Equivalents - Beginning	<u>132,828</u>	<u>103,254</u>
Cash and Cash Equivalents - Ending	<u>\$ 94,967</u>	<u>\$ 132,828</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities		
Operating income	\$ 568,430	\$ 572,843
Changes in assets and liabilities		
Change in tobacco proceeds receivable	<u>3,350</u>	<u>755</u>
Net cash flows from operating activities	<u>\$ 571,780</u>	<u>\$ 573,598</u>

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 the 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. 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 adopted 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. During the year ended December 31, 2013, the Corporation adopted 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, expenditures 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

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 - 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. The entire net position of the Corporation was classified as unrestricted as of December 31, 2013 and 2012.

CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION
Notes to Financial Statements

Note 2. Cash and Cash Equivalents

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, 2013, the bank balance of deposits held was \$746,026. These deposits are categorized as follows:

	<u>Categories</u>			<u>Total</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Cash deposits	\$ <u>92,111</u>	\$ <u>653,915</u>	\$ <u>-</u>	\$ <u>746,026</u>

On December 31, 2010, legislation was passed allowing unlimited FDIC insurance coverage for noninterest-bearing transaction accounts. This coverage was temporary and was effective through December 31, 2012. Beginning on January 1, 2013, accounts held by FDIC insurance coverage for a government unit are now 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).

Restricted cash consisted of liquidity reserves. As of December 31, 2013 and 2012, the liquidity reserves amounted to \$648,255.

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, 2013 and 2012, the tobacco settlement proceeds receivable amounted to \$591,010 and \$594,360, 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 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 December 31, 2025. Interest on the bonds ranges from 5.000% to 6.625%. 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 year ended December 31, 2013 and 2012, sufficient funds were not available to meet maturities, therefore, principal payments amounted to \$155,000 for the year ended December 31, 2013 and 2012. The unpaid principal amounts on the flexible amortization will be added to the flexible maturities for the year ended December 31, 2014. At December 31, 2013 and 2012, the face value of the bonds was \$5,765,000 and \$5,920,000 with a remaining unamortized discount of \$55,090 and \$58,972, 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>
2014	\$ 730,000	\$ 351,996	\$ 1,081,996
2015	325,000	318,624	643,624
2016	355,000	296,849	651,849
2017	370,000	273,466	643,466
2018	470,000	246,426	716,426
2019 - 2023	2,800,000	722,101	3,522,101
2024 - 2025	<u>715,000</u>	<u>27,658</u>	<u>742,658</u>
Total maturities	5,765,000	\$ <u>2,237,120</u>	\$ <u>8,002,120</u>
Less, unamortized discount	(55,090)		
Bonds payable - net	<u>\$ 5,709,910</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, 2013 and 2012, 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 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 to be 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.

CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION
Notes to Financial Statements

Note 8. Restatement

The Corporation restated its financial statements to expense previous debt issuance costs in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The effect of this restatement was to decrease net position by \$148,249 at January 1, 2012.

The Corporation restated its financial statements to correct the beginning tobacco asset proceeds receivable balance which were inconsistent with actual amounts received. The effect of this restatement was to decrease net position by \$133,725 at January 1, 2012.

CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION
2013 Annual Report
March 6, 2014

This report is being submitted in compliance with the Public Authorities Accountability Act of 2005 (Chapter 766 of the Laws of 2005). It is not intended to be a substitute for or to replace the Chemung Tobacco Asset Securitization Corporation's (herein referred to as either "CTASC" or the "Corporation") financial statements prepared as of December 31, 2013.

1. Operations and Accomplishments:

The Corporation received sufficient Tobacco Settlement Revenues (TSR's) to make the required principal payments of \$60,000 on the Series 2000 Bonds. The Corporation did not receive sufficient Tobacco Settlement Revenues (TSR's) to make the flexible principal payments of \$510,000 on the Series 2000 Bonds. Total principal payments of \$155,000 were made during the year ended December 31, 2013. The unpaid principal of \$415,000 will be added to the require maturities for the year ended December 31, 2014. Original principal payments scheduled for December 31, 2014, amounted to \$245,000. The terms of the agreement allows the Corporation to alter the payment schedule should sufficient funds not be available.

2. The Corporation's revenues and expenses for December 31, 2013, which will be reported in its 2013 financial statements are as follows:

Revenues	
Tobacco settlement proceeds	\$ 591,011
Interest and investment income	<u>93</u>
Total revenues	<u>591,104</u>
Expenses	
Administrative fees	835
Insurance expense	6,100
Interest expense	383,616
Investment fees	9,196
Professional fees	6,450
Transfer to Chemung County	<u>75,000</u>
Total expenses	<u>481,197</u>
Change in Net Position	<u>\$ 109,907</u>

3. The Corporation's assets and liabilities for December 31, 2013, which will be reported in its 2013 financial statements are as follows:

Assets	
Cash and cash equivalents	\$ 94,967
Tobacco settlement proceeds receivable	591,010
Restricted cash - liquidity reserve	<u>648,255</u>
Total Assets	<u>\$ 1,334,232</u>
Liabilities	
Bonds payable - net	\$ 5,709,910
Net Deficit	
Unrestricted net deficit	<u>(4,375,678)</u>
Total Liabilities and Net Deficit	<u>\$ 1,334,232</u>

4. The bonds payable of the Corporation for December 31, 2013, as reported in its 2013 financial statements are as follows:

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 December 31, 2025. Interest on the bonds ranges from 5.000% to 6.625%. 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 year ended December 31, 2013, sufficient funds were not available to meet maturities, therefore, principal payments only amounted to \$155,000 for the year ended December 31, 2013. The terms of the agreement allows the Corporation to alter the payment schedule should sufficient funds not be available. Required maturities for the year ended December 31, 2013, called for \$570,000 in principal payments. The unpaid principal of \$415,000 will be added to the required maturities for the year ended December 31, 2014. At December 31, 2013 \$5,765,000 with remaining discount of \$55,090.

Bonds payable consisted of the following at December 31, 2013:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 730,000	\$ 351,996	\$ 1,081,996
2015	325,000	318,624	643,624
2016	355,000	296,849	651,849
2017	370,000	273,466	643,466
2018	470,000	246,426	716,426
2019 - 2023	2,800,000	722,101	3,522,101
2024 - 2026	<u>715,000</u>	<u>27,658</u>	<u>742,658</u>
	<u>\$ 5,765,000</u>	<u>\$ 2,237,120</u>	<u>\$ 8,002,120</u>

5. The Corporation's compensation schedule:

No salary or compensation was paid to any officer or director of the Corporation during 2013. The Corporation did not have any paid employees in 2013.

6. Projects undertaken by the Corporation during 2013:

The Corporation did not undertake any projects during 2013.

7. Real property owned and or disposed of by the Corporation:

The Corporation did not own or sell any real property during 2013 and does not currently own any real property.

8. Assessment of the effectiveness of the Corporation's internal control structure and procedures:

The financial statements of CTASC for the year ended December 31, 2013, are the responsibility of management. The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America. Financial information contained elsewhere in this annual report is consistent with the financial statements.

CTASC has established an internal control structure. The objectives of an internal control structure are to provide reasonable assurance as to the protection of and accountability for assets, compliance with applicable laws and regulations, proper authorization and recording of transactions, and the reliability of financial records for preparing financial statements. The internal control structure is subject to periodic review by management and the independent auditors.

CTASC financial statements are currently being audited by EFP Rotenberg, LLP, independent auditors. The audit is in process at the date of this report. Management has made available to EFP Rotenberg, LLP all the financial records and related data of CTASC, as well as providing access to all the minutes of the meetings of the Board of CTASC. The role of the auditors is to provide an independent review of management's responsibility to present fairly in the financial statements the financial position, changes in its financial position and cash flows in accordance with accounting principles generally accepted in the United States of America.

The independent audit includes a review of the internal control structure, tests of accounting records, and other procedures which the independent auditors consider necessary in order to express an opinion on the fairness of the presentation of the financial statements.

Thomas J. Santulli
President/CEO

Joseph E. Sartori
Treasurer/CFO

**CERTIFICATE OF THE CHIEF EXECUTIVE OFFICER
AND THE CHIEF FINANCIAL OFFICER**

CHEMUNG TOBACCO ASSET SECURITIZATION CORPORATION

The undersigned, being the duly appointed chief executive officer and chief fiscal officer of the Chemung County Tobacco Asset Securitization Corporation (the "Corporation"), hereby certify, pursuant to subdivision 3 of Section 2800 of the Public Authorities Law, as follows:

The financial information provided within the Annual Report of the Corporation, dated as of March 11, 2013, is accurate, correct, and does not contain any untrue statement of material fact. The Annual Report does not omit any material fact which, if omitted, would cause the report to be misleading in light of the circumstances under which the report and any such statements made therein are made. The Annual Report fairly presents in all material respects the financial condition and results of operations of the Corporation as of, and for, the periods presented in said report.

The Annual Report is hereby approved.

IN WITNESS WHEREOF, the undersigned chief executive officer and chief fiscal officer have executed this Certificate as of the 06 day of March, 2014.

Thomas J. Santulli
President/CEO

Joseph E. Sartori
Treasurer/CFO