

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

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rockland Second 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 Second Tobacco Asset Securitization Corporation ("RSTASC"), 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 RSTASC'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 RSTASC, 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 RSTASC 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.

Substantial Doubt About the Entity's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the entity will continue as a going concern. As discussed in Note 7 to the financial statements, RSTASC has the potential for voluntary dissolution due to the impacts of the 20 Percent Crossover Date, and has stated that substantial doubt exists about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 7. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

RSTASC'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 RSTASC's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 RSTASC'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 RSTASC's ability to continue as a going concern for a reasonable period of time.

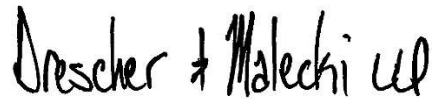
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 RSTASC'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 RSTASC's internal control over financial reporting and compliance.



March 27, 2023

ROCKLAND SECOND 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 Second Tobacco Asset Securitization Corporation ("RSTASC"), a blended component unit of the County of Rockland, New York (the "County"), we offer readers of RSTASC's financial statements this narrative overview and analysis of the financial activities of RSTASC for the fiscal years ended December 31, 2022 and 2021. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in RSTASC'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

- RSTASC's assets exceeded the liabilities by \$1,014,135, representing net position at December 31, 2022. This compares to RSTASC's assets exceeding liabilities by \$1,247,576, as restated, at December 31, 2021.
- RSTASC's net position decreased \$233,441 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 RSTASC's basic financial statements. RSTASC'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 RSTASC'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 RSTASC is improving or deteriorating.
- The *Statements of Revenues, Expenses, and Changes in Net Position* presents information showing how RSTASC'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 RSTASC's cash flow activities for the most recent reporting period and the effect that these activities had on RSTASC's cash and cash equivalents 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 RSTASC, assets exceeded liabilities by \$1,014,135 and \$1,247,576, at December 31, 2022 and 2021, as restated, respectively, as compared to the liabilities of RSTASC exceeding its assets by \$350,955 at December 31, 2020, as presented below in Table 1:

Table 1—Condensed Statements of Net Position

	December 31,	
	2022	2021 (as restated)
Current assets	\$ 1,014,135	\$ 1,248,826
Total assets	<u>1,014,135</u>	<u>1,248,826</u>
Current liabilities	-	1,250
Total liabilities	<u>-</u>	<u>1,250</u>
Net position	<u>\$ 1,014,135</u>	<u>\$ 1,247,576</u>

	December 31,	
	2021 (as restated)	2020
Current assets	\$ 1,248,826	\$ 1,625,551
Total assets	<u>1,248,826</u>	<u>1,625,551</u>
Current liabilities	1,250	8,800
Noncurrent liabilities	-	1,265,796
Total liabilities	<u>1,250</u>	<u>1,274,596</u>
Net position	<u>\$ 1,247,576</u>	<u>\$ 350,955</u>

At December 31, 2022, total assets were \$1,014,135 compared to \$1,248,829, as restated, and \$1,625,551 at December 31, 2021, as restated, and 2020, respectively. The largest asset held by RSTASC at December 31, 2022 and 2021, as restated, represents amounts Due from New York State totaling \$863,722 and \$748,938, respectively, while the largest asset held by RSTASC at December 31, 2020 represents restricted cash and cash equivalents which was \$743,920.

Total liabilities at December 31, 2022 were \$0 compared to \$1,250 and \$1,274,596 at December 31, 2021, as restated, and 2020, respectively. The largest portion of the liabilities was accounts payable totaling \$1,250 at December 31, 2021, as compared to outstanding debt (net Tobacco Settlement Bonds) totaling \$1,265,796 at December 31, 2020.

During the current year, RSTASC's net position decreased \$233,441 from the prior fiscal year for an ending net position of \$1,014,135. Changes in net position for the years ended December 31, 2022, 2021, and 2020 is presented on the following page in Table 2.

Table 2—Changes in Net Position

	Year Ended December 31,	
	2022	2021 (as restated)
Operating revenues	\$ 992,875	\$ 883,258
Operating expenses	31,750	72,696
Operating income	<u>961,125</u>	<u>810,562</u>
Nonoperating revenues (expenses):		
Interest income	3,822	123,809
Interest expense	<u>-</u>	<u>(37,750)</u>
Total nonoperating revenues (expenses)	<u>3,822</u>	<u>86,059</u>
Net income before transfers	964,947	896,621
Transfer to RTASC	<u>(1,198,388)</u>	<u>-</u>
Change in net position	(233,441)	896,621
Net position—beginning	<u>1,247,576</u>	<u>350,955</u>
Net position—ending	<u>\$ 1,014,135</u>	<u>\$ 1,247,576</u>

	Year Ended December 31,	
	2021 (as restated)	2020
Operating revenues	\$ 883,258	\$ 884,193
Operating expenses	72,696	58,158
Operating income	<u>810,562</u>	<u>826,035</u>
Nonoperating revenues (expenses):		
Interest income	123,809	47,468
Interest expense	<u>(37,750)</u>	<u>(117,093)</u>
Total nonoperating revenues (expenses)	<u>86,059</u>	<u>(69,625)</u>
Change in net position	896,621	756,410
Net position—beginning	<u>350,955</u>	<u>(405,455)</u>
Net position—ending	<u>\$ 1,247,576</u>	<u>\$ 350,955</u>

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

Table 3—Summary Source of Revenues

	Year Ended December 31,		Increase/(Decrease)	
	2022	2021 (as restated)	Dollars	Percent (%)
Operating revenues:				
Tobacco settlement revenues	\$ 992,875	\$ 883,258	\$ 109,617	12.4
Total operating revenues	<u>992,875</u>	<u>883,258</u>	<u>109,617</u>	12.4
Nonoperating revenues:				
Interest income	<u>3,822</u>	<u>123,809</u>	<u>(119,987)</u>	(96.9)
Total nonoperating revenues	<u>3,822</u>	<u>123,809</u>	<u>(119,987)</u>	(96.9)
Total revenues	<u>\$ 996,697</u>	<u>\$ 1,007,067</u>	<u>\$ (10,370)</u>	(1.0)
	Year Ended December 31,		Increase/(Decrease)	
	(as restated)	2020	Dollars	Percent (%)
Operating revenues:				
Tobacco settlement revenues	\$ 883,258	\$ 884,193	\$ (935)	(0.1)
Total operating revenues	<u>883,258</u>	<u>884,193</u>	<u>(935)</u>	(0.1)
Nonoperating revenues:				
Interest income	<u>123,809</u>	<u>47,468</u>	<u>76,341</u>	160.8
Total nonoperating revenues	<u>123,809</u>	<u>47,468</u>	<u>76,341</u>	160.8
Total revenues	<u>\$ 1,007,067</u>	<u>\$ 931,661</u>	<u>\$ 75,406</u>	8.1

Total revenues for the years ended December 31, 2022, 2021, as restated, and 2020 were \$996,697, \$1,007,067 and \$931,661, respectively. Total revenues for the years ended December 31, 2022, 2021, as restated, and 2020 consisted of \$992,875 (99.6 percent), \$883,258 (87.7 percent), and \$884,193 (94.9 percent), respectively, of tobacco settlement revenues, and \$3,822, \$123,809 and \$47,468, 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	\$ 16,750	\$ (3,750)	(22.4)
Professional fees	18,750	55,946	(37,196)	(66.5)
Total operating expenses	<u>31,750</u>	<u>72,696</u>	<u>(40,946)</u>	(56.3)
Nonoperating expenses:				
Interest expense	-	37,750	(37,750)	(100.0)
Total nonoperating expenses	<u>-</u>	<u>37,750</u>	<u>(37,750)</u>	(100.0)
Transfer to RTASC	<u>1,198,388</u>	<u>-</u>	<u>1,198,388</u>	100.0
Total expenses	<u>\$ 1,230,138</u>	<u>\$ 110,446</u>	<u>\$ 1,119,692</u>	1,013.8
	Year Ended December 31,		Increase/(Decrease)	
	2021	2020	Dollars	Percent (%)
Operating expenses:				
Directors' fees	\$ 16,750	\$ 13,000	\$ 3,750	28.8
Professional fees	55,946	45,158	10,788	23.9
Total operating expenses	<u>72,696</u>	<u>58,158</u>	<u>14,538</u>	25.0
Nonoperating expenses:				
Interest expense	37,750	117,093	(79,343)	(67.8)
Total nonoperating expenses	<u>37,750</u>	<u>117,093</u>	<u>(79,343)</u>	(67.8)
Total expenses	<u>\$ 110,446</u>	<u>\$ 175,251</u>	<u>\$ (64,805)</u>	(37.0)

Total expenses for the years ended December 31, 2022, 2021, as restated, and 2020 were \$1,230,138, \$110,446 and \$175,251, respectively. Expenses, excluding the transfer to Rockland Tobacco Asset Securitization Corporation (“RTASC”), for the years ended December 31, 2022 and 2021, as restated, primarily consisted of \$31,750 (100.0 percent) and \$72,696 (65.8 percent) of operating expenses, respectively, and \$37,750 (34.2 percent) of interest expense for the December 31, 2021 year end. Expenses for the year ended December 31, 2020, primarily consisted of \$117,093 (66.8 percent) of interest expense and \$58,158 (33.2 percent) of operating expenses. There was also a transfer from RSTASC to RTASC of \$1,198,388 during the year ended December 31, 2022.

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

	Year Ended December 31,		Increase/ (Decrease)
	2022	2021 (as restated)	Dollars
Cash flows provided by (used for):			
Operating activities	\$ 845,091	\$ 783,448	\$ 61,643
Investing activities	3,822	58,013	(54,191)
Capital and related financing activities	<u>(1,198,388)</u>	<u>(1,245,300)</u>	<u>46,912</u>
Net (decrease) in cash and cash equivalents	(349,475)	(403,839)	54,364
Cash and cash equivalents—beginning	<u>499,888</u>	<u>903,727</u>	<u>(403,839)</u>
Cash and cash equivalents—ending	<u>\$ 150,413</u>	<u>\$ 499,888</u>	<u>\$ (403,839)</u>
	Year Ended December 31,		Increase/ (Decrease)
	2021 (as restated)	2020	Dollars
Cash flows provided by (used for):			
Operating activities	\$ 783,448	\$ 733,508	\$ 49,940
Investing activities	58,013	47,468	10,545
Capital and related financing activities	<u>(1,245,300)</u>	<u>(744,650)</u>	<u>(500,650)</u>
Net (decrease) increase in cash and cash equivalents	(403,839)	36,326	(440,165)
Cash and cash equivalents—beginning	<u>903,727</u>	<u>867,401</u>	<u>36,326</u>
Cash and cash equivalents—ending	<u>\$ 499,888</u>	<u>\$ 903,727</u>	<u>\$ 36,326</u>

Compared to December 31, 2021, total cash decreased \$349,475 during the year ended December 31, 2022. An increase in net cash provided by operating activities coupled with an increase in net cash used for capital and related financing activities represent the most significant changes from 2021.

Compared to December 31, 2020, total cash decreased \$403,839 during the year ended December 31, 2021. An increase in net cash used for capital and related financing 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, RSTASC had net Tobacco Settlement Bonds outstanding of \$0. During the year ended December 31, 2021, RSTASC made a principal payment of \$1,510,000 on its Tobacco Settlement Bonds. RSTASC satisfied the total Tobacco Settlement Bonds outstanding during the year ended December 31, 2021. Additional information on RSTASC’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 RSTASC's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Rockland Second 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 SECOND 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	\$ 149,227	\$ 182,227
Restricted cash and cash equivalents	1,186	317,661
Due from New York State	863,722	748,938
Total assets	1,014,135	1,248,826
 LIABILITIES		
Current liabilities:		
Accounts payable	-	1,250
Total liabilities	-	1,250
 NET POSITION		
Restricted	1,186	317,661
Unrestricted	1,012,949	929,915
Total net position	\$ 1,014,135	\$ 1,247,576

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

ROCKLAND SECOND 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	\$ 992,875	\$ 883,258
Total operating revenues	992,875	883,258
Operating expenses:		
Directors' fees	13,000	16,750
Professional fees	18,750	55,946
Total operating expenses	31,750	72,696
Operating income	961,125	810,562
Nonoperating revenues (expenses):		
Interest income	3,822	123,809
Interest expense	-	(37,750)
Total nonoperating revenues (expenses)	3,822	86,059
Net income before transfers	964,947	896,621
Transfer to RTASC	(1,198,388)	-
Change in net position	(233,441)	896,621
Net position—beginning	1,247,576	350,955
Net position—ending	\$ 1,014,135	\$ 1,247,576

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

ROCKLAND SECOND 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

	2022	2021 (as restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tobacco settlement revenues	\$ 878,091	\$ 856,144
Payments to directors	(14,250)	(16,750)
Payments to vendors	(18,750)	(55,946)
Net cash provided by operating activities	845,091	783,448
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	3,822	58,013
Net cash provided by investing activities	3,822	58,013
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Repayment of Tobacco Settlement Bonds	-	(1,510,000)
Transfer to RTASC	(1,198,388)	-
Interest paid	-	(45,300)
Termination payment from Trustee	-	310,000
Net cash (used for) non-capital financing activities	(1,198,388)	(1,245,300)
Net (decrease) in cash and cash equivalents	(349,475)	(403,839)
Cash and cash equivalents—beginning	499,888	903,727
Cash and cash equivalents—ending	\$ 150,413	\$ 499,888
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 961,125	\$ 810,562
Adjustments to reconcile operating income to net cash provided by operating activities:		
(Increase) decrease in amounts due from New York State	(114,784)	(27,114)
(Decrease) in accounts payable	(1,250)	-
Total adjustments	(116,034)	(27,114)
Net cash provided by operating activities	\$ 845,091	\$ 783,448

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

ROCKLAND SECOND 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 Second Tobacco Asset Securitization Corporation ("RSTASC") have been prepared in conformity with accounting principles generally accepted in the United States of America applied to government 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 RSTASC's accounting policies are described below.

Reporting Entity

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. Although legally separate from the County, RSTASC is a component unit of the County. Based on the nature and significance of RSTASC's relationship with the County and the criteria set forth by GASB, RSTASC 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 RSTASC 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 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.

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 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 RSTASC 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, RSTASC 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, RSTASC 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 RSTASC. At December 31, 2022 and 2021, RSTASC does not report any investments; however, when RSTASC 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 of RSTASC’s portion of the Master Settlement Agreement.

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, RSTASC 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, RSTASC does not have any items that qualify for reporting in this category.

Net Position Flow Assumption—Sometimes RSTASC 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 RSTASC’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, RSTASC 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, RSTASC 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 RSTASC’s financial position or results from operations.

Future Impacts of Accounting Pronouncements—RSTASC 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. RSTASC 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.

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, RSTASC restated net position to recognize the TSR receivable and revenue previously recorded by RTASC. As a result, RSTASC’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

RSTASC’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). RSTASC 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 RSTASC at December 31, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Cash on deposit	\$ 149,227	\$ 182,227
Money market funds	1,186	317,661
Total	<u>\$ 150,413</u>	<u>\$ 499,888</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:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Deposits at December 31, 2022:		
FDIC insured	<u>\$ 149,227</u>	<u>\$ 149,227</u>
Deposits at December 31, 2021:		
FDIC insured	<u>\$ 182,727</u>	<u>\$ 182,227</u>

Cash Equivalents—Cash equivalents held by RSTASC includes money market accounts. These cash equivalents are carried at amortized cost.

Restricted Cash and Cash Equivalents—RSTASC reports restricted cash and cash equivalents of \$1,186 and \$317,661 to support restricted net position at December 31, 2022 and 2021, respectively.

Custodial Credit Risk—Deposits—In the case of deposits, this is the risk that in the event of a bank failure, RSTASC’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 RSTASC’s deposits were FDIC insured.

Custodial Credit Risk—Cash Equivalents—For cash equivalents, this is the risk that, in the event of the failure of the counterparty, RSTASC 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, RSTASC’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 RSTASC’s practice to generally limit investments to 180 days or less.

4. RECEIVABLES

Due from New York State—Represents amounts owed to RSTASC for tobacco settlement revenue of the MSA earned in 2022. RSTASC has accrued tobacco settlement revenue due from New York State of \$863,722 within the statement of net position at December 31, 2022.

5. LONG-TERM DEBT

RSTASC issued Tobacco Settlement 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 discount of \$439,898 and bear interest at rates ranging from 5.027% to 6.27%, depending on maturity. On May 27, 2021, RSTASC redeemed this bond, satisfying the outstanding principal, through a Termination Agreement among Manufacturers and Traders Trust Company (the “Trustee”), Morgan Stanley Capital Services LLC (the “Provider”) and Morgan Stanley & Co. LLC (the “Dealer”). The Series 2003 Tobacco Settlement Bonds have been paid in full as of the December 31, 2021 year end.

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 RTASC Series 2005 bonds during the year ended December 31, 2022.

Changes in bonds payable for the Tobacco Settlement Bonds, Series 2003 for the year ended December 31, 2021 is as follows:

Description	Year of Maturity	Yield	Beginning Balance 1/1/2021	Additions	Deletions	Ending Balance 12/31/2021
2003 Tobacco Settlement Bonds	2043	5.027-6.27	\$ 1,510,000	\$ -	\$ 1,510,000	\$ -
Less:						
Bond discount			(244,204)	-	(244,204)	-
Net Tobacco Settlement Bonds			\$ 1,265,796	\$ -	\$ 1,265,796	\$ -

6. NET POSITION

The RSTASC 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 RSTASC. At December 31, 2022 and December 31, 2021, the balance of this restriction was \$1,186 and \$317,661, respectively.
- **Unrestricted**—This component represents net position of RSTASC not restricted for any other purpose.

7. GOING CONCERN

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 RTASC 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. Due to the impacts of the 20 Percent Crossover Date, there are conditions that raise substantial doubt on RSTASC’s ability to continue as a going concern, as the potential for voluntary dissolution of RSTASC exists, however, no conclusion regarding the potential dissolution of RSTASC has been reached as of the date of this report.

8. RELATED PARTY TRANSACTIONS

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 Second 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 Second Tobacco Asset Securitization Corporation ("RSTASC"), a component unit of the 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 RSTASC'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 RSTASC'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 RSTASC's internal control. Accordingly, we do not express an opinion on the effectiveness of RSTASC'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.

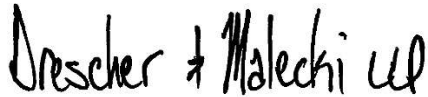
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 RSTASC'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 amounts. 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".

March 27, 2023