TSASC, Inc.

A Component Unit of the City of New York

Financial Statements
Together with Report of Independent Auditors

June 30, 2026 and 2025

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CBIZ CPAs P.C.

730 Third Avenue
11th Floor
New York, NY 10017

P: 212.485.5500

INDEPENDENT AUDITORS' REPORT

The Members of the Board of Directors
TSASC, Inc.
New York, NY

Opinions

We have audited the financial statements of the governmental activities and governmental funds of TSASC, Inc. ("TSASC"), a component unit of The City of New York, as of and for the years ended June 30, 2026 and 2025, and the related notes to the financial statements, which collectively comprise TSASC'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 governmental activities and governmental funds of TSASC as of June 30, 2026 and 2025, and the respective changes in financial position 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 audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). 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 TSASC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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

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 TSASC'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 audits.
- 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 audits 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 TSASC'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 TSASC'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 on pages 4 through 10 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 GAAS, 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 audits 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.

CBIZ CPAs P.C.

New York, NY
September 23, 2026

Introduction

The purpose of management's discussion and analysis ("MD&A") is to help readers understand what the financial statements and notes in this financial report say about TSASC's financial health and why it changed since last year. It contains information drawn from other parts of the report, accompanied by explanations informed by staff and management's knowledge of TSASC's finances.

If you have questions about this report or require further information, please contact:

TSASC, Inc.
Investor Relations
255 Greenwich Street, 6th Floor
New York, NY 10007

Overview of the Financial Statements

TSASC's financial report contains basic financial statements. Those financial statements present TSASC's finances at both an overall level and a detailed level. The first two—the government-wide financial statements—cover TSASC's governmental activities.

The remaining basic financial statements present TSASC's finances in greater detail. The fund financial statements disaggregate financial information by separate funds to report on the specific purposes for which resources are used or for which they are restricted. TSASC reports two different funds:

- The *General Fund* is TSASC's operating fund and is used to record unpledged TSRs activity and administrative expenditures.
- The *Debt Service Fund* is used to record pledged TSRs activity (including additional pledged TSRs activity) and the repayment of principal and interest on outstanding debt.

The next section of this financial report contains notes to the financial statements, which delve deeper into TSASC's finances as reported in the financial statements. The information in the notes is as important to understanding TSASC's finances as the information in the financial statements. TSASC uses notes to (1) present information in greater detail than is possible within the financial statements themselves, (2) explain the nature of amounts reported in the financial statements and how those amounts were determined, and (3) report certain information that does not meet the requirements for inclusion in the financial statements (such as certain contingencies).

Types of Information in the Financial Statements

TSASC's government-wide financial statements use the economic resources measurement focus and accrual basis of accounting. In other words, they comprehensively report all types of financial statement elements:

- Assets—resources TSASC controls, from short-term assets like cash to long-term assets (TSASC does not currently have any long-term assets, but an example would be capital assets).
- Liabilities—amounts TSASC owes, from short-term liabilities such as accounts payable to long-term liabilities such as outstanding bonds.

- Deferred outflows of resources and deferred inflows of resources—flows that occurred during the year, or in prior years, that will not be reported as expenses or revenues until the future year to which they are related.

- Revenues and expenses—inflows and outflows of economic resources, respectively, related to the current year.

TSASC's governmental fund financial statements use the current financial resources measurement focus and modified accrual basis of accounting to report on the sources, uses, and balances of current financial resources. The governmental funds do not report nonfinancial assets, such as capital assets, or certain long-term items, such as bonds outstanding, but do report the flows of current financial resources related to those long-term items. For example, the proceeds from issuing bonds, as well as principal and interest payments on bonds, are reported on the governmental funds statements. The below table summarizes the types of information reported in each of TSASC's financial statements.

	Financial Statements	
	Government-Wide	**Governmental Fund**
Types of assets and liabilities	All assets and liabilities, both financial and nonfinancial, short and long term.	Only current financial resources, such as cash, investments, and accounts payable.
Types of revenues / additions	All types of revenues / additions that flow into the government during the year that relate to that year, regardless of when cash is received.	Only revenues that are measurable and available to finance expenditures of that year.
Types of expenses / deductions / expenditures	All types of expenses / deductions that flow out of the government during the year that relate to that year, regardless of when cash is paid.	Only expenditures for which the related governmental fund liability is incurred in that year.
Types of deferred outflows of resources and deferred inflows of resources	All types of resources that flow into and out of the government that relate to a future year.	Current financial resources that flow into and out of the governmental funds during the year that relate to a future year.

More detail about the measurement focuses and bases of accounting can be found in note 2 to the financial statements, the summary of significant accounting policies, beginning on page 20.

Analysis of TSASC's Finances

Net Position (Deficit)

The following summarizes TSASC's assets, deferred outflows of resources, liabilities, and net position (deficit) as of June 30, 2026, 2025, and 2024:

	2026	2025	2024	Variance 2026/2025	Variance 2025/2024
		(in thousands)			
Assets:					
Current and other assets	$ 142,334	$ 148,019	$ 158,702	-3.8 %	-6.7 %
Total assets	**142,334**	**148,019**	**158,702**	**-3.8 %**	**-6.7 %**
Deferred outflows of resources	**11,558**	**12,328**	**13,099**	**-6.2 %**	**-5.9 %**
Liabilities:					
Current liabilities	75,234	77,019	87,411	-2.3 %	-11.9 %
Long-term liabilities	848,192	877,605	905,738	-3.4 %	-3.1 %
Total liabilities	**923,426**	**954,624**	**993,149**	**-3.3 %**	**-3.9 %**
Net position (deficit):					
Unrestricted	(769,534)	(794,277)	(821,348)	3.1 %	3.3 %
Total net position (deficit)	**$ (769,534)**	**$ (794,277)**	**$ (821,348)**	**3.1 %**	**3.3 %**

Table 1 – Net Position

As of June 30, 2026 and 2025, TSASC's net deficit—assets and deferred outflows of resources less liabilities and deferred inflows of resources decreased by $27.1 million (3.3%) and $24.7 million (3.1%), respectively, compared with the net deficit as of June 30, 2025 and 2024, respectively. These decreases were primarily due to the decrease in long-term liabilities resulting from payments of principal on outstanding bonds.

Governmental Activities

The following summarizes the activities of TSASC for the years ended June 30, 2026, 2025, and 2024:

	2026	2025	2024	Variance 2026/2025	Variance 2025/2024
		(in thousands)			
Revenues:					
Tobacco settlement revenues:					
Pledged	$ 51,670	$ 55,136	$ 58,687	-6.3 %	-6.1 %
Additional Pledged	12,481	11,782	-	5.9 %	- %
Unpledged	74,005	80,504	98,230	-8.1 %	-18.0 %
Investment Earnings	2,891	3,917	4,606	-26.2 %	-15.0 %
Total revenues	**141,047**	**151,339**	**161,523**	**-6.8 %**	**-6.3 %**
Expenses:					
Transfer to the Trust	74,005	80,504	98,604	-8.1 %	-18.4 %
Bond interest	41,770	43,099	44,396	-3.1 %	-2.9 %
General and administrative	529	665	634	-20.5 %	4.9 %
Total expenses	**116,304**	**124,268**	**143,634**	**-6.4 %**	**-13.5 %**
Change in net position	**24,743**	**27,071**	**17,889**	**-8.6 %**	**51.3 %**
Net position (deficit), beginning of year	(794,277)	(821,348)	(839,237)	3.3 %	2.1 %
Net position (deficit), end of year	**$ (769,534)**	**$ (794,277)**	**$ (821,348)**	**3.1 %**	**3.3 %**

Table 2 – Changes in Net Position

While revenues exceeded expenses for fiscal years 2026 and 2025, resulting in a decrease in TSASC's net deficit by $24.7 million (3.1%) and $27.1 million (3.3%), respectively, total TSRs earned decreased by $9.3 million (6.7%) and $9.5 million (6.1%), respectively, compared to fiscal years 2025 and 2024. The decreases were primarily driven by two factors:

(1) Consumption of tobacco products subject to the settlement agreement between the settling states and participating tobacco manufacturers continued to decline. The volume of tobacco consumption that underpinned the annual TSRs payments for fiscal years 2026, 2025, and 2024 were 109.9 billion, 121.3 billion and 135.0 billion cigarettes, respectively. The effect of the decrease in consumption was slightly offset by the increase in the price per pack used to calculate the TSRs, which were $1.01, $0.98, and $0.95 per pack in fiscal years 2026, 2025, and 2024, respectively.

(2) The adjustment made for packs sold by tobacco manufacturers not participating in the settlement agreement (the "NPM Adjustment") increased by $3.3 million and $5.0 million in fiscal years 2026 and 2025, respectively. The NPM adjustment is a result of a settlement with the tobacco companies that requires TSR payments to be reduced by amounts tied to the volume of cigarettes manufactured and sold on Native American reservations. In fiscal years 2026 and 2025, the number of packs used to calculate the NPM Adjustment remained the same (165.9 million packs), but because the price per pack increased, the NPM Adjustment also increased.

The pledged TSRs collected were insufficient to cover the debt service owed on the outstanding bonds in both fiscal years 2026 and 2025. In prior years, shortfalls were covered entirely by drawing funds from the subordinate liquidity reserve, but it was depleted after the remaining $2.3 million was used to cover part of the debt service shortfall in fiscal year 2025. To fully cover debt service shortfalls in fiscal years 2026 and 2025, TSASC retained an additional $12.5 million and $11.8 million, respectively, of unpledged TSRs ("additional pledged TSRs") that otherwise would have been transferred to the Trust. The additional pledged TSRs were retained in accordance with a Security Agreement entered into with the Indenture Trustee in December 2024. The Security Agreement allows unpledged TSRs to be used, as needed, to cure shortfalls in debt service payments on TSASC's outstanding bonds if pledged TSRs and liquidity reserves are insufficient to make these payments. The Security Agreement is scheduled to expire on June 1, 2028.

Governmental Funds

TSASC reports two major funds individually in the governmental funds financial statements. Those funds are the general fund ("GF") and the debt service fund ("DSF"). As most of the discussion regarding governmental activities also applies to the finances of the governmental funds, some parts of the funds analyses will reference explanations in the previous *Net Position (Deficit)* and *Governmental Activities* sections.

General Fund

The following summarizes the changes in the GF for the years ended June 30, 2026, 2025, and 2024:

				Variance	
	2026	**2025**	**2024**	**2026/2025**	**2025/2024**
		(in thousands)			
Revenues:					
Tobacco settlement revenues:					
Pledged	$ 650	$ 633	$ 814	2.7 %	-22.2 %
Unpledged	77,135	85,512	106,681	-9.8 %	-19.8 %
Investment Earnings	15	15	397	0.0 %	-96.2 %
Total revenues	**77,800**	**86,160**	**107,692**	**-9.7 %**	**-20.0 %**
Expenses:					
Transfer to the Trust	77,135	85,512	107,055	-9.8 %	-20.1 %
General and administrative	529	665	634	-20.5 %	4.9 %
Total expenses	**77,664**	**86,177**	**107,689**	**-9.9 %**	**-20.0 %**
Change in fund balances	**136**	**(17)**	**3**	**-900.0 %**	**-666.7 %**
Fund balance, beginning of year	618	635	632	-2.7 %	0.5 %
Fund balance, end of year	**$ 754**	**$ 618**	**$ 635**	**22.0 %**	**-2.7 %**

Table 3 – Revenues, Expenditures, and Changes in Fund Balances – General Fund

While the amount of unpledged TSRs collected decreased in fiscal years 2026 and 2025 due to the reasons discussed in the *Governmental Activities* section, the fund balance in the GF did not change significantly in fiscal years 2026 and 2025. As the GF primarily records unpledged TSRs that belong to the Trust, corresponding expenditures are also recorded for those unpledged TSRs, resulting in very little impact on the fund balance from year to year.

Debt Service Fund

The following summarizes the changes in the DSF for the years ended June 30, 2026, 2025, and 2024:

				Variance	
	2026	**2025**	**2024**	**2026/2025**	**2025/2024**
		(in thousands)			
Revenues:					
Tobacco settlement revenues:					
Pledged	$ 52,890	$ 57,495	$ 63,122	-8.0 %	-8.9 %
Additional Pledged	12,481	11,782	-	5.9 %	- %
Investment Earnings	2,879	3,902	4,209	-26.3 %	-7.3 %
Total revenues	**68,247**	**73,179**	**67,331**	**-6.7 %**	**8.7 %**
Expenses:					
Bond interest	43,933	45,453	46,906	-3.3 %	-3.1 %
Principal amount of bonds retired	25,135	30,385	29,050	-17.3 %	4.6 %
Total expenses	**69,068**	**75,838**	**75,956**	**-8.9 %**	**-0.2 %**
Change in fund balances	**(821)**	**(2,659)**	**(8,625)**	**-69.1 %**	**69.2 %**
Fund balance, beginning of year	70,380	73,039	81,664	-3.6 %	-10.6 %
Fund balance, end of year	**$ 69,559**	**$ 70,380**	**$ 73,039**	**-1.2 %**	**-3.6 %**

Table 4 – Revenues, Expenditures, and Changes in Fund Balances – Debt Service Fund

The fund balance in the DSF decreased 3.6% or $2.7 million in fiscal year 2025 primarily due to the drawdown of the remaining balance of $2.3 million in the subordinate liquidity reserve to cover shortfalls on debt service payments as discussed in the *Governmental Activities* section of the MD&A.

Long-Term Financing Activity

During fiscal years 2026 and 2025, TSASC made $25.1 million and $30.4 million, respectively, in principal payments on its existing long-term debt.

Currently Known Facts, Decisions, or Conditions

TSASC is aware of several developments that are expected to have a significant impact on TSASC's future financial performance.

Decline in Tobacco Consumption

TSASC's adopted budget for fiscal year 2027 assumes a further decline in tobacco consumption and consequently a decrease in TSRs paid to TSASC.

Expiration of the Security Agreement

The Security Agreement was effective beginning with the June 1, 2025, debt service payment and is in effect through, at the latest, the June 1, 2028, payment, unless it is extended. When the Security Agreement expires, unpledged TSRs will no longer be available to cover shortfalls if pledged TSRs are insufficient to pay the full amount of annual debt service. As of its most recently adopted budget, TSASC expects it will be unable to meet its subordinate debt service funding requirements beginning in fiscal year 2029. Unpaid subordinate debt service would be deferred and paid in subsequent years if there are excess funds available after those year's debt service requirements are met.

Statements of Net Position (Deficit)

As of June 30, 2026 and 2025

	2026	2025
	(in thousands)	
Assets:		
Unrestricted cash equivalents	$ 772	$ 636
Restricted cash equivalents	36	76
Restricted investments	69,523	70,298
Tobacco settlement revenue receivable	72,000	77,000
Accrued interest receivable	3	9
Total assets	142,334	148,019
Deferred Outflows of Resources:		
Unamortized loss on refunding	11,558	12,328
Total deferred outflows of resources	11,558	12,328
Liabilities:		
Accrued expenses	21	21
Accrued interest payable	3,556	3,661
Remittance payable to the Trust	45,072	48,202
Bonds payable:		
Portion due within one year	26,585	25,135
Portion due after one year	848,192	877,605
Total liabilities	923,426	954,624
Net Position (Deficit):		
Unrestricted (deficit)	(769,534)	(794,277)
Total net position (deficit)	**$ (769,534)**	**$ (794,277)**

The accompanying notes are an integral part of these financial statements.

Statements of Activities

For the Years Ended June 30, 2026 and 2025

	2026	2025
	(in thousands)	
Revenues:		
Tobacco settlement revenue:		
Pledged	$ 51,670	$ 55,136
Additional pledged	12,481	11,782
Unpledged	74,005	80,504
Total tobacco settlement revenue	138,156	147,422
Investment earnings	2,891	3,917
Total revenues	141,047	151,339
Expenses:		
Transfer to the Trust	74,005	80,504
Bond interest	41,770	43,099
General and administrative	529	665
Total expenses	116,304	124,268
Change in net position (deficit)	24,743	27,071
Net Position (Deficit) – beginning of year	(794,277)	(821,348)
Net Position (Deficit) – end of year	**$ (769,534)**	**$ (794,277)**

The accompanying notes are an integral part of these financial statements.

Governmental Funds Balance Sheet

As of June 30, 2026

	General Fund	Debt Service Fund	Total Governmental Funds
		(in thousands)	
Assets:			
Unrestricted cash equivalents	$ 772	$ -	$ 772
Restricted cash equivalents	-	36	36
Restricted investments	-	69,523	69,523
Tobacco settlement revenue receivable	45,072	26,928	72,000
Accrued interest receivable	3	-	3
Total assets	45,847	96,487	142,334
Liabilities:			
Accrued expenses	21	-	21
Total liabilities	21	-	21
Deferred Inflows of Resources:			
Unavailable tobacco settlement revenue	45,072	26,928	72,000
Total deferred inflows of resources	45,072	26,928	72,000
Fund Balances:			
Restricted for debt service	-	69,559	69,559
Unassigned	754	-	754
Total fund balances	754	69,559	70,313
Total liabilities, deferred inflows of resources and fund balance	**$ 45,847**	**$ 96,487**	**$ 142,334**

The accompanying notes are an integral part of these financial statements.

Governmental Funds Balance Sheet

As of June 30, 2025

	General Fund	Debt Service Fund	Total Governmental Funds
		(in thousands)	
Assets:			
Unrestricted cash equivalents	$ 636	$ -	$ 636
Restricted cash equivalents	-	76	76
Restricted investments	-	70,298	70,298
Tobacco settlement revenue receivable	48,202	28,798	77,000
Accrued interest receivable	3	6	9
Total assets	48,841	99,178	148,019
Liabilities:			
Accrued expenses	21	-	21
Total liabilities	21	-	21
Deferred Inflows of Resources:			
Unavailable tobacco settlement revenue	48,202	28,798	77,000
Total deferred inflows of resources	48,202	28,798	77,000
Fund Balances:			
Restricted for debt service	-	70,380	70,380
Unassigned	618	-	618
Total fund balances	618	70,380	70,998
Total liabilities, deferred inflows of resources and fund balance	**$ 48,841**	**$ 99,178**	**$ 148,019**

The accompanying notes are an integral part of these financial statements.

Reconciliations of the Governmental Funds Balance Sheets to the Statements of Net Position (Deficit)

As of June 30, 2026 and 2025

	2026	2025
	(in thousands)	
Total fund balances – governmental funds	$ 70,313	$ 70,998
Amounts reported for governmental activities in the statements of net position (deficit) are different because:		
Bond premiums are reported as other financing sources in the governmental funds financial statements upon issuance. However, in the statements of net position (deficit), bond premiums are reported as a component of bonds payable and amortized over the life of the bonds.	(21,242)	(24,070)
The governmental funds financial statements recognize refunding bond proceeds and payments to the refunding escrow agent in the year the refunding occurs; however, in the statements of net position (deficit), the gain or loss as a result of the refunding is deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt.	11,558	12,328
Unavailable tobacco settlement revenue earned but not received within two months after year-end is reported as a deferred inflows of resources in the governmental funds financial statements because it is not currently available; however, it is recognized as revenue in the statements of net position (deficit).	72,000	77,000
Liabilities not due and not payable in the current period from current financial resources are not reported in the governmental funds financial statements but are reported in the statements of net position (deficit). Those liabilities consist of:		
Bonds payable	(853,535)	(878,670)
Accrued interest payable	(3,556)	(3,661)
Remittance payable to the Trust	(45,072)	(48,202)
Net position (deficit) of governmental activities	**$ (769,534)**	**$ (794,277)**

The accompanying notes are an integral part of these financial statements.

Governmental Funds Statements of Revenues, Expenditures, and Changes in Fund Balances

For the Year Ended June 30, 2026

	General Fund	Debt Service Fund	Total Governmental Funds
		(in thousands)	
Revenues:			
Tobacco settlement revenue:			
Pledged	$ 650	$ 52,890	$ 53,540
Additional pledged	-	12,481	12,481
Unpledged	77,135	-	77,135
Total tobacco settlement revenue	77,785	65,371	143,156
Investment earnings	15	2,876	2,891
Total revenues	77,800	68,247	146,047
Expenses:			
Transfer to the Trust:			
Tobacco settlement revenue & interest earnings	77,135	-	77,135
Bond interest	-	43,933	43,933
Principal amount of bonds retired	-	25,135	25,135
General & administrative	529	-	529
Total expenses	77,664	69,068	146,732
Net change in fund balances	136	(821)	(685)
Fund Balances – beginning of year	618	70,380	70,998
Fund Balances – end of year	**$ 754**	**$ 69,559**	**$ 70,313**

The accompanying notes are an integral part of these financial statements.

Governmental Funds Statements of Revenues, Expenditures, and Changes in Fund Balances

For the Year Ended June 30, 2025

	General Fund	Debt Service Fund	Total Governmental Funds
		(in thousands)	
Revenues:			
Tobacco settlement revenue:			
Pledged	$ 633	$ 57,495	$ 58,128
Additional pledged	-	11,782	11,782
Unpledged	85,512	-	85,512
Total tobacco settlement revenue	86,145	69,277	155,422
Investment earnings	15	3,902	3,917
Total revenues	86,160	73,179	159,339
Expenses:			
Transfer to the Trust:			
Tobacco settlement revenue & interest earnings	85,512	-	85,512
Bond interest	-	45,453	45,453
Principal amount of bonds retired	-	30,385	30,385
General & administrative	665	-	665
Total expenses	86,177	75,838	162,015
Net change in fund balances	(17)	(2,659)	(2,676)
Fund Balances – beginning of year	635	73,039	73,674
Fund Balances – end of year	**$ 618**	**$ 70,380**	**$ 70,998**

The accompanying notes are an integral part of these financial statements.

Reconciliations of the Governmental Funds Statements of Revenues, Expenditures, and Changes in Fund Balances to the Statements of Activities

For the Years Ended June 30, 2026 and 2025

	2026	2025
	(in thousands)	
Net change in fund balances – governmental funds	$ (685)	$ (2,676)
Amounts reported for governmental activities in the statements of activities are different because:		
The governmental funds financial statements recognize refunding bond proceeds and payments to refunding bond escrow agent in the year the refunding occurs; however, in the statements of activities, the gain or loss as a result of the refunding is amortized over the shorter of the life of the bonds refunded or the life of the bonds issued to advance refund the bonds.	(771)	(771)
Tobacco settlement revenue not available in the current period is deferred in the governmental funds financial statements and included in revenue in the statements of activities.	(5,000)	(8,000)
Payment of bond principal is an expenditure in the governmental funds financial statements, but the payment reduces bonds payable in the statements of net position (deficit).	25,135	30,385
The governmental funds financial statements report bond premiums as other financing (uses) upon issuance. However, in the statements of activities, bond premiums are amortized over the life of the bond and offset bond interest.	2,828	2,998
Interest is reported in the statements of activities on the accrual basis. However, interest is reported as an expenditure in the governmental funds financial statements when the outlay of financial resources is paid.	106	127
Transfer to the Trust is reported in the statements of activities on the accrual basis, but is reported only as an expenditure in the general fund when the payment is actually made.	3,130	5,008
Change in net position (deficit) – governmental activities	**$ 24,743**	**$ 27,071**

The accompanying notes are an integral part of these financial statements.

Note 1 – Organization and Nature of Activities

TSASC, Inc. ("TSASC") is a special purpose, local development corporation organized under the Not-For-Profit Corporation Law of the State of New York (the "State"). TSASC is an instrumentality of, but separate and apart from, the City of New York (the "City"). TSASC is governed by a Board of Directors (the "Board") of five directors, consisting of the following officials of the City: the Director of Management and Budget, the Commissioner of Finance, the Corporation Counsel of the City, the Comptroller of the City, and the Speaker of the Council.

Pursuant to a Purchase and Sale Agreement with the City, the City sold to TSASC all its future rights, title, and interest in the Tobacco Settlement Revenues ("TSRs") under the Master Settlement Agreement ("MSA") and the Decree and Final Judgment (the "Decree"). The MSA resolved cigarette smoking-related litigation between the settling states and the Participating Manufacturers ("PMs"), released the PMs from past and present smoking-related claims, and provided for a continuing release of future smoking-related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things. The Decree, which was entered by the Supreme Court of the State, allocated to the City a share of the TSRs under the MSA.

The purchase price of the City's future right, title, and interest in the TSRs was financed by the issuance of a series of bonds and the Residual Certificate. Prior to the restructuring of TSASC's debt (discussed below), the Residual Certificate represented the entitlement to receive all TSRs after payment of debt service, operating expenses, and certain other costs as set forth in the original bond indenture.

On January 19, 2017, TSASC issued $613 million 2017 Series A Senior Bonds and $490 million 2017 Series B subordinate bonds, which allowed TSASC to refinance all its bonds outstanding under a new indenture. Of the $490 million 2017 Series B subordinate bonds, $450 million were exchanged rather than refunded. The Amended and Restated Indenture dated December 1, 2016 (the "2016 Indenture") continued to provide that 37.4% of TSASC's annual collection of TSRs are pledged for payment of TSASC's debt service and operating costs ("Pledged TSRs"). The remaining 62.6% of TSASC's annual collection of TSRs ("Unpledged TSRs") and the related interest earnings are transferred to the TSASC Tobacco Settlement Trust (the "Trust"), as owner of the Residual Certificate. The City is the beneficial owner of the Trust and the funds received by the Trust, net of the Trust's expenses, are transferred to the City.

The 2016 Indenture provides for the redemption of the exchanged bonds, through the application of excess revenues, and fixed maturity principal payments on all other refunding bonds.

On December 9, 2024, TSASC entered into a Security Agreement with the Indenture Trustee (the "Security Agreement") pursuant to which TSASC pledged to the Indenture Trustee, and granted thereto a lien and security interest in, TSASC's right, title, and interest in the Unpledged TSRs. The Security Agreement stipulates that Unpledged TSRs are to be used, to the extent needed, to cure shortfalls on debt service payments for TSASC's outstanding bonds if Pledged TSRs and liquidity reserves are insufficient to make such payments, beginning with the June 1, 2025, payment and through, at the latest, the June 1, 2028 Payment, unless extended. The Security Agreement and such pledge may be terminated earlier by TSASC upon ninety days' notice to the Indenture Trustee.

TSASC does not have any employees. Its affairs are administered by employees of the City and of another component unit of the City for which TSASC pays a management fee, rent, and overhead based on its allocated share of personnel and overhead costs.

Note 2 – Summary of Significant Accounting Policies

Reporting Entity

Although legally separate from the City, TSASC is a component unit of the City and is included in the City's financial statements as a blended component unit in accordance with Governmental Accounting Standards Board ("GASB") standards.

Basis of Presentation

The government-wide financial statements of TSASC, which include the statements of net position (deficit) and the statements of activities, are presented to display information about the reporting entity as a whole, in accordance with GASB standards. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

TSASC's governmental funds financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting, in which revenue is recognized when it becomes susceptible to accrual; that is, when it becomes both measurable and available to finance expenditures in the current fiscal period. Revenues are generally considered available if expected to be received within 60 days after the fiscal year-end. Expenditures are recognized when the related liability is incurred, except for principal and interest on bonds payable, which are recognized when due.

TSASC uses two governmental funds for reporting its activities: a debt service fund ("DSF") and a general fund ("GF"). The DSF is used to account for the accumulation of resources for payment of principal and interest on debt and the GF is used to account for all financial resources not accounted for in the DSF, which are TSASC's unpledged TSRs due to the City and administrative and operating expenditures.

Investments

Investments are reported at fair value as of the reporting date.

TSRs Receivable

TSASC records TSRs receivable at June 30th. The TSRs receivable is expected to be received the following April of each year and is based on an estimate of cigarette sales for the six-month period from January 1st to June 30th. As it is not expected to be received within two months of the fiscal year end, the unavailable revenue related to the TSRs receivable is deferred in the governmental funds financial statements and reported as deferred inflows of resources. Per the 2016 indenture, 62.6% of TSRs receivable is due to the Trust. Therefore, a corresponding payable is recorded in the government-wide financial statements.

Bond Premiums and Discounts

Bond premiums and discounts are capitalized and amortized over the life of the related debt using the interest method in the government-wide financial statements. The governmental funds financial statements recognize the premiums and discounts during the current period. Bond premiums are presented as additions and bond discounts are presented as reductions to the face amount of the bonds payable.

Note 2 – Summary of Significant Accounting Policies (continued)

Deferred Bond Refunding Costs

Deferred bond refunding costs represent the accounting gain or loss incurred on a refunding of outstanding bonds and are reported as deferred inflows of resources or deferred outflows of resources, respectively, in the government-wide financial statements. The deferred bond refunding costs are amortized over the shorter of the remaining life of the old debt or the life of the new debt. In the debt service fund, costs of the bond refunding are reported as expenditures when incurred.

Interest Expense

Interest expense is recognized on the accrual basis in the government-wide financial statements. Interest expenditures are recognized when paid in the governmental fund financial statements.

Fund Balances

Fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned in accordance with GASB standards.

The Board of TSASC constitutes TSASC's highest level of decision-making authority. If and when resolutions are adopted by the Board that constrain fund balances for a specific purpose, such resources are accounted for and reported as committed for such purpose unless and until a subsequent resolution altering the commitment is adopted by the Board.

Fund balances which are constrained for use for a specific purpose, based on the direction of any officer of TSASC who is duly authorized under TSASC's bond indenture to direct the movement of such funds, are accounted for and reported as assigned for such purpose unless and until a subsequent authorized action by the same or another duly authorized officer, or by the Board, is taken which removes or changes the assignment.

When both restricted and unrestricted resources are available for use for a specific purpose, it is TSASC's policy to use restricted resources first then unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use for a specific purpose, it is TSASC's policy to use committed resources first, then assigned resources, and then unassigned resources as they are needed.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires TSASC's management to make estimates and assumptions in determining the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources as of the date of the financial statements and the amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – Summary of Significant Accounting Policies (continued)

New Accounting Standards Adopted

As a component unit of the City, TSASC implements new GASB standards in the same fiscal year as they are implemented by the City. The following are discussions of the standards requiring implementation in the current year:

- In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*, ("GASB 103"). GASB 103 improves components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing accountability. The requirements for GASB 103 are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. The implementation of GASB 103 enhanced the information provided in management's discussion and analysis but did not have any impact on TSASC's basic financial statements.

- In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*, ("GASB 104"). GASB 104 requires certain types of capital assets to be disclosed separately in the capital assets note disclosures and also requires additional disclosures for capital assets held for sale. The requirements for GASB 104 are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. The implementation of GASB 104 did not have any impact on TSASC's financial statements as TSASC does not have any capital assets.

Additionally, GASB has issued the following new standards that are not yet effective:

- In December 2025, GASB issued Statement No. 105, *Subsequent Events* ("GASB 105"). GASB 105 improves the financial reporting requirements for subsequent events. The requirements for GASB 105 are effective for fiscal years beginning after June 15, 2026, and all reporting periods thereafter. TSASC is evaluating the requirements of GASB 105 but does not expect the standard to have a significant impact on its financial statements.

Note 3 – Cash Equivalents

As of June 30, 2026 and 2025, TSASC did not have any cash deposits on hand. Cash equivalents comprised money market funds. TSASC's cash equivalents are summarized as follows:

	2026	2025
	(in thousands)	
Restricted:		
Cash equivalents (see Note 4)	$ 36	$ 76
Total restricted	36	76
Unrestricted:		
Cash equivalents (see Note 4)	772	636
Total unrestricted	772	636
Total cash equivalents	**$ 808**	**$ 712**

Note 4 – Investments

Investments, including cash equivalents, as of June 30, 2026 and 2025 are summarized as follows:

	2026	2025
	(in thousands)	
Restricted:		
Money Market Funds	$ 36	$ 76
United States Treasury Bill (maturing within one year)	-	70,298
Federal Home Loan Bank discount notes (maturing within one year)	69,523	-
Total restricted	69,559	70,374
Unrestricted:		
Money Market Funds	772	636
Total unrestricted	772	636
Total investments including cash equivalents	70,331	71,010
Less amounts reported as cash equivalents (see Note 4)	(808)	(712)
Total investments	**$ 69,523**	**$ 70,298**

TSASC categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

TSASC had the following recurring fair value measurements as of June 30, 2026 and 2025:

- Money Market Funds are valued based on various market and industry inputs (Level 1 inputs).
- U.S. Agency securities are valued using a matrix pricing model (Level 2 inputs).

Each account of TSASC is held pursuant to the indenture between TSASC and its Trustee and may be invested in securities or categories of investments that are specifically enumerated as permitted investments for such account pursuant to the indenture.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the custodian, TSASC may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments are held in the Trustee's name by the Trustee.

Credit Risk: Investments held by TSASC on June 30, 2026, were primarily securities invested in Federal Home Loan Bank discount notes which are rated P-1 by Moody's and A-1+ by Standard & Poor's.

Interest Rate Risk: TSASC's investments mature in less than one year, unless otherwise specified above. Investments with longer-term maturities are not expected to be liquidated prior to maturity, thereby limiting exposure from rising interest rates.

Note 4 – Investments (continued)

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of TSASC's investments in a single issuer (5% or more). TSASC's investment policy places no limit on the amount TSASC may invest in any one issuer of eligible government obligations as defined in the Indenture. As of June 30, 2026, more than 5% of TSASC's investments were in U.S. Government-sponsored entities. These investments were 99% of TSASC's total investments.

Note 5 – Bonds Payable

In accordance with the 2016 Indenture, pledged revenues are used to fund operating expenses, then to fund debt service payments. Outstanding bonds are: 1) secured with TSASC's 37.4% share of TSRs and collateral consisting of investments and monies deposited in the Pledged Accounts defined by and established pursuant to the 2016 Indenture; and 2) bear interest at a rate of 5%.

A summary of changes in outstanding bonds in fiscal years 2026 and 2025 is as follows:

	Outstanding Principal Balance at June 30, 2024	Additions	Deletions	Outstanding Principal Balance at June 30, 2025	Additions	Deletions	Outstanding Principal Balance at June 30, 2026
				(in thousands)			
Series 2017A	$ 452,455	$ -	$ (23,785)	$ 428,670	$ -	$ (25,135)	$ 403,535
Series 2017B	456,600	-	(6,600)	450,000	-	-	450,000
Total before premiums	909,055	-	(30,385)	878,670	-	(25,135)	853,535
Premiums	27,068	-	(2,998)	24,070	-	(2,828)	21,242
Total bonds payable	**$ 936,123**	**$ -**	**$ (33,383)**	**$ 902,740**	**$ -**	**$ (27,963)**	**$ 874,777**
Due within one year	$ 30,385			$ 25,135			$ 26,585

Debt service requirements, including principal and interest, as of June 30, 2026, are as follows:

	Senior		Subordinate		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Debt Service
Year ended June 30,				(in thousands)			
2027	$ 26,585	$ 20,177	$ -	$ 22,500	$ 26,585	$ 42,677	$ 69,262
2028	26,830	18,848	-	22,500	26,830	41,348	68,178
2029	27,275	17,506	-	22,500	27,275	40,006	67,281
2030	28,460	16,142	-	22,500	28,460	38,642	67,102
2031	28,030	14,719	-	22,500	28,030	37,219	65,249
2032 to 2036	133,690	53,037	-	112,500	133,690	165,537	299,227
2037 to 2041	132,665	20,433	-	112,500	132,665	132,933	265,598
2042 to 2046	-	-	175,000	103,750	175,000	103,750	278,750
2047 to 2048	-	-	275,000	27,500	275,000	27,500	302,500
Total	**$ 403,535**	**$ 160,862**	**$ 450,000**	**$ 468,750**	**$ 853,535**	**$ 629,612**	**$ 1,483,147**

Note 5 – Bonds Payable (continued)

As of June 30, 2026 and 2025, TSASC's Senior Liquidity Reserve Account was funded in accordance with the 2016 Indenture requirements, as it had on deposit $48.1 million and $48.3 million, respectively. TSASC also fully funded its senior debt service requirements as of June 30, 2026 and 2025.

As of June 30, 2026, TSASC did not receive sufficient Pledged TSRs to fully fund its scheduled June 2026 and December 2026 subordinate debt service requirements. TSASC used $12.5 million of Unpledged TSRs pursuant to the Security Agreement (see Note 1 for more details) to meet its debt service requirements for June 2026 and December 2026.

As of June 30, 2025, TSASC did not receive sufficient Pledged TSRs to fully fund its scheduled June 2025 and December 2025 subordinate debt service requirements. TSASC drew the remaining balance of $2.3 million from its Subordinate Liquidity Reserve Account and used $11.8 million of Unpledged TSRs pursuant to the Security Agreement to meet its debt service requirements for June 2025 and December 2025.

TSASC has been receiving less TSRs than originally forecasted starting in fiscal year 2017. The reduced TSRs from original forecasts resulted primarily from the adjustment based on the volume of cigarettes manufactured and sold on Native American reservations pursuant to the NPM Settlement Agreement and lower than projected sales of cigarettes. Due to reduced payments of TSRs, TSASC has depleted its Subordinate Liquidity Reserve Account over the period from December 2017 through June 2025 to make its debt service payments.

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