

**ROCKLAND TOBACCO ASSET
SECURITIZATION CORPORATION**

*(A Component Unit of the County of Rockland, New York)
Basic Financial Statements and Required
Supplementary Information for the
Years Ended December 31, 2022 and 2021
and Independent Auditors' Reports*

ROCKLAND TOBACCO ASSET SECURITIZATION CORPORATION
(A COMPONENT UNIT OF THE COUNTY OF ROCKLAND, NEW YORK)
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Years Ended December 31, 2022 and 2021

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rockland Tobacco Asset Securitization Corporation

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities of Rockland Tobacco Asset Securitization Corporation ("RTASC"), a component unit of the County of Rockland, New York, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise RTASC's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of RTASC, as of December 31, 2022 and 2021, and the respective 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 Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of RTASC 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 opinions.

Responsibilities of Management for the Financial Statements

RTASC's 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 RTASC'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 auditors' report that includes our opinions. 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 GAAS 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 GAAS, 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 RTASC'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 RTASC's ability to continue as a going concern for a reasonable period of time.

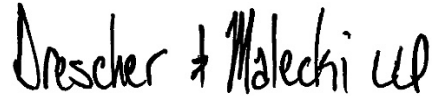
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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 27, 2023 on our consideration of RTASC'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 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 RTASC's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Drescher & Malecki LLP". The signature is written in a cursive, slightly slanted style.

March 27, 2023

ROCKLAND TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Rockland, New York)
Management's Discussion and Analysis
Years Ended December 31, 2022 and 2021

As management of the Rockland Tobacco Asset Securitization Corporation ("RTASC"), a blended component unit of the County of Rockland, New York (the "County"), we offer readers of RTASC's financial statements this narrative overview and analysis of the financial activities of RTASC for the fiscal years ended December 31, 2022 and 2021. This document should be read in conjunction with additional information that we have furnished in RTASC's financial statements, which follow this narrative. For comparative purposes, certain items from the prior year have been reclassified to conform with the current year presentation.

Financial Highlights

- RTASC's liabilities exceeded the assets by \$90,685,682, at December 31, 2022. This compares to RTASC's liabilities exceeding assets by \$89,662,905 at December 31, 2021, as restated.
- RTASC's net position decreased \$1,022,777 during the year ended December 31, 2022.
- RTASC's Subordinate Turbo Capital Appreciation Bonds ("CABs") increased by \$3,665,572 as a result of annual net interest accretion of \$4,122,523, offset by a principal redemption payment of \$456,951. Due to a shortfall in the TSR reserves requiring a replenishment of the reserve account, RTASC did not have TSR funding available to make a principal payment on the Tobacco Settlement Bonds during the year ended December 31, 2022.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to RTASC's basic financial statements. RTASC's basic financial statements are comprised of two components: 1) financial statements, and 2) notes to the financial statements.

Financial Statements

- The *Statements of Net Position* presents information on all of RTASC's assets, deferred outflows of resources, liabilities, and deferred inflows 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 RTASC is improving or deteriorating.
- The *Statements of Revenues, Expenses, and Changes in Net Position* presents information showing how RTASC's net position changed during the most recent reporting period. 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 in this statement for some items that will result in cash flows in future periods.
- The *Statements of Cash Flows* presents information depicting RTASC's cash flow activities for the most recent reporting period and the effect that these activities had on RTASC's cash and cash equivalent balances.

The financial statements can be found on pages 11-13 of this report.

The *Notes to the Financial Statements* present additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found following the financial statements section of this report.

Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government’s financial position. In the case of RTASC, liabilities exceeded assets by \$90,685,682 at December 31, 2022, as compared to \$88,913,967 and \$88,146,298 at December 31, 2021 and 2020, respectively, as presented below in Table 1:

Table 1—Condensed Statements of Net Position

	December 31,	
	2022	2021 (as restated)
Current assets	\$ 8,155,217	\$ 5,487,332
Total assets	<u>8,155,217</u>	<u>5,487,332</u>
Current liabilities	502,005	503,255
Noncurrent liabilities	<u>98,338,894</u>	<u>94,646,982</u>
Total liabilities	<u>98,840,899</u>	<u>95,150,237</u>
Net position	<u>\$ (90,685,682)</u>	<u>\$ (89,662,905)</u>

	December 31,	
	2021 (as restated)	2020
Current assets	\$ 5,487,332	\$ 5,944,816
Total assets	<u>5,487,332</u>	<u>5,944,816</u>
Current liabilities	503,255	557,045
Noncurrent liabilities	<u>94,646,982</u>	<u>93,534,069</u>
Total liabilities	<u>95,150,237</u>	<u>94,091,114</u>
Net position	<u>\$ (89,662,905)</u>	<u>\$ (88,146,298)</u>

At December 31, 2022, total assets were \$8,155,217 compared to \$5,487,332 and \$5,944,816 at December 31, 2021, as restated, and 2020, respectively. The largest asset held by RTASC at December 31, 2022 and 2020 represents total cash and cash equivalents totaling \$4,669,536 and \$3,032,550, respectively, while the largest asset at December 31, 2021, as restated, represents amounts due from New York State in the amount of \$2,995,752.

Total liabilities at December 31, 2022 were \$98,840,899 compared to \$95,150,237 and \$94,091,114 at December 31, 2021, as restated, and 2020, respectively. The largest portion of the liabilities was outstanding debt (net Tobacco Settlement Bonds and net Subordinate Turbo CABs) totaling \$98,338,894, \$94,646,982, and \$93,534,069 at December 31, 2022, 2021, and 2020, respectively.

During the current year, RTASC's net position decreased \$1,022,777 from the prior fiscal year for an ending net position of \$(90,685,682). Table 2, below, shows the changes in net position for the years ended December 31, 2022, 2021, and 2020.

Table 2—Changes in Net Position

	<u>Year Ended December 31,</u>	
	<u>2022</u>	<u>2021</u> <u>(as restated)</u>
Operating revenues	\$ 3,971,499	\$ 3,533,031
Operating expenses	103,414	73,110
Operating income	<u>3,868,085</u>	<u>3,459,921</u>
Nonoperating revenues (expenses):		
Interest income	151,180	122,197
Interest expense	<u>(6,240,430)</u>	<u>(5,098,725)</u>
Total nonoperating revenues (expenses)	<u>(6,089,250)</u>	<u>(4,976,528)</u>
Net loss before transfers	(2,221,165)	(1,516,607)
Transfer from Rockland Second TASC	<u>1,198,388</u>	<u>-</u>
Change in net position	(1,022,777)	(1,516,607)
Net position—beginning	<u>(89,662,905)</u>	<u>(88,146,298)</u>
Net position—ending	<u>\$ (90,685,682)</u>	<u>\$ (89,662,905)</u>
	<u>Year Ended December 31,</u>	
	<u>2021</u> <u>(as restated)</u>	<u>2020</u>
Operating revenues	\$ 3,533,031	\$ 3,536,774
Operating expenses	73,110	69,275
Operating income	<u>3,459,921</u>	<u>3,467,499</u>
Nonoperating revenues (expenses):		
Interest income	122,197	167,487
Interest expense	<u>(5,098,725)</u>	<u>(5,944,406)</u>
Total nonoperating revenues (expenses)	<u>(4,976,528)</u>	<u>(5,776,919)</u>
Change in net position	(1,516,607)	(2,309,420)
Net position—beginning	<u>(88,146,298)</u>	<u>(85,836,878)</u>
Net position—ending	<u>\$ (89,662,905)</u>	<u>\$ (88,146,298)</u>

A summary of sources of revenues and transfers for the years ended December 31, 2022, 2021, and 2020 is presented below in Table 3.

Table 3—Summary Source of Revenues and Transfers

	Year Ended December 31,		Increase/(Decrease)	
	2022	2021 (as restated)	Dollars	Percent (%)
Operating revenues:				
Tobacco settlement revenues	\$ 3,971,499	\$ 3,533,031	\$ 438,468	12.4
Total operating revenues	<u>3,971,499</u>	<u>3,533,031</u>	<u>438,468</u>	12.4
Nonoperating revenues:				
Interest income	<u>151,180</u>	<u>122,197</u>	<u>28,983</u>	23.7
Total nonoperating revenues	<u>151,180</u>	<u>122,197</u>	<u>28,983</u>	23.7
Transfer from RSTASC	<u>1,198,388</u>	<u>-</u>	<u>1,198,388</u>	100.0
Total revenues and transfers	<u>\$ 5,321,067</u>	<u>\$ 3,655,228</u>	<u>\$ 1,665,839</u>	45.6

	Year Ended December 31,		Increase/(Decrease)	
	(as restated)	2020	Dollars	Percent (%)
Operating revenues:				
Tobacco settlement revenues	\$ 3,533,031	\$ 3,536,774	\$ (3,743)	(0.1)
Total operating revenues	<u>3,533,031</u>	<u>3,536,774</u>	<u>(3,743)</u>	(0.1)
Nonoperating revenues:				
Interest income	<u>122,197</u>	<u>167,487</u>	<u>(45,290)</u>	(27.0)
Total nonoperating revenues	<u>122,197</u>	<u>167,487</u>	<u>(45,290)</u>	(27.0)
Total revenues	<u>\$ 3,655,228</u>	<u>\$ 3,704,261</u>	<u>\$ (49,033)</u>	(1.3)

Total revenues, including a transfer from Rockland Second TASC (“RSTASC”), for the years ended December 31, 2022, 2021, as restated, and 2020 were \$5,321,067, \$3,655,228, and \$3,704,261 respectively. Total revenues, excluding the transfer from RSTASC, for the years ended December 31, 2021, as restated, 2020, and 2019 consisted of \$3,971,499 (96.3 percent), \$3,533,031 (96.7 percent), and \$3,536,774 (95.5 percent), respectively, of tobacco settlement revenues, and \$151,180 and \$122,197 and \$167,487, respectively, of interest income and other operating revenue.

A summary of expenses for the years ended December 31, 2022, 2021, and 2020 is presented below in Table 4.

Table 4—Summary Source of Expenses

	Year Ended December 31,		Increase/(Decrease)	
	2022	2021	Dollars	Percent (%)
Operating expenses:				
Directors' fees	\$ 13,000	\$ 13,000	\$ -	-
Professional fees	58,045	32,840	25,205	76.8
Insurance	32,369	27,270	5,099	18.7
Total operating expenses	<u>103,414</u>	<u>73,110</u>	<u>30,304</u>	41.4
Nonoperating expenses:				
Interest expense	<u>6,240,430</u>	<u>5,098,725</u>	<u>1,141,705</u>	22.4
Total nonoperating expenses	<u>6,240,430</u>	<u>5,098,725</u>	<u>1,141,705</u>	22.4
Total expenses	<u>\$ 6,343,844</u>	<u>\$ 5,171,835</u>	<u>\$ 1,172,009</u>	22.7
	Year Ended December 31,		Increase/(Decrease)	
	2021	2020	Dollars	Percent (%)
Operating expenses:				
Directors' fees	\$ 13,000	\$ 13,000	\$ -	-
Professional fees	32,840	32,653	187	0.6
Insurance	<u>27,270</u>	<u>23,622</u>	<u>3,648</u>	15.4
Total operating expenses	<u>73,110</u>	<u>69,275</u>	<u>3,835</u>	5.5
Nonoperating expenses:				
Interest expense	<u>5,098,725</u>	<u>5,944,406</u>	<u>(845,681)</u>	(14.2)
Total nonoperating expenses	<u>5,098,725</u>	<u>5,944,406</u>	<u>(845,681)</u>	(14.2)
Total expenses	<u>\$ 5,171,835</u>	<u>\$ 6,013,681</u>	<u>\$ (841,846)</u>	(14.0)

Total expenses for the years ended December 31, 2022, 2021, and 2020 were \$6,343,844, \$5,171,835, and \$6,013,681, respectively. Expenses for the years ended December 31, 2022, 2021, and 2020 primarily consisted of \$6,240,430 (98.4 percent), \$5,098,725 (98.6 percent), and \$5,944,406 (98.8 percent) respectively, of interest expense and \$103,414 (1.6 percent), \$73,110 (1.4 percent), and \$69,275 (1.2 percent), of operating expenses.

A summary of cash flow activities for the years ended December 31, 2022, 2021, and 2020 is presented below in Table 5.

Table 5—Summary of Cash Flow Activities

	<u>Year Ended December 31,</u>		<u>Increase/ (Decrease)</u>
	<u>2022</u>	<u>2021</u>	<u>Dollars</u>
Cash flows provided by (used for):			
Operating activities	\$ 3,406,913	\$ 3,346,428	\$ 60,485
Investing activities	151,180	122,197	28,983
Capital and related financing activities	<u>(1,350,130)</u>	<u>(4,039,602)</u>	<u>2,689,472</u>
Net increase (decrease) in cash and cash equivalents	2,207,963	(570,977)	2,778,940
Cash and cash equivalents—beginning	<u>2,461,573</u>	<u>3,032,550</u>	<u>(570,977)</u>
Cash and cash equivalents—ending	<u>\$ 4,669,536</u>	<u>\$ 2,461,573</u>	<u>\$ (570,977)</u>
	<u>Year Ended December 31,</u>		<u>Increase/ (Decrease)</u>
	<u>2021</u>	<u>2020</u>	<u>Dollars</u>
Cash flows provided by (used for):			
Operating activities	\$ 3,346,428	\$ 3,093,772	\$ 252,656
Investing activities	122,197	167,487	(45,290)
Capital and related financing activities	<u>(4,039,602)</u>	<u>(4,042,313)</u>	<u>2,711</u>
Net (decrease) in cash and cash equivalents	(570,977)	(781,054)	210,077
Cash and cash equivalents—beginning	<u>3,032,550</u>	<u>3,813,604</u>	<u>(781,054)</u>
Cash and cash equivalents—ending	<u>\$ 2,461,573</u>	<u>\$ 3,032,550</u>	<u>\$ (781,054)</u>

Compared to December 31, 2021, total cash increased \$2,207,963 during the year ended December 31, 2022. An increase in net cash used for capital and related financing activities represents the most significant change from 2021, which was largely the result of a required increase to TSR reserves.

Compared to December 31, 2020, total cash decreased \$570,977 during the year ended December 31, 2021. A decrease in net cash provided by investing activities coupled with an increase in net cash used for operating represent the most significant changes from 2020.

Debt Administration

Long-Term Debt—At the end of the current fiscal year, RTASC had net Tobacco Settlement Bonds outstanding of \$23,017,197 and net Subordinate Turbo CABs outstanding of \$75,321,697. During the years ended December 31, 2022 and 2021, RTASC made principal payments of \$0 and \$2,550,000, respectively on its Tobacco Settlement Bonds. Due to a shortfall in the TSR reserves requiring a replenishment of the reserve account, RTASC did not have TSR funding available to make a principal payment on the Tobacco Settlement Bonds during the year ended December 31, 2022.

During the years ended December 31, 2022 and 2021, interest accreted \$4,122,523 and \$4,647,026, respectively on its Subordinate Turbo CABs. During the year ended December 31, 2022, there was a principal redemption payment of \$456,951 on RTASC's Subordinate Turbo CABs. Additional information on RTASC's long-term debt can be found in Note 4 to the financial statements.

Requests for Information

This financial report is designed to provide a general overview of RTASC's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Rockland Tobacco Asset Securitization Corporation, c/o Commissioner of Finance, Rockland County, 18 New Hempstead Road, New City, New York 10956.

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BASIC FINANCIAL STATEMENTS

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ROCKLAND TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Rockland, New York)
Statements of Net Position
December 31, 2022 and 2021

	2022	2021 (as restated)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 240,444	\$ 345,894
Restricted cash and cash equivalents	4,429,092	2,115,679
Due from New York State	3,454,886	2,995,752
Prepaid items	30,795	30,007
Total assets	8,155,217	5,487,332
 LIABILITIES		
Current liabilities:		
Accounts payable	-	1,250
Accrued interest payable	502,005	502,005
Noncurrent liabilities:		
Tobacco Settlement Bonds, net	23,017,197	22,999,682
Subordinate Turbo CABs, net	75,321,697	71,647,300
Total liabilities	98,840,899	95,150,237
 NET POSITION		
Restricted	4,429,092	2,115,679
Unrestricted	(95,114,774)	(91,778,584)
Total net position	\$ (90,685,682)	\$ (89,662,905)

The notes to the financial statements are an integral part of this statement.

ROCKLAND TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Rockland, New York)
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2022 and 2021

	2022	2021 (as restated)
Operating revenues:		
Tobacco settlement revenue	\$ 3,971,499	\$ 3,533,031
Total operating revenues	3,971,499	3,533,031
Operating expenses:		
Directors' fees	13,000	13,000
Professional fees	58,045	32,840
Insurance	32,369	27,270
Total operating expenses	103,414	73,110
Operating income	3,868,085	3,459,921
Nonoperating revenues (expenses):		
Interest income	151,180	122,197
Interest expense	(6,240,430)	(5,098,725)
Total nonoperating revenues (expenses)	(6,089,250)	(4,976,528)
Net loss before transfers	(2,221,165)	(1,516,607)
Transfer from RSTASC	1,198,388	-
Change in net position	(1,022,777)	(1,516,607)
Net position—beginning	(89,662,905)	(88,146,298)
Net position—ending	\$ (90,685,682)	\$ (89,662,905)

The notes to the financial statements are an integral part of this statement.

ROCKLAND TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Rockland, New York)
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u> <u>(as restated)</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tobacco settlement revenues	\$ 3,512,365	\$ 3,424,575
Payments to directors	(13,000)	(13,000)
Payments to vendors	(92,452)	(65,147)
Net cash provided by operating activities	<u>3,406,913</u>	<u>3,346,428</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	<u>151,180</u>	<u>122,197</u>
Net cash provided by investing activities	<u>151,180</u>	<u>122,197</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Repayment of Tobacco Settlement Bonds	-	(2,550,000)
Repayment of Subordinate Turbo CABs	(456,951)	-
Transfer from RSTASC	1,198,388	-
Interest paid	(2,091,567)	(1,489,602)
Net cash (used for) non-capital financing activities	<u>(1,350,130)</u>	<u>(4,039,602)</u>
Net increase (decrease) in cash and cash equivalents	2,207,963	(570,977)
Cash and cash equivalents (including restricted)—beginning	<u>2,461,573</u>	<u>3,032,550</u>
Cash and cash equivalents (including restricted)—ending	<u>\$ 4,669,536</u>	<u>\$ 2,461,573</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 3,868,085	\$ 3,459,921
Adjustments to reconcile operating income to net cash provided by operating activities:		
Decrease (increase) in amounts due from New York State	(459,134)	(108,456)
(Increase) in prepaid items	(788)	(5,037)
Total adjustments	<u>(461,172)</u>	<u>(113,493)</u>
Net cash provided by operating activities	<u>\$ 3,406,913</u>	<u>\$ 3,346,428</u>

The notes to the financial statements are an integral part of this statement.

ROCKLAND TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Rockland, New York)
Notes to the Financial Statements
Years Ended December 31, 2022 and 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Rockland Tobacco Asset Securitization Corporation (“RTASC”) have been prepared in conformity with accounting principles generally accepted in the United States of America 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 more significant of RTASC’s accounting policies are described below.

Reporting Entity

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. Although legally separate from the County, RTASC is a component unit of the County. Based on the nature and significance of RTASC’s relationship with the County and the criteria set forth by GASB, RTASC is included within the County’s basic financial statements as a blended component unit. The Board of Directors has elected to present the activity of RTASC as a proprietary fund type (Enterprise Fund).

The Master Settlement Agreement (“MSA”) was entered into on November 23, 1998, among the attorneys general of 46 states (including New York), 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 for the four largest United States tobacco manufacturers: Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown and Williamson Tobacco Company and Lorillard Tobacco Company (collectively the “Original Participating Manufacturers” or “OPMs”) 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.

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 (“TSRs”). 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.

Pursuant to an assignment from RTASC to Rockland Second Tobacco Asset Securitization Corporation (“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 acquired 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.

As documented in the Purchase and Sale Agreement dated October 15, 2005, once the 2003 RSTASC Tobacco Settlement Bonds are paid in full, all payments of the 20 percent share of TSR are to be made to RSTASC in trust and pledged for the benefit of the Series 2005 Bonds (known as the “20 Percent Crossover Date”). The 20 Percent Crossover Date occurred during the year ended December 31, 2021 on June 1, 2021 when the RSTASC 2003 Tobacco Settlement Bonds were paid in full. In accordance with the Purchase and Sale Agreement, RSTASC transferred \$1,198,388 to RTASC during the year ended December 31, 2022 for a principal redemption payment and interest payment on the Series 2005 Bonds.

In accordance with the Bond Indenture and to the extent contained in the MSA Report, a trapping event has occurred. A Consumption Decline Trapping Event occurs when shipments of cigarettes in or to the 50 United States, the District of Columbia and Puerto Rico as measured under the MSA, are less in any year preceding a deposit date than the amount opposite such year under the “Consumption Decline Trapping Event” definition, which number for the year 2021 was 215,729,944,748. According to the MSA Report, the amount shown as relevant shipments for the year 2021 was less than the shipment amount specified previously, and therefore a Consumption Decline Trapping Event has occurred.

Measurement Focus and Basis of Accounting

The activities of RTASC are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

Tobacco settlement revenues are exchange transactions, based on the notion that the payments are made to the settling states in exchange for their agreement to release the tobacco companies from present and future litigation. Under the terms of the MSA, the tobacco companies have agreed to make annual payments in perpetuity. The MSA includes a schedule of projected annual base payments, subject to certain adjustments based on future events or circumstances. The most significant factor affecting the annual payments is a *volume adjustment*, which creates a direct relationship between domestic shipments of cigarettes and the annual payments. Based on the MSA, the tobacco companies have no obligation to make settlement payments until cigarettes are shipped.

The event that results in the recognition of an asset and revenue by a settling government is the domestic shipment of cigarettes (sales). Therefore, RTASC recognizes a receivable and revenue for tobacco settlement revenues when that event occurs. Because annual tobacco settlement revenue payments are based on cigarette sales from the preceding calendar year, RTASC estimates accrued tobacco settlement revenues that derive from sales from January 1 to their respective fiscal year ends.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

Cash, Cash Equivalents and Investments—Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date acquired by RTASC. At December 31, 2022 and 2021, RTASC does not report any investments; however, when RTASC does have investments they are recorded at fair value in accordance with GASB.

Restricted Cash and Cash Equivalents—Restricted cash and cash equivalents represent amounts to support net position restrictions.

Due from New York State—Represents an estimate on RTASC’s portion of the Master Settlement Agreement.

Prepaid Items—Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the statement of net position. The cost of prepaid items is recorded as an expense when consumed rather than purchased.

Deferred Outflows/Inflows of Resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until then. At December 31, 2022 and 2021, RTASC does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. At December 31, 2022 and 2021, RTASC does not have any items that qualify for reporting in this category.

Net Position Flow Assumption—Sometimes RTASC will fund outlays for a particular purpose from both restricted (e.g., restricted bond proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the statement of net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is RTASC’s policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

Revenues and Expenses

Tobacco Settlement Revenues—During the fiscal years ended December 31, 2022 and 2021, RTASC recognized tobacco settlement revenues as a result of a New York State settlement agreement. Payments are made according to a set formula based on tobacco sales.

Expenses—Expenses are recorded on the accrual basis of accounting. Operating expenses consist of administrative costs for professional service fees and directors’ fees and are paid from revenues.

Other

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 revenues, expenses, assets, liabilities, deferred inflows of resources, deferred outflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncements—During the year ended December 31, 2022, RTASC implemented GASB Statement No. 87, *Leases*. GASB Statement No. 87 better meets the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The implementation of GASB Statement No. 87 did not have a material impact on RTASC’s financial position or results from operations.

Future Impacts of Accounting Pronouncements—RTASC has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*; No. 96, *Subscription-Based Information Technology Arrangements*; and a portion of No. 99, *Omnibus 2022*, effective for the year ending December 31, 2023; and No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*; the remaining portion of No. 99, *Omnibus 2022*, and No. 101, *Compensated Absences*, effective for the year ending December 31, 2024. RTASC is, therefore, unable to disclose the impact that adopting GASB Statements No. 94, 96, 99, 100, and 101 will have on its financial position and results of operations when such statements are adopted.

Deficit Net Position—At December 31, 2022, RTASC reported a net position deficit of \$90,685,682. The deficit is caused by long-term obligations that are greater than currently available resources.

Tax Status—The Corporation is exempt from federal income tax under section 501(a) of the Internal Revenue Code (IRC) as an organization described in section 501 (c)(3).

2. RESTATEMENT OF NET POSITION

As of December 31, 2021, RTASC restated net position to reclassify the TSR receivable and revenue previously recorded by RTASC on the RSTASC financial statements. As a result, RTASC’s Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows have been restated as of, and for the year ended, December 31, 2021.

3. CASH AND CASH EQUIVALENTS

RTASC’s investment policies are governed by New York State statutes. All deposits are carried at fair value. Collateral is required for demand deposit accounts, time deposit accounts and certificates of deposit not covered by Federal deposit insurance (FDIC). RTASC has entered into custodial agreements with the various banks which hold their deposits. These agreements authorize the obligation that may be pledged as collateral. Obligations that may be pledged as collateral are outlined in Chapter 623 of the laws of the State of New York.

Cash and cash equivalents of RTASC at December 31, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Cash on deposit	\$ 240,444	\$ 345,894
Money market funds	2,194,749	149,333
Commercial paper	<u>2,234,343</u>	<u>1,966,346</u>
Total	<u>\$ 4,669,536</u>	<u>\$ 2,461,573</u>

Deposits—All deposits including cash in bank and certain investments (i.e. certificates of deposit) are carried at fair value and are classified by custodial credit risk at December 31, 2022 and 2021 as follows:

	Bank Balance	Carrying Amount
Deposits at December 31, 2022:		
FDIC insured	\$ 240,944	\$ 240,444
Uninsured:		
Collateral held by bank's agent in RTASC's name	-	-
Total	<u>\$ 240,944</u>	<u>\$ 240,444</u>
	Bank Balance	Carrying Amount
Deposits at December 31, 2021:		
FDIC insured	\$ 250,000	\$ 250,000
Uninsured:		
Collateral held by bank's agent in RTASC's name	96,645	95,894
Total	<u>\$ 346,645</u>	<u>\$ 345,894</u>

Cash Equivalents—Cash equivalents held by RTASC includes money market accounts and commercial paper with maturity dates within three months of year-end. These cash equivalents are carried at amortized cost.

Restricted Cash and Cash Equivalents—RTASC reports restricted cash and cash equivalents of \$4,429,092 and \$2,115,679 at December 31, 2022 and 2021, respectively, to support restricted net position.

Custodial Credit Risk—Deposits—In the case of deposits, this is the risk that in the event of a bank failure, RTASC's deposits may not be returned to it. As noted above, by State statute all deposits in excess of FDIC insurance coverage must be collateralized. As of December 31, 2022 and 2021, the RTASC's deposits were either FDIC insured or collateralized with securities held by the pledging bank's agency in the TASC's name.

Custodial Credit Risk—Cash Equivalents—For cash equivalents, this is the risk that, in the event of the failure of the counterparty, RTASC will not be able to recover the value of its cash equivalents or collateral securities that are in the possession of an outside party. For cash equivalents, this is the risk that in the event of a bank failure, RTASC's cash equivalents may not be returned to it.

Interest Rate Risk—As a means of limiting its exposure to fair value losses arising from fluctuating interest rates, it is RTASC's practice to generally limit investments to 180 days or less.

4. RECEIVABLES

Due from New York State—Represents amounts owed to RTASC for tobacco settlement revenue of the MSA earned in 2022 and 2021. RTASC has accrued \$3,454,886 and \$3,744,690 within the statement of net position at December 31, 2022 and 2021, respectively.

5. LONG-TERM DEBT

RTASC issued Series 2001 Tobacco Settlement 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 discount of \$982,766 and bear interest at rates ranging from 4.625% to 5.75%, depending on maturity. Annual principal payments on Tobacco Settlement Bonds are dependent on the TSR revenue received; therefore, the current portion considered payable during the year ending December 31, 2023 is not determinable. The stated maturity date for the bonds is June 1, 2043; the bonds must be paid in full by this date in order to avoid an event of default.

During 2005, RTASC issued \$24,484,850 of Tobacco Settlement Asset-Backed Subordinate Turbo Capital Appreciation Bonds, Series 2005 A, B and C (collectively "Series 2005"), net of original 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 and Series 2003 Bonds ("Series 2003") issued by the Rockland Second Tobacco Asset Securitization Corporation ("RSTASC"). However, as discussed in Note 1, since the Series 2003 bonds have been paid in full, all payments of the RSTASC 20 percent share are pledged for the benefit of the Series 2005 bonds, accordingly, a principal redemption payment of \$456,951 and an interest payment of \$741,437 were made on the Series 2005 bonds during the year ended December 31, 2022.

Changes in bonds payable for the Tobacco Settlement Bonds, Series 2001 for the years ended December 31, 2022 and 2021 are as follows:

Description	Year of Maturity	Yield	Beginning Balance 1/1/2022	Additions	Deletions	Ending Balance 12/31/2022
2001 Tobacco Settlement Bonds	2043	4.625-5.75%	\$ 23,384,999	\$ -	\$ -	\$ 23,384,999
Less:						
Bond discount			(385,317)	-	(17,515)	(367,802)
Net Tobacco Settlement Bonds			<u>\$ 22,999,682</u>	<u>\$ -</u>	<u>\$ (17,515)</u>	<u>\$ 23,017,197</u>
Description	Year of Maturity	Yield	Beginning Balance 1/1/2021	Additions	Deletions	Ending Balance 12/31/2021
2001 Tobacco Settlement Bonds	2043	4.625-5.75%	\$ 25,934,999	\$ -	\$ 2,550,000	\$ 23,384,999
Less:						
Bond discount			(402,832)	-	(17,515)	(385,317)
Net Tobacco Settlement Bonds			<u>\$ 25,532,167</u>	<u>\$ -</u>	<u>\$ 2,532,485</u>	<u>\$ 22,999,682</u>

Subordinate Turbo CABs—Interest on Subordinate Turbo CABs is compounded semiannually on June 1 and December 1, but is not payable until bond maturity. Interest accretes until both principal and accreted interest are paid. Future interest accretion has been recorded as a bond discount and amortized as the current interest accretes. The accrued interest on the Subordinate Turbo CABs is reflected within the Subordinate Turbo CABs payable liability.

A summary of the Subordinate Turbo CABs net bond balance activity for the years ended December 31, 2022 and 2021 follows:

Description	Beginning Balance 1/1/2022	Additions	(Deletions)	Ending Balance 12/31/2022
2005 Subordinate Turbo CABs	\$ 71,901,150	\$ 4,122,523	\$ 456,951	\$ 75,566,722
Less:				
Bond discount	(253,850)	-	(8,825)	(245,025)
Net Turbo CABs	<u>\$ 71,647,300</u>	<u>\$ 4,122,523</u>	<u>\$ 448,126</u>	<u>\$ 75,321,697</u>

Description	Beginning Balance 1/1/2021	Additions	Change in Estimate/ (Deletions)	Ending Balance 12/31/2021
2005 Subordinate Turbo CABs	\$ 68,264,577	\$ 4,647,026	\$ 1,010,453	\$ 71,901,150
Less:				
Bond discount	(262,675)	-	(8,825)	(253,850)
Net Turbo CABs	<u>\$ 68,001,902</u>	<u>\$ 4,647,026</u>	<u>\$ 1,001,628</u>	<u>\$ 71,647,300</u>

Redemption of the Subordinate Turbo CABs, as outlined in the official statement, is scheduled to be paid through 2060, while early payment is allowed. During the year ended December 31, 2022, RTASC made a redemption payment of \$456,951. Any debt service amounts not paid in accordance with the Turbo Redemption Payments schedule will be due and payable on the maturity dates below:

Series 2005A	August 15, 2045
Series 2005B	August 15, 2050
Series 2005C	August 15, 2060

6. NET POSITION

The RTASC financial statements utilize a net position presentation. Net position is categorized as restricted and unrestricted components.

- **Restricted for Debt Service**—This category restricts a portion of net position for payment of the debt service obligations of RTASC. At December 31, 2022 and December 31, 2021, the balance of this restriction was \$4,429,092 and \$2,115,679, respectively.
- **Unrestricted**—This component represents net position of RTASC not restricted for any other purpose.

7. CONTINGENCIES

The ability of RTASC to meet debt service payments of the Tobacco Settlement Bonds is contingent upon the receipt of TSRs. TSRs are principally dependent upon future levels of domestic consumption. A significant decline in the overall consumption of cigarettes could have a material adverse effect on the payments by the OPMs under the MSA and the amounts available to RTASC to make payments of principal and interest on their bonds.

Certain smokers, smokers' rights organizations, consumer groups, cigarette importers, cigarette distributors, cigarette manufacturers, Native American tribes, taxpayer, taxpayers' groups and other parties have filed actions against some, and in certain cases all, of the signatories to the MSA. In the event of an adverse court ruling in such types of litigation, Bondholders could incur a complete loss of their investment.

Additionally, the OPMs are also exposed to liability from various lawsuits including individual lawsuits, class action lawsuits and health care cost recovery litigation. Ultimately, the outcome of these and any other pending or future lawsuits is uncertain. One or more adverse judgment could result in delays in, or reductions of amounts available for, payments on the bonds.

8. RELATED PARTY TRANSACTIONS

As discussed in Note 5, in accordance with the Purchase and Sale Agreement, RSTASC transferred \$1,198,388 to RTASC during the year ended December 31, 2022 for the benefit of the Series 2005 Bonds.

9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 27, 2023, which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

* * * * *

Certified Public Accountants

**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
Rockland Tobacco Asset Securitization Corporation

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 business-type activities of Rockland Tobacco Asset Securitization Corporation ("RTASC"), a component unit of County of Rockland, New York, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise RTASC's basic financial statements, and have issued our report thereon dated March 27, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered RTASC's internal control over financial reporting ("internal control") as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RTASC's internal control. Accordingly, we do not express an opinion on the effectiveness of RTASC'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

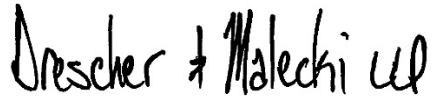
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether RTASC'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Handwritten signature in black ink that reads "Drescher & Malecki LLP". The signature is written in a cursive, flowing style.

March 27, 2023