

**Rockland Tobacco Asset
Securitization Corporation**
(A Blended Component Unit of the
County of Rockland, New York)

Financial Statements

Year Ended December 31, 2013

Independent Auditors' Report

**The Board of Directors of the Rockland
Tobacco Asset Securitization Corporation**

Report on the Financial Statements

We have audited the accompanying financial statements of the Rockland Tobacco Asset Securitization Corporation ("RTASC"), a blended component unit of the County of Rockland, New York, as of and for the year ended December 31, 2013, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the RTASC's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the RTASC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the RTASC as of December 31, 2013, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

We draw attention to Note 1 in the notes to financial statements that indicates that these financial statements present only the RTASC and do not purport to, and do not present fairly the financial position of the County of Rockland, New York as of December 31, 2013 and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We further draw attention to Note 6 in the notes to financial statements which discusses that the only significant resource of the RTASC is the right to receive tobacco revenues. A reduction in these revenues would affect debt service coverage on the bonds. If the reduction were material, it could impair the ability of the RTASC to make planned principal payments on the Series 2001 bonds, Turbo Redemption payments on the Series 2005 bonds or even its ability to pay required maturities on each series as they are due. As a result, actual payments may not conform to either the planned principal payments on the Series 2001 bonds, Turbo Redemption payments on the Series 2005 bonds or the required maturity payments on each series.

Other Matters

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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2014 on our consideration of the 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the RTASC's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

We have also issued our report dated March 18, 2014 on our consideration of the RTASC's compliance with Section 2925(3)(1) of the New York State Public Authorities Law ("Law"). The purpose of that report is to describe the scope and results of our tests of compliance with the Law.

O'Connor Davies, LLP

O'Connor Davies, LLP
Harrison, New York
March 18, 2014

Rockland Tobacco Asset Securitization Corporation

(A Blended Component Unit of the County of Rockland, New York)
Management's Discussion and Analysis (MD&A)
December 31, 2013

Introduction

As management of the Rockland Tobacco Asset Securitization Corporation ("RTASC"), we offer readers of the RTASC's financial statements this narrative overview and analysis of the financial activities of the RTASC for the fiscal year ended December 31, 2013. It should be read in conjunction with the financial statements, which immediately follow this section, to enhance understanding of the RTASC's financial performance.

Financial Highlights

- ❖ On the statement of net position, the liabilities of the RTASC exceeded its assets at the close of the most recent fiscal year, resulting in a deficit of \$73,789,675. The deficit was increased by \$1,664,708, primarily due to the accretion of \$2,692,236 recorded as interest expense on the Series 2005 Capital Appreciation Bonds. This deficit was partially offset by revenues in excess of certain other expenses in the amount of \$1,027,528, from the recognition of Tobacco Settlement Revenues ("TSR's") of \$3,180,123 less operating expenses of \$74,860 and net non-operating expenses, exclusive of accretion, of \$2,077,735.
- ❖ The Governmental Accounting Standards Board ("GASB") issued Technical Bulletin 2004-1, "*Tobacco Settlement Recognition and Financial Reporting Entity Issues*", as amended and/or superseded by GASB Statement No. 48 "*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*", which clarified certain asset and revenue recognition criteria. Prior to the issuance of this guidance, the RTASC had recognized as a receivable/revenue the present value of the future tobacco revenue stream. The new guidance required a reversal of this position, in that it promulgated that TSR's and the related asset only be recognized when the event giving rise to recognition (i.e. the shipment of cigarettes) occurs. Because annual TSR payments are based on cigarette sales from the preceding calendar year, the RTASC was prohibited from recognizing this future revenue stream as a receivable. Accordingly, the only revenue recognition allowed was for TSR payments to be received in the immediately succeeding fiscal year, as these payments were based on cigarette shipments in the year under audit. This had the effect of deferring revenue recognition, which results in the deficit position reflected on the statement of net position. Over time, as TSR payments are received and the bonded indebtedness is retired, the deficit will be reduced.

Financial Statements

The *statement of net position* presents information on the RTASC's assets and liabilities, with the difference between the two reported as *net position*. The *statement of revenues, expenses and changes in net position* presents information showing how the RTASC's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, accounts receivable and accrued interest payable).

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

Financial Analysis

Net position decreased by \$1,664,708 in 2013, compared with a decrease of \$2,302,285 in 2012, a difference of \$637,577. This improvement from the prior year is primarily attributable to the increase in income from interest earnings that were \$86,577 more than in the prior year. In addition, there was an increase in the recognition of tobacco settlement revenues of \$327,796 offset by an increase in the amount of accretion from the prior year of \$172,446 (recorded as interest expense). The RTASC had also transferred \$300,000 to the County in 2012, a transfer that did not recur in 2013.

Debt Administration

At the end of the current fiscal year, the RTASC had total gross bonded debt outstanding of \$165,658,290. RTASC was able to make a debt service payment of \$1,010,000, which exceeded the required principal payment of \$375,000 by \$635,000. The RTASC has made principal payments of \$8,280,000 to date.

Additional information on the RTASC's long-term debt can be found in Note 5 in the notes to financial statements.

Economic Factors

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

Requests for Information

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

Rockland Tobacco Asset Securitization Corporation
(A Blended Component Unit of the County of Rockland, New York)

Statement of Net Position
December 31, 2013

ASSETS

Current assets	
Cash and equivalents	\$ 277,614
Investments	1,098,290
Receivables	
Tobacco settlement	3,141,652
Interest	4,602
Prepaid expenses	19,771
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Total Current Assets	4,541,929
Noncurrent assets	
Restricted cash and equivalents	249,942
Restricted investments	3,367,209
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Total Noncurrent Assets	3,617,151
Total Assets	<hr/> 8,159,080 <hr/>

LIABILITIES

Current liabilities	
Accrued liabilities	838,662
Current maturities of bonds payable	410,000
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Total Current Liabilities	1,248,662
Noncurrent liabilities	
Bonds payable, net of current maturities	80,700,093
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Total Liabilities	81,948,755

NET POSITION

Unrestricted	<hr/> <u>\$ (73,789,675)</u> <hr/>
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See notes to financial statements.

Rockland Tobacco Asset Securitization Corporation
(A Blended Component Unit of the County of Rockland, New York)

Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2013

OPERATING REVENUES

Tobacco settlement revenues \$ 3,180,123

OPERATING EXPENSES

Professional fees 39,007

Directors' fees 16,000

Insurance 19,853

Total Operating Expenses 74,860

Income from Operations 3,105,263

NON-OPERATING REVENUES (EXPENSES)

Interest income 248,264

Interest expense (5,018,235)

Total Non-Operating Expenses (4,769,971)

Change in Net Position (1,664,708)

NET POSITION

Beginning of year, as restated (72,124,967)

End of year \$ (73,789,675)

See notes to financial statements.

Rockland Tobacco Asset Securitization Corporation
(A Blended Component Unit of the County of Rockland, New York)

Statement of Cash Flows
Year Ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from tobacco settlement revenues	\$ 3,198,028
Cash paid to vendors and directors	(76,575)
	<u>3,121,453</u>

Net Cash from Operating Activities

CASH FLOWS FROM INVESTING ACTIVITIES

Increase in restricted cash and equivalents	(158,056)
Purchase of investments	(1,098,290)
Sale of investments	1,137,038
Purchase of restricted investments	(3,367,209)
Sale of restricted investments	3,440,137
Interest income	246,765
	<u>200,385</u>

Net Cash from Investing Activities

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Repayment of bonds payable	(1,010,000)
Interest paid	(2,291,981)

Net Cash from Non-Capital Financing Activities

Net Change in Cash and Equivalents

CASH AND EQUIVALENTS

Beginning of year	<u>257,757</u>
End of year	<u>\$ 277,614</u>

**RECONCILIATION OF INCOME FROM OPERATIONS TO
NET CASH FROM OPERATING ACTIVITIES**

Income from operations	\$ 3,105,263
Adjustments to reconcile income from operations to net cash from operating activities	
Changes in assets and liabilities	17,905
Tobacco settlement receivable	(1,715)
Prepaid expenses	<u> </u>
Net Cash from Operating Activities	<u>\$ 3,121,453</u>

NONCASH INVESTING ACTIVITIES

Increase in bonds payable from amortization of original issue and underwriters discounts	\$ 54,849
Increase in bonds payable from accreted interest on Series 2005 bonds	2,692,236

See notes to financial statements.

Rockland Tobacco Asset Securitization Corporation
(A Blended Component Unit of the County of Rockland, New York)

Notes to Financial Statements
December 31, 2013

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

Nature of Business

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

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

During 2001, the County sold all of its future rights, title and interest to receive payments under the MSA and the Consent Decree to RTASC, which issued \$47,750,000 in Tobacco Settlement Asset-Backed Bonds, Series 2001 ("Series 2001"). The Series 2001 bonds are payable from and secured solely from pledged Tobacco Settlement Revenues ("TSR's").

The debt issued by RTASC to securitize these revenues is not considered debt of the County and is secured only by future tobacco settlement payments.

Entity Definition

Based on the guidance provided by Governmental Accounting Standards Board ("GASB") Technical Bulletin No. 2004-1, *"Tobacco Settlement Recognition and Financial Reporting Entity Issues"*, as amended and/or superseded by GASB Statement No. 48 *"Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues"*, the RTASC is reported as a blended component unit of the County in its financial statements.

Basis of Presentation

A fund is an independent fiscal and accounting entity with a self-balancing set of accounts which comprise its assets, liabilities, net position, revenues and expenses. The accounts of the RTASC are maintained on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The RTASC applies all applicable Financial Accounting Standards Board guidance issued after November 30, 1989 in accounting for and reporting on its operations.

Rockland Tobacco Asset Securitization Corporation
(A Blended Component Unit of the County of Rockland, New York)

Notes to Financial Statements (Continued)
December 31, 2013

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

The accompanying financial statements present only the activities of the RTASC and do not purport to, and do not, present fairly the financial position of the County as of December 31, 2013 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Cash and Equivalents

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

Investments

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

Restricted Cash and Equivalents and Investments

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

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 represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then.

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 represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

As of December 31, 2013, no amounts were required to be reported as deferred outflows/inflows of resources.

Tax Status

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

Use of Estimates

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

Rockland Tobacco Asset Securitization Corporation
(A Blended Component Unit of the County of Rockland, New York)

Notes to Financial Statements (Continued)
December 31, 2013

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

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is March 18, 2014.

Note 2 - Application of Accounting Standards

For the year ended December 31, 2013, the RTASC implemented GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". This statement establishes accounting and financial reporting standards that reclassify as deferred outflows/inflows of resources, certain items that were previously reported as assets and liabilities. This statement also recognizes as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities.

In accordance with the provisions of GASB Statement No. 65, bond issuance costs are to be expensed when incurred, rather than amortized over the life of the bonds. Accordingly, the net position as of January 1, 2013 has been restated to remove \$723,263 of previously unamortized bond issuance costs.

Note 3 - Investments

Investments at December 31, 2013 consisted of the following -

Federal Home Loan Bank, due in February 2014, interest at .25%	<u>\$ 1,098,290</u>
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Note 4 - Restricted Investments

Restricted investments at December 31, 2013 consisted of the following -

Federal Home Loan Bank, due in January 2014, interest at .2%	<u>\$ 3,367,209</u>
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Note 5 - Bonds Payable

RTASC issued Series 2001 bonds on December 20, 2001 to finance the purchase of the tobacco rights from the County and the related costs of issuance. The bonds were issued for \$46,767,234, net of original issue and underwriters' discounts of \$982,766 and bear interest at rates ranging from 4.625% to 5.75%, depending on maturity. At December 31, 2013, \$38,909,395 in Series 2001 bonds (net of \$560,605 of unamortized original issue and underwriters' discounts) was outstanding.

During 2005, RTASC issued \$24,484,850 of Tobacco Settlement Asset-Backed Bonds, Series 2005 A, B and C (collectively "Series 2005"), net of underwriters' discount of \$507,590, the proceeds of which were used to pay certain costs of issuance related to the Series 2005 bonds and provide the County, the owner of the beneficial interest in the Residual Trust which holds the Residual Certificate, with the

Rockland Tobacco Asset Securitization Corporation
(A Blended Component Unit of the County of Rockland, New York)

Notes to Financial Statements (Continued)
December 31, 2013

Note 5 - Bonds Payable (Continued)

balance of the funds. The Series 2005 bonds are subordinate to both the Series 2001 bonds as well as the remaining balance of \$5,770,000 in Tobacco Settlement Asset-Backed Bonds, Series 2003 ("Series 2003") issued by the Rockland Second Tobacco Asset Securitization Corporation ("RSTASC"). No payments will be made on the Series 2005 bonds until such time that the Series 2001 and Series 2003 bonds have been paid in full.

The Series 2005 bonds outstanding at December 31, 2013 of \$42,200,698, inclusive of \$17,554,557 of cumulative accretion and net of \$346,299 of unamortized underwriters' discounts, are comprised of the following:

\$20,996,189 (net of unaccreted amounts of \$12,963,491) of Series 2005 A bonds due August 15, 2045 with a yield of 5.875% and a projected final Turbo Redemption date of August 15, 2027.*

\$4,872,555 (net of unaccreted amounts of \$8,013,445) of Series 2005 B bonds due August 15, 2050 with a yield of 6.625% and a projected final Turbo Redemption date of August 15, 2029.*

\$16,678,253 (net of unaccreted amounts of \$62,664,357) of Series 2005 C bonds due August 15, 2060 with a yield of 7.625% and a projected final Turbo Redemption date of August 15, 2040.*

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

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

Year Ending December 31,	Principal	Interest	Total
2014	\$ 1,425,000	\$ 2,236,431	\$ 3,661,431
2015	1,455,000	2,158,056	3,613,056
2016	2,890,640	2,078,031	4,968,671
2017	3,246,120	1,990,856	5,236,976
2018	4,673,040	1,897,831	6,570,871
2019 through 2040	151,968,490	10,903,825	162,872,315
	165,658,290	<u>\$ 21,265,030</u>	<u>\$ 186,923,320</u>
Unamortized Original Issue and Underwriters' Discount	(906,904)		
Unaccreted amounts on Series 2005 bonds	<u>(83,641,293)</u>		
	<u>\$ 81,110,093</u>		

Rockland Tobacco Asset Securitization Corporation
(A Blended Component Unit of the County of Rockland, New York)

Notes to Financial Statements (Concluded)
December 31, 2013

Note 5 - Bonds Payable (Continued)

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2014	\$ 410,000
2015	445,000
2016	510,000
2017	560,000
2018	990,000
2019 through 2043	<u>162,743,290</u>
	<u>\$ 165,658,290</u>

Note 6 - Significant Contingencies

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

The Series 2001 and Series 2005 bonds are payable only from the assets of RTASC. The bonds are neither legal nor moral obligations of the County or the State of New York, and no recourse may be had thereto for payment of amounts owing on the bonds. RTASC's only source of funds for payments on the bonds is the collections and amounts on deposit in pledged accounts pursuant to the indenture. RTASC has no taxing power and no significant assets other than the rights to receive tobacco settlement revenues.

**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***

Independent Auditors' Report

**The Board of Directors of the 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 Rockland Tobacco Asset Securitization Corporation ("RTASC") as of and for the year ended December 31, 2013, and the related notes to the financial statements and have issued our report thereon dated March 18, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the RTASC's internal control over financial reporting ("internal control") to determine the audit 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 the RTASC's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 RTASC'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 have not been identified.

Compliance and Other Matters

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

O'Connor Davies, LLP

O'Connor Davies, LLP

Harrison, New York

March 18, 2014

**Independent Accountants' Report on Compliance with Section 2925(3)(1)
of the New York State Public Authorities Law**

**The Board of Directors of the Rockland
Tobacco Asset Securitization Corporation**

We have examined the Rockland Tobacco Asset Securitization Corporation's ("RTASC") compliance with Section 2925(3)(1) of the New York State Public Authorities Law during the year ended December 31, 2013. Management is responsible for the RTASC's compliance with those requirements. Our responsibility is to express an opinion on the RTASC's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining on a test basis evidence supporting the RTASC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the RTASC's compliance with specified requirements.

In our opinion, the RTASC complied, in all material respects, with the aforementioned requirements during the year ended December 31, 2013.

This report is intended solely for the information and use of management and the Board of Directors. It is not intended to be and should not be used by anyone other than these specified parties.

O'Connor Davies, LLP

O'Connor Davies, LLP
Harrison, New York
March 18, 2014