

**ROCKLAND SECOND TOBACCO ASSET
SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE
COUNTY OF ROCKLAND, NEW YORK)**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

AND INDEPENDENT AUDITORS' REPORT

**ROCKLAND SECOND TOBACCO ASSET
SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE
COUNTY OF ROCKLAND, NEW YORK)**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

AND INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Rockland Second Tobacco Asset Securitization Corporation:

We have audited the accompanying statement of net assets of the Rockland Second Tobacco Asset Securitization Corporation ("RSTASC"), a blended component unit of the County of Rockland, New York, as of December 31, 2011 and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the RSTASC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the RSTASC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the RSTASC as of December 31, 2011 and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

O'CONNOR DAVIES, LLP

500 Mamaroneck Avenue, Suite 301, Harrison, NY 10528 | Tel: 914.381.8900 | Fax: 914.381.8910 | www.odpkf.com

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As discussed in Note 1, the financial statements present only the RSTASC and do not purport to, and do not present fairly the financial position of the County of Rockland, New York as of December 31, 2011 and the changes in financial position and cash flows, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully disclosed in Note 4, the only significant resource of the RSTASC is the right to receive tobacco revenues. A reduction in these revenues would affect debt service coverage on the bonds. If the reduction were material, it could impair the ability of the RSTASC to make Turbo Redemption payments or even its ability to pay required bond structuring amounts as they are due. As a result, actual payments may not conform to either the Turbo Redemption maturities or the required bond structuring amounts.

O'Connor Davies, LLP

O'Connor Davies LLP

Harrison, New York

March 27, 2012

**ROCKLAND SECOND TOBACCO ASSET
SECURITIZATION CORPORATION**
Management's Discussion and Analysis (MD&A)
December 31, 2011

Introduction

As management of the Rockland Second Tobacco Asset Securitization Corporation ("RSTASC"), we offer readers of the RSTASC's financial statements this narrative overview and analysis of the financial activities of the RSTASC for the fiscal year ended December 31, 2011. It should be read in conjunction with the financial statements, which immediately follow this section, to enhance understanding of the RSTASC's financial performance.

Financial Highlights

- ❖ On the statement of net assets, the liabilities of the RSTASC exceeded its assets at the close of the most recent fiscal year, resulting in a deficit of \$4,238,946. The deficit was decreased by \$335,176, primarily due to the recognition of Tobacco Settlement Revenues ("TSR's") of \$756,225, less operating expenses of \$44,650 and non-operating net interest expense of \$368,350.
- ❖ The Governmental Accounting Standards Board ("GASB") issued Technical Bulletin 2004-1, which clarified certain asset and revenue recognition criteria. Prior to the issuance of this bulletin, the RSTASC had recognized as a receivable/revenue the present value of the future tobacco revenue stream. This bulletin required a reversal of this position, in that it promulgated that TSR's and the related asset only be recognized when the event giving rise to recognition (i.e. the shipment of cigarettes) occurs. Because annual TSR payments are based on cigarette sales from the preceding calendar year, the RSTASC was prohibited from recognizing this future revenue stream as a receivable. Accordingly, the only revenue recognition allowed was for TSR payments to be received in the immediately succeeding fiscal year, as these payments were based on cigarette shipments in the year under audit. This had the effect of deferring revenue recognition, which results in the deficit position reflected on the statement of net assets. Over time, as TSR payments are received and the bonded indebtedness is retired, the deficit will be reduced.

Financial Statements

The *statement of net assets* presents information on the RSTASC's assets and liabilities, with the difference between the two reported as *net assets*. The *statement of revenues, expenses and changes in net assets* presents information showing how the RSTASC's net assets changed during the most recent fiscal year. All changes in net assets 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 in this statement for some items that will only result in cash flows in future fiscal periods (for example, accounts receivable and accrued interest payable).

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the statement of net assets and the statement of revenues, expenses and changes in net assets. The notes to financial statements are located beginning on page 8 of this report.

Financial Analysis

Net assets increased by \$335,176 in 2011, compared with an increase of \$351,654 in 2010, a modest difference of \$16,478. This decrease from the prior year is primarily attributable to a reduction in the recognition of tobacco settlement revenues of \$40,621 (due to litigation initiated by the cigarette manufacturers with respect to the calculation of the annual payment). This was partially mitigated by a reduction in interest expense of \$17,958 (due to the reduction in outstanding bonded indebtedness).

Debt Administration

At the end of the current fiscal year, the RSTASC had total gross bonded debt outstanding of \$6,540,000. RSTASC was able to retire \$355,000 in outstanding indebtedness. This amount was greater than the minimum bond structuring payment amount of \$80,000 but less than the projected Turbo Redemption maturity planned payment of \$615,000. To date, RSTASC has made principal payments of \$3,175,000.

Additional information on the RSTASC's long-term debt can be found in Note 3 in the notes to financial statements.

Economic Factors

The bonds are payable only from the assets of the RSTASC. RSTASC's only source of funds for payments on the bonds is the collections of TSR's and amounts on deposit in pledged accounts (i.e. liquidity and debt service reserve accounts) pursuant to the indenture. If a participating manufacturer becomes a debtor in a bankruptcy case and defaults in making payments or cigarette consumption declines, funds available to RSTASC to pay bondholders may be reduced or eliminated.

Requests for Information

This financial report is designed to provide a general overview of the RSTASC's finances for all those with an interest in those finances. Questions and comments concerning any of the information provided in this report should be addressed to the Commissioner of Finance, Rockland County, 18 New Hempstead Road, New City, New York 10956.

**ROCKLAND SECOND TOBACCO ASSET
SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE
COUNTY OF ROCKLAND, NEW YORK)**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

ASSETS

Current Assets:

Cash and equivalents	\$ 200,268
Receivables:	
Tobacco	862,795
Interest	<u>3,081</u>
 Total Current Assets	 <u>1,066,144</u>

Noncurrent Assets:

Restricted cash and equivalents	864
Restricted investments	710,961
Costs of issuance, net of accumulated amortization of \$53,887	<u>214,335</u>
 Total Noncurrent Assets	 <u>926,160</u>

Total Assets	<u>1,992,304</u>
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LIABILITIES

Current Liabilities:

Accounts payable	2,500
Accrued liabilities	32,225
Due to County of Rockland	8,049
Current maturities of bonds payable	<u>90,000</u>
 Total Current Liabilities	 132,774

Noncurrent Liabilities -

Bonds payable	<u>6,098,476</u>
 Total Liabilities	 <u>6,231,250</u>

NET ASSETS

Deficit	<u>\$ (4,238,946)</u>
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See notes to financial statements.

**ROCKLAND SECOND TOBACCO ASSET
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(A BLENDED COMPONENT UNIT OF THE
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**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
YEAR ENDED DECEMBER 31, 2011**

Operating Revenues - Tobacco settlement revenues	<u>\$ 756,225</u>
Operating Expenses:	
Professional fees	27,194
Directors' fees	10,750
Amortization	<u>6,706</u>
Total Operating Expenses	<u>44,650</u>
Income from Operations	<u>711,575</u>
Non-Operating Revenues (Expenses):	
Interest income	36,743
Interest expense	<u>(405,093)</u>
Total Non-Operating Expenses	<u>(368,350)</u>
Income Before Transfers	343,225
Transfers out - Payment to County of Rockland	<u>(8,049)</u>
Change in Net Assets	335,176
Deficit - Beginning of Year	<u>(4,574,122)</u>
Deficit - End of Year	<u>\$ (4,238,946)</u>

See notes to financial statements.

**ROCKLAND SECOND TOBACCO ASSET
SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE
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**STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011**

Cash Flows from Operating Activities:	
Cash received from tobacco settlement revenues	\$ 770,729
Cash paid to directors	(10,750)
Cash paid to vendors	(27,194)
	<hr/>
Net Cash Provided by Operating Activities	732,785
Cash Flows from Investing Activities:	
Purchase of restricted investments	(710,961)
Sale of restricted investments	710,961
Interest income	34,083
	<hr/>
Net Cash Provided by Investing Activities	34,083
Cash Flows from Non-Capital Financing Activities:	
Repayment of bonds payable	(355,000)
Interest paid	(395,575)
	<hr/>
Net Cash Used in Non-Capital Financing Activities	(750,575)
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Net Increase in Cash and Equivalents	16,293
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Cash and Equivalents - Beginning of Year	183,975
	<hr/>
Cash and Equivalents - End of Year	<u>\$ 200,268</u>
Reconciliation of Income from Operations to	
Net Cash Provided by Operating Activities:	
Income from operations	\$ 711,575
Adjustments to reconcile income from operations to	
net cash provided by operating activities:	
Amortization	6,706
Changes in Assets and Liabilities -	
Tobacco receivable	14,504
	<hr/>
Net Cash Provided by Operating Activities	<u>\$ 732,785</u>
Noncash Investing Activities -	
Increase in bonds payable from amortization of	
original issue and underwriters discounts	\$ 10,997

See notes to financial statements.

**ROCKLAND SECOND TOBACCO ASSET
SECURITIZATION CORPORATION
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NOTES TO FINANCIAL STATEMENTS

Note 1 - Nature of Business and Summary of Significant Accounting Principles

Nature of Business

The Rockland Second Tobacco Asset Securitization Corporation ("RSTASC") is a special purpose, bankruptcy-remote local development corporation. RSTASC was organized under the provisions of Section 1411 of the New York State Not-For-Profit Corporation Law and pursuant to the Public Authorities Law of the State of New York. The Board of Directors of RSTASC consists of five members; two designees of the County of Rockland, New York's ("County") County Executive, one designee of the Chairman of the County's Board of Legislators, one designee of the Chairman of the Budget and Finance Committee of the County's Board of Legislators and a fifth director who meets certain requirements of independence and shall be designated by a majority of the other four members.

An agreement among the attorneys general of 46 states and various territories ("Settling States") and the four largest United States tobacco manufacturers was entered into on November 23, 1998. The agreement, known as the Master Settlement Agreement ("MSA"), resolved cigarette smoking-related litigation between the Settling States and U.S. Tobacco manufacturers. Pursuant to the MSA, the Settling States and the participating manufacturers agreed to settle all past, present and future smoking related claims in exchange for an agreement by the participating manufacturers to make certain payments. Under the MSA, the State of New York is entitled to receive approximately 12.76% of the initial and annual payments. The New York Consent Decree, which was entered into in the Supreme Court of the State of New York for the County of New York in December 1998, allocated 0.56% of this State-wide share of the initial and annual payments to the County and the remainder among the State, the City of New York and all other counties within the State.

During 2001, the County sold all of its future rights, title and interest to receive payments under the MSA and the Consent Decree to the Rockland Tobacco Asset Securitization Corporation ("RTASC"). Pursuant to an assignment from RTASC to RSTASC and a purchase and sale agreement by and among the County, the Rockland Residual Trust (of which the County is the beneficial owner) and RSTASC, the RSTASC is acquiring all of the right, title and interest to the twenty percent share of Tobacco Settlement Revenues ("TSR's") that are not pledged to the RTASC bondholders. The debt issued by RSTASC to securitize these revenues is not considered debt of the County and is secured only by future tobacco settlement payments.

Entity Definition

Based on the guidance provided by Governmental Accounting Standards Board Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, the RSTASC is reported as a blended component unit of the County in its financial statements.

Basis of Presentation

A fund is an independent fiscal and accounting entity with a self-balancing set of accounts which comprise its assets, liabilities, net assets, revenues and expenses. The accounts of the RSTASC are maintained on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The RSTASC applies all applicable Financial Accounting Standards Board pronouncements in accounting for and reporting on its operations.

**ROCKLAND SECOND TOBACCO ASSET
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NOTES TO FINANCIAL STATEMENTS (Continued)

Note 1 - Nature of Business and Summary of Significant Accounting Principles (Continued)

The accompanying financial statements present only the activities of the RSTASC and do not purport to, and do not, present fairly the financial position of the County as of December 31, 2011 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Use of Estimates

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

Cash and Equivalents

Cash and equivalents consist of demand deposit accounts, time deposit accounts, money market accounts and certificates of deposit with original maturities of three months or less.

Restricted Cash and Equivalents and Investments

The terms of the bond indenture provide for the establishment of a liquidity reserve. The reserve has been established at the maximum annual debt service requirements in the current and any future fiscal year, based on required bond structuring amounts.

Costs of Issuance

The costs of issuance of the bonds are being amortized over the bond structuring maturity of the bonds, which is forty years.

Tax Status

The RSTASC is exempt from federal income tax under Section 501 (a) of the Internal Revenue Code as a 501(c)(3) organization.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is March 27, 2012.

Note 2 - Restricted Investments

Restricted investments at December 31, 2011 consisted of the following -

Commercial paper, due in February 2012, interest at 1.3% \$ 710,961

**ROCKLAND SECOND TOBACCO ASSET
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(A BLENDED COMPONENT UNIT OF THE
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NOTES TO FINANCIAL STATEMENTS (Continued)

Note 3 - Bonds Payable

RSTASC issued bonds on December 18, 2003 to finance the purchase of the tobacco rights from RTASC and the related costs of issuance. The bonds were issued for \$9,275,102, net of original issue and underwriters' discounts of \$439,898 and bear interest at rates ranging from 5.027% to 6.27%, depending on maturity. A payment schedule, based upon bond structuring amounts, is as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 90,000	\$ 393,325	\$ 483,325
2013	95,000	388,363	483,363
2014	105,000	382,631	487,631
2015	110,000	376,450	486,450
2016	120,000	369,838	489,838
2017 through 2038	<u>6,020,000</u>	<u>4,516,081</u>	<u>10,536,081</u>
	6,540,000	<u>\$ 6,426,688</u>	<u>\$ 12,966,688</u>
Unamortized Original Issue and Underwriters' Discounts	<u>(351,524)</u>		
	<u>\$ 6,188,476</u>		

The RSTASC bonds of each maturity date are subject to redemption prior to maturity (in order of maturity dates) by the payment of Turbo Redemption Payments. Such payments are required to be made on each distribution date to the extent of amounts on deposit in the turbo redemption account. Such amounts consist of collections received in a fiscal year and not required to be set aside to pay operating expenses of RSTASC or bond structuring principal and interest amounts. Failure to pay turbo redemption payments is not an event of default under the RSTASC indenture. During 2011, RSTASC made a turbo redemption payment in the amount of \$355,000.

Note 4 - Significant Contingencies

The enforceability of the rights and remedies of the State (and thus the bondholders) and of the obligations of a participating manufacturer under the MSA are subject to the Bankruptcy Code and the other applicable insolvency, moratorium or similar laws relating to or affecting the enforcement of creditors' rights. Some of the risks include risks of delay in or reduction of amounts of payment or of non-payment under the MSA and the risk that the State (and thus the County and/or RSTASC) may be stayed for an extended time from enforcing any rights under the MSA and the Consent Decree or with respect to the payments owed by the bankrupt participating manufacturer or from commencing legal proceedings against the bankrupt participating manufacturer. As a result, if a participating manufacturer becomes a debtor in a bankruptcy case and defaults in making payment, funds available to RSTASC to pay bondholders may be reduced or eliminated.

**ROCKLAND SECOND TOBACCO ASSET
SECURITIZATION CORPORATION
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NOTES TO FINANCIAL STATEMENTS (Concluded)

Note 4 - Significant Contingencies (Continued)

The bonds are payable only from the assets of RSTASC. The bonds are neither legal nor moral obligations of the County or the State of New York, and no recourse may be had thereto for payment of amounts owing on the bonds. RSTASC's only source of funds for payments on the bonds is the collections and amounts on deposit in pledged accounts pursuant to the indenture. RSTASC has no taxing power and no significant assets other than the rights to receive tobacco settlement revenues.