

**ROCKLAND 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 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 Tobacco Asset Securitization Corporation:

We have audited the accompanying statement of net assets of the Rockland Tobacco Asset Securitization Corporation ("RTASC"), 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 RTASC'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 RTASC'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 RTASC 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

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As discussed in Note 1, the financial statements present only the RTASC 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 6, the only significant resource of the RTASC 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 RTASC to make planned principal payments on the Series 2001 bonds, Turbo Redemption payments on the Series 2005 bonds or even its ability to pay required maturities on each series as they are due. As a result, actual payments may not conform to either the planned principal payments on the Series 2001 bonds, Turbo Redemption payments on the Series 2005 bonds or the required maturity payments on each series.

*O'Connor Davies, LLP*

**O'Connor Davies, LLP**  
Harrison, New York  
March 27, 2012

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

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**Introduction**

As management of the Rockland Tobacco Asset Securitization Corporation ("RTASC"), we offer readers of the RTASC's financial statements this narrative overview and analysis of the financial activities of the RTASC 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 RTASC's financial performance.

**Financial Highlights**

- ❖ On the statement of net assets, the liabilities of the RTASC exceeded its assets at the close of the most recent fiscal year, resulting in a deficit of \$69,099,419. The deficit was increased by \$1,782,863, primarily due to the accretion of \$2,357,248 recorded as interest expense on the Series 2005 Capital Appreciation Bonds. Also, during the prior fiscal year, the "Downgrade Trapping Event" and the "Non-Participating Manufacturers Trapping Event" ended. At that time, a determination was made by legal counsel and approved by the bank trustees that \$2,000,000 of the amount held in the trapping account was eligible to be released to the County of Rockland on the residual certificate and this amount had been accrued in the prior year's financial statements. In the current year, the remaining balance of these funds, in the amount of \$250,277, was also released to the County of Rockland. These were partially offset by revenues in excess of certain other expenses in the amount of \$824,662, from the recognition of Tobacco Settlement Revenues ("TSR's") of \$3,032,544 less operating expenses of \$119,539 and non-operating net interest expense, exclusive of accretion, of \$2,088,343.
- ❖ 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 RTASC 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 RTASC 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 RTASC'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 RTASC'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 decreased by \$1,782,863 in 2011, compared with a decrease of \$3,460,918 in 2010, a difference of \$1,678,055. This improvement from the prior year is primarily attributable to the difference of 1) \$1,749,723 recorded as a residual payment to the County of Rockland (\$250,277 in the current year compared to \$2,000,000 in the prior year) due to the end of the trapping events and the resulting disbursement of the balance of funds held in the trapping account and 2) income from interest earnings and gains on sales of investments that were \$164,546 better than in the prior year. These were partially offset by a reduction in the recognition of tobacco settlement revenues of \$156,733 (due to litigation initiated by the cigarette manufacturers with respect to the calculation of the annual payment) and an increase in the amount of accretion from the prior year of \$151,212 (recorded as interest expense).

### **Debt Administration**

At the end of the current fiscal year, the RTASC had total gross bonded debt outstanding of \$167,648,290. RTASC was able to make its planned maturities payment of \$1,195,000, and to date has made principal payments of \$6,290,000.

Additional information on the RTASC's long-term debt can be found in Note 4 in the notes to financial statements.

### **Economic Factors**

The bonds are payable only from the assets of the RTASC. RTASC'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 RTASC to pay bondholders may be reduced or eliminated.

### **Requests for Information**

This financial report is designed to provide a general overview of the RTASC'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 TOBACCO ASSET  
SECURITIZATION CORPORATION  
(A BLENDED COMPONENT UNIT OF THE  
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**STATEMENT OF NET ASSETS  
DECEMBER 31, 2011**

**ASSETS**

Current Assets:

Cash and equivalents	\$ 540,280
Investments	1,172,674
Receivables:	
Tobacco	3,451,241
Interest	30,358
Prepaid expenses	<u>18,056</u>
 Total Current Assets	 <u>5,212,609</u>

Noncurrent Assets:

Restricted cash and equivalents	56,681
Restricted investments	3,525,074
Costs of issuance, net of accumulated amortization of \$336,635	<u>764,133</u>
 Total Noncurrent Assets	 <u>4,345,888</u>

Total Assets	<u>9,558,497</u>
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**LIABILITIES**

Current Liabilities:

Accrued liabilities	879,546
Current maturities of bonds payable	<u>1,280,000</u>
 Total Current Liabilities	 2,159,546

Noncurrent Liabilities -

Bonds payable, net of current maturities	<u>76,498,370</u>
 Total Liabilities	 <u>78,657,916</u>

**NET ASSETS**

Deficit	<u>\$ (69,099,419)</u>
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See notes to financial statements.

**ROCKLAND TOBACCO ASSET  
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**STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN NET ASSETS  
YEAR ENDED DECEMBER 31, 2011**

Operating Revenues - Tobacco settlement revenues	<u>\$ 3,032,544</u>
Operating Expenses:	
Professional fees	41,331
Directors' fees	16,000
Insurance	21,338
Amortization	<u>40,870</u>
Total Operating Expenses	<u>119,539</u>
Income from Operations	<u>2,913,005</u>
Non-Operating Revenues (Expenses):	
Interest income	352,802
Interest expense	<u>(4,798,393)</u>
Total Non-Operating Expenses	<u>(4,445,591)</u>
Loss Before Transfers	(1,532,586)
Transfers out - Residual payment to County of Rockland	<u>(250,277)</u>
Change in Net Assets	(1,782,863)
Deficit - Beginning of Year	<u>(67,316,556)</u>
Deficit - End of Year	<u><u>\$ (69,099,419)</u></u>

See notes to financial statements.



**ROCKLAND TOBACCO ASSET  
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**STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2011**

Cash Flows from Operating Activities:	
Cash received from tobacco settlement revenues	\$ 3,082,916
Cash paid to vendors and directors	(77,028)
	<u>3,005,888</u>
Net Cash Provided by Operating Activities	
Cash Flows from Investing Activities:	
Decrease in restricted cash and equivalents	(16,274)
Purchase of investments	(1,172,674)
Sale of investments	1,183,827
Purchase of restricted investments	(3,525,074)
Sale of restricted investments	3,464,835
Interest income	358,757
	<u>293,397</u>
Net Cash Provided by Investing Activities	
Cash Flows from Non-Capital Financing Activities:	
Repayment of bonds payable	(1,195,000)
Interest paid	(2,410,800)
Residual payment to County of Rockland	(2,250,277)
	<u>(5,856,077)</u>
Net Cash Used in Non-Capital Financing Activities	
Net Decrease in Cash and Equivalents	
	(2,556,792)
Cash and Equivalents - Beginning of Year	
	<u>3,097,072</u>
Cash and Equivalents - End of Year	
	<u>\$ 540,280</u>
Reconciliation of Income from Operations to	
Net Cash Provided by Operating Activities:	
Income from operations	\$ 2,913,005
Adjustments to reconcile income from operations to	
net cash provided by operating activities:	
Amortization	40,870
Changes in assets and liabilities:	
Tobacco receivable	50,372
Prepaid expenses	1,641
	<u>92,883</u>
Net Cash Provided by Operating Activities	
	<u>\$ 3,005,888</u>
Noncash Non-Capital Financing Activities:	
Increase in bonds payable from amortization of	
original issue and underwriters discounts	\$ 54,849
Increase in bonds payable from accreted interest on	
Series 2005 bonds	2,357,248

See notes to financial statements.

**ROCKLAND TOBACCO ASSET  
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**NOTES TO FINANCIAL STATEMENTS**

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

**Nature of Business**

The Rockland Tobacco Asset Securitization Corporation ("RTASC") is a special purpose, bankruptcy-remote local development corporation. RTASC 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 RTASC 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 RTASC, which issued \$47,750,000 in Tobacco Settlement Asset-Backed Bonds, Series 2001 ("Series 2001"). The Series 2001 bonds are payable from and secured solely from pledged Tobacco Settlement Revenues ("TSR's").

The debt issued by RTASC 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 RTASC 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 RTASC 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 RTASC applies all applicable Financial Accounting Standards Board pronouncements in accounting for and reporting on its operations.

**ROCKLAND 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 RTASC 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.

**Investments**

All investments are stated at cost, which approximates fair value.

**Restricted Cash and Equivalents and Investments**

The terms of the Series 2001 bond indenture provide for the establishment of a liquidity reserve. The reserve was initially funded from the proceeds of the issuance of the Series 2001 bonds in an amount equal to \$3,525,944, the maximum annual debt service requirement based on planned principal payments.

**Costs of Issuance**

The costs of issuance of the Series 2001 bonds are being amortized over the planned maturities of the bonds, which is twenty-eight years. The costs of issuance of the Series 2005 bonds (see Note 5) are being amortized over the Turbo Redemption maturities of each series of the bonds, which range from twenty-two to thirty-five years.

**Tax Status**

The RTASC 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.

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

**Note 2 - Investments**

Investments at December 31, 2011 consisted of the following -

Federal National Mortgage Association, due in January 2012, interest at 5.1%	<u>\$ 1,172,674</u>
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**Note 3 - Restricted Investments**

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

Federal National Mortgage Association, due in January 2012, interest at 5.1%	<u>\$ 3,525,074</u>
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**Note 4 - Bonds Payable**

RTASC issued Series 2001 bonds on December 20, 2001 to finance the purchase of the tobacco rights from the County and the related costs of issuance. The bonds were issued for \$46,767,234, net of original issue and underwriters' discounts of \$982,766 and bear interest at rates ranging from 4.625% to 5.75%, depending on maturity. At December 31, 2011, \$40,829,198 in Series 2001 bonds (net of \$630,802 of unamortized original issue and underwriters' discounts) was outstanding.

During 2005, RTASC issued \$24,484,850 of Tobacco Settlement Asset-Backed Bonds, Series 2005 A, B and C (collectively "Series 2005"), net of underwriters' discount of \$507,590, the proceeds of which were used to pay certain costs of issuance related to the Series 2005 bonds and provide the County, the owner of the beneficial interest in the Residual Trust which holds the Residual Certificate, with the balance of the funds. The Series 2005 bonds are subordinate to both the Series 2001 bonds as well as the remaining balance of \$6,540,000 in Tobacco Settlement Asset-Backed Bonds, Series 2003 ("Series 2003") issued by the Rockland Second Tobacco Asset Securitization Corporation ("RSTASC"). No payments will be made on the Series 2005 bonds until such time that the Series 2001 and Series 2003 bonds have been paid in full.

The Series 2005 bonds outstanding at December 31, 2011 of \$36,949,172, inclusive of \$12,342,531 of cumulative accretion and net of \$385,799 of unamortized underwriters' discounts, are comprised of the following:

\$18,700,250 (net of unaccreted amounts of \$15,259,430) of Series 2005 A bonds due August 15, 2045 with a yield of 5.875% and a projected final Turbo Redemption date of August 15, 2027.\*

\$4,276,968 (net of unaccreted amounts of \$8,609,032) of Series 2005 B bonds due August 15, 2050 with a yield of 6.625% and a projected final Turbo Redemption date of August 15, 2029.\*

\$14,357,753 (net of unaccreted amounts of \$64,984,857) of Series 2005 C bonds due August 15, 2060 with a yield of 7.625% and a projected final Turbo Redemption date of August 15, 2040.\*

\*Assumes Turbo Redemption payments are made based on the receipt of surplus pledged TSR's in accordance with the Global Insight Base Case Forecast of future tobacco consumption.

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

**Note 4 - Bonds Payable (Continued)**

A payment schedule, based upon planned maturities for the Series 2001 bonds and Turbo Redemption maturities for the Series 2005 bonds, is as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,280,000	\$ 2,345,456	\$ 3,625,456
2013	1,365,000	2,275,482	3,640,482
2014	1,425,000	2,200,406	3,625,406
2015	1,455,000	2,122,032	3,577,032
2016	2,890,640	2,042,006	4,932,646
2017 through 2040	<u>159,232,650</u>	<u>14,468,285</u>	<u>173,700,935</u>
	167,648,290	<u>\$ 25,453,667</u>	<u>\$ 193,101,957</u>
Unamortized Original Issue and Underwriters' Discounts	(1,016,601)		
Unaccreted amounts on Series 2005 bonds	<u>(88,853,319)</u>		
	<u>\$ 77,778,370</u>		

The required principal payments on the Series 2001 bonds and the Series 2005 bonds are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2012	\$ 340,000
2013	375,000
2014	410,000
2015	445,000
2016	510,000
2017 through 2040	<u>165,568,290</u>
	<u>\$ 167,648,290</u>

**Note 5 - 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 RTASC) 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

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**NOTES TO FINANCIAL STATEMENTS (Concluded)**

**Note 5 - Significant Contingencies (Continued)**

becomes a debtor in a bankruptcy case and defaults in making payment, funds available to RTASC to pay bondholders may be reduced or eliminated.

The Series 2001 and Series 2005 bonds are payable only from the assets of RTASC. 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. RTASC's only source of funds for payments on the bonds is the collections and amounts on deposit in pledged accounts pursuant to the indenture. RTASC has no taxing power and no significant assets other than the rights to receive tobacco settlement revenues.