



TSASC, Inc.

A COMPONENT UNIT OF THE CITY OF NEW YORK

Financial Statements
(Together with Independent Auditors' Report)

Years Ended June 30, 2015 and 2014

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ACCOUNTANTS & ADVISORS

TSASC, INC.
FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)
YEARS ENDED JUNE 30, 2015 AND 2014

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Directors of
TSASC, Inc.

We have audited the accompanying financial statements of the governmental activities of TSASC, Inc. ("TSASC"), a component unit of The City of New York, as of and for the years ended June 30, 2015 and 2014, which collectively comprise TSASC's basic financial statements as listed in the table of contents, 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 entity'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 entity'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of TSASC, Inc. as of June 30, 2015 and 2014, 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.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, 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 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.



New York, NY
September 14, 2015

MARKS PANETH

ACCOUNTANTS & ADVISORS

TSASC, INC.

(A Component Unit of The City of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015 AND 2014

(unaudited)

The following is a narrative overview and analysis of the financial activities of TSASC, Inc. ("TSASC") for the fiscal years ended June 30, 2015 and 2014. It should be read in conjunction with TSASC's government-wide financial statements, governmental funds financial statements and the notes to the financial statements. The financial statements consist of four parts: (1) management's discussion and analysis (this section); (2) the government-wide financial statements; (3) the governmental funds financial statements; and (4) the notes to the financial statements.

The government-wide financial statements, 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 Governmental Accounting Standards Board ("GASB") standards. This is to provide the reader with a broad overview of TSASC's finances. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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. As such, revenues are considered available if received within two months 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.

The reconciliations of the governmental funds balance sheets to the statements of net position (deficit) and the reconciliations of the governmental funds statements of revenues, expenditures and changes in fund balances to the statements of activities are presented to assist the reader in understanding the differences between government-wide and governmental funds financial statements.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENT-WIDE FINANCIAL STATEMENTS

On February 8, 2006, TSASC issued \$1.35 billion of Series 2006-1 bonds, the proceeds of which were used to restructure all of TSASC's outstanding indebtedness. After the restructuring, 62.6% of TSASC's annual collection of Tobacco Settlement Revenues ("TSRs") and the related interest earnings are transferred to the TSASC Tobacco Settlement Trust (the "Trust"), as owner of the Residual Certificate. The City of New York (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. During fiscal years 2015 and 2014, the Trust transferred to the City \$113.4 million and \$132.5 million, respectively.

The Amended and Restated Indenture dated January 1, 2006, (the "Indenture") provides that a defined portion of the TSRs and other revenues (collectively, "Collections") are applied to the payment of the Series 2006-1 debt service. The proportion of Collections pledged to the payment of the Series 2006-1 debt service is currently 37.4% and is subject to reduction at June 1, 2024, and at each June 1st thereafter, depending on the magnitude of cumulative bond redemptions under the Series 2006-1 bond turbo redemption feature. The turbo redemption feature requires all the pledged Collections, after funding of operating costs, be applied to the payment of principal and interest on the Series 2006-1 bonds.

The Master Settlement Agreement ("MSA"), dated November 23, 1998, is an industry-wide settlement of litigation between participating cigarette manufacturers and 46 States (the "Settling States"), including the State of New York (the "State"). The MSA governs the amount of TSRs received by TSASC, which is 3.4% of total TSRs paid by the participating cigarette manufacturers.

TSASC, INC.
(A Component Unit of The City of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2015 AND 2014
(unaudited)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENT-WIDE FINANCIAL STATEMENTS (continued)

The following summarizes the activities of TSASC for the years ended June 30,

	2015	2014	2013	Variance	
				2015/2014	2014/2013
	-----in thousands-----			-----in thousands-----	
Revenues:					
Tobacco settlement revenue	\$ 180,094	\$ 211,616	\$ 188,051	\$ (31,522)	\$ 23,565
Investment earnings	503	943	(142)	(440)	1,085
Total revenues	180,597	212,559	187,909	(31,962)	24,650
Expenses:					
Transfer to the Trust	112,743	132,474	117,724	(19,731)	14,750
Interest expense	63,002	63,774	64,172	(772)	(398)
Other	440	440	446	-	(6)
Total expenses	176,185	196,688	182,342	(20,503)	14,346
Change in net position	4,412	15,871	5,567	(11,459)	10,304
Net position (deficit), beginning of year	(1,061,150)	(1,077,021)	(1,082,588)	15,871	5,567
Net position (deficit), end of year	<u>\$ (1,056,738)</u>	<u>\$ (1,061,150)</u>	<u>\$ (1,077,021)</u>	<u>\$ 4,412</u>	<u>\$ 15,871</u>

TSRs earned during the fiscal year are based upon tobacco sales of the previous calendar year; adjusted by factors such as inflation, volume, and disputed amounts deposited by the participating cigarette manufacturers into a MSA disputed escrow account. TSASC earned TSRs of approximately \$180.1 million, \$211.6 million, and \$188.1 million in fiscal years 2015, 2014 and 2013, respectively. TSRs decreased by approximately \$31.5 million in fiscal year 2015 compared to fiscal year 2014. The large decrease of tobacco revenue in fiscal year 2015 was primarily due to a release of \$28.4 million from the 2003 MSA disputed escrow account in fiscal year 2014. An arbitration panel ruling found that NYS had met its diligent enforcement obligation under the MSA for 2003. In addition, variances in TSRs from one year to another are caused by fluctuations in tobacco sales and cigarette manufacturers depositing funds into the MSA disputed escrow account.

The variances of investment earnings in fiscal years 2015, 2014 and 2013 were primarily attributable to market value fluctuations of long-term investments.

Transfers to the Trust are based on TSRs received during the fiscal year and fluctuates each year as previously discussed. Interest expense decreases each fiscal year because of the declining bond principal balances, which is being reduced by the turbo redemption feature. Other expenses in fiscal years 2015, 2014 and 2013 were composed of general and administrative costs.

TSASC, INC.
(A Component Unit of The City of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2015 AND 2014
(unaudited)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENT-WIDE FINANCIAL STATEMENTS (continued)

The following summarizes TSASC's assets, liabilities, and net position (deficit) as of June 30,

	2015	2014	2013	Variance	
	-----in thousands-----			2015/2014	2014/2013
				-----in thousands-----	
Assets:					
Total assets - non-capital	\$ 191,595	\$ 192,861	\$ 192,815	\$ (1,266)	\$ 46
Liabilities:					
Current liabilities	51,464	52,114	52,181	(650)	(67)
Long-term liabilities	1,196,869	1,201,897	1,217,655	(5,028)	(15,758)
Total liabilities	1,248,333	1,254,011	1,269,836	(5,678)	(15,825)
Net position (deficit):					
Unrestricted	(1,056,738)	(1,061,150)	(1,077,021)	4,412	15,871
Net position (deficit), end of year	<u>\$ (1,056,738)</u>	<u>\$ (1,061,150)</u>	<u>\$ (1,077,021)</u>	<u>\$ 4,412</u>	<u>\$ 15,871</u>

TSASC's total assets for the fiscal years 2015, 2014 and 2013 primarily consisted of cash equivalents and investments restricted for debt service and of TSRs due to TSASC at fiscal year-end.

Current liabilities are composed of accrued operating expenses, accrued interest expenses and TSRs payable to the Trust. Bonds payable decreased in fiscal year 2015 and 2014 due to the turbo redemption feature (Note 1) of the Series 2006-1 bonds and amortization of bond discount.

The year-end net position (deficit) was caused by the issuance of the Series 2006-1 bonds. These bonds will be paid from future TSRs, with the final stated maturity occurring in fiscal year 2042.

TSASC, INC.
(A Component Unit of The City of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2015 AND 2014
(unaudited)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS - GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

TSASC reports governmental activity using two funds: (1) a general fund ("GF") and (2) a debt service fund ("DSF").

The following summarizes the changes in the GF for the years ended June 30,

	2015	2014	2013	Variance	
				2015/2014	2014/2013
	-----in thousands-----			-----in thousands-----	
Revenues:					
Tobacco settlement revenue	\$ 113,781	\$ 132,932	\$ 117,587	\$ (19,151)	\$ 15,345
Investment earnings	5	2	4	3	(2)
Total revenues	<u>113,786</u>	<u>132,934</u>	<u>117,591</u>	<u>(19,148)</u>	<u>15,343</u>
Expenditures:					
Transfer to the Trust	113,369	132,474	117,098	(19,105)	15,376
Other	440	440	446	-	(6)
Total expenditures	<u>113,809</u>	<u>132,914</u>	<u>117,544</u>	<u>(19,105)</u>	<u>15,370</u>
Net change in fund balances	(23)	20	47	(43)	(27)
Fund balances, beginning of year	<u>800</u>	<u>780</u>	<u>733</u>	<u>20</u>	<u>47</u>
Fund balances, end of year	<u>\$ 777</u>	<u>\$ 800</u>	<u>\$ 780</u>	<u>\$ (23)</u>	<u>\$ 20</u>

Revenues recorded in the GF are primarily composed of TSRs collected each year. As the majority of TSRs recorded in the GF belongs to the Trust and are also recorded as expenditures, there is very little net impact on the GF fund balance.

The remaining TSRs not transferred to the Trust are used for operations. This amount fluctuates each year based on management's time spent on conducting TSASC's operations, which determines the amount spent on general administrative costs.

TSASC, INC.
(A Component Unit of The City of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2015 AND 2014
(unaudited)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS - GOVERNMENTAL FUNDS FINANCIAL STATEMENTS (continued)

The following summarizes the changes in TSASC's DSF for the years ended June 30,

	2015	2014	2013	Variance	
				2015/2014	2014/2013
	-----in thousands-----			-----in thousands-----	
Revenues:					
Tobacco settlement revenue	\$ 67,313	\$ 78,684	\$ 69,464	\$ (11,371)	\$ 9,220
Investment earnings	498	941	(146)	(443)	1,087
Total revenues	67,811	79,625	69,318	(11,814)	10,307
Expenditures:					
Interest expenditure	61,720	62,530	62,878	(810)	(348)
Principal amount of bonds retired	6,335	17,070	7,310	(10,735)	9,760
Total expenditures	68,055	79,600	70,188	(11,545)	9,412
Net change in fund balances	(244)	25	(870)	(269)	895
Fund balance, beginning of year	117,040	117,015	117,885	25	(870)
Fund balance, end of year	<u>\$ 116,796</u>	<u>\$ 117,040</u>	<u>\$ 117,015</u>	<u>\$ (244)</u>	<u>\$ 25</u>

TSRs recorded in the DSF for fiscal years 2015, 2014 and 2013 were based on the amount collected each year to pay debt service obligations, pursuant to the Indenture. The variances of investment earnings in fiscal years 2015, 2014 and 2013 were primarily due to market value fluctuations of long-term investments.

Interest expenditures were lower in fiscal years 2015, 2014 and 2013 because the declining amount of bond principal outstanding resulted in reduced bond interest costs each year. Principal payments on bonds are based on the turbo redemption (see Note 1) terms of the Indenture.

TSASC, INC.
(A Component Unit of The City of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2015 AND 2014
(unaudited)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS - GOVERNMENTAL FUNDS FINANCIAL STATEMENTS (continued)

The following summarizes GF assets, liabilities, deferred inflows of resources, and fund balances as of June 30,

	2015	2014	2013	Variance	
				2015/2014	2014/2013
	-----in thousands-----			-----in thousands-----	
Assets:					
Cash equivalents and investments	\$ 632	\$ 654	\$ 634	\$ (22)	\$ 20
Tobacco settlement revenue receivable	46,324	46,950	46,950	(626)	-
Prepaid expenditures	167	167	166	-	1
Total assets	\$ 47,123	\$ 47,771	\$ 47,750	\$ (648)	\$ 21
Liabilities:					
	\$ 22	\$ 21	\$ 20	\$ 1	\$ 1
Deferred Inflows of Resources	46,324	46,950	46,950	(626)	-
Fund Balances:					
Nonspendable prepaid expenditures	167	167	166	-	1
Unassigned	610	633	614	(23)	19
Total fund balances	777	800	780	(23)	20
Total liabilities, deferred inflows of resources and fund balances	\$ 47,123	\$ 47,771	\$ 47,750	\$ (648)	\$ 21

The GF assets at June 30, 2015, 2014 and 2013, totaled approximately \$47.1 million, \$47.8 million and \$47.8 million, respectively. The slight variances of total assets in fiscal years 2015, 2014 and 2013 were primarily due to the change of estimated TSRs receivable, which is based on current years TSRs collections, as previously discussed. As the majority of the assets recorded in the GF are TSRs receivable belonging to the Trust, which are also recorded as deferred inflows of resources, there is little net impact on the GF fund balance.

Prepaid expenditures represent the value of prepaid insurance.

TSASC, INC.
(A Component Unit of The City of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2015 AND 2014
(unaudited)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS - GOVERNMENTAL FUNDS FINANCIAL STATEMENTS (continued)

The following summarizes the DSF assets, liabilities, deferred inflows of resources, and fund balances as of June 30,

	2015	2014	2013	Variance	
		-----in thousands-----		2015/2014	2014/2013
				-----in thousands-----	
Assets:					
Cash equivalents and investments	\$ 116,796	\$ 117,040	\$ 117,015	\$ (244)	\$ 25
Tobacco settlement revenue receivable	27,676	28,050	28,050	(374)	-
Total assets	<u>\$ 144,472</u>	<u>\$ 145,090</u>	<u>\$ 145,065</u>	<u>\$ (618)</u>	<u>\$ 25</u>
Deferred Inflows of Resources:	<u>\$ 27,676</u>	<u>\$ 28,050</u>	<u>\$ 28,050</u>	<u>\$ (374)</u>	<u>\$ -</u>
Fund Balances:					
Restricted for debt service	<u>116,796</u>	<u>117,040</u>	<u>117,015</u>	<u>(244)</u>	<u>25</u>
Total fund balances	<u>116,796</u>	<u>117,040</u>	<u>117,015</u>	<u>(244)</u>	<u>25</u>
Total deferred inflows of resources and fund balances	<u>\$ 144,472</u>	<u>\$ 145,090</u>	<u>\$ 145,065</u>	<u>\$ (618)</u>	<u>\$ 25</u>

The fluctuations of assets and deferred inflows of resources from year to year are primarily due to changes in TSRs receivable and market value fluctuations of long-term investments, as previously discussed.

During the years reported herein, the rating agencies maintaining credit ratings on TSASC issued one or more rating changes to TSASC's outstanding debt. Currently, Standard & Poor's rates TSASC's 2022 term bonds BBB-, the 2026 term bonds BB-, the 2034 term bonds B, and the 2042 term bonds B-. Fitch Ratings currently rates TSASC's 2022 term bonds BBB-, the 2026 term bonds BB-, the 2034 and 2042 term bonds B.

This financial report is designed to provide a general overview of TSASC's finances. Questions concerning any of the information in this report or requests for additional financial information should be directed to Investor Relations, TSASC, Inc., 255 Greenwich Street, New York, NY 10007.

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TSASC, INC.
(A Component Unit of The City of New York)
STATEMENTS OF NET POSITION (DEFICIT)
AS OF JUNE 30, 2015 AND 2014

	2015	2014
	(in thousands)	
ASSETS:		
Unrestricted cash equivalents	\$ 216	\$ 194
Restricted cash equivalents	5,223	8,456
Unrestricted investments	416	460
Restricted investments	111,573	108,584
Tobacco settlement revenue receivable	74,000	75,000
Prepaid expenses	167	167
	191,595	192,861
LIABILITIES:		
Accrued expenses	22	21
Accrued interest payable	5,118	5,143
Remittance payable to the Trust	46,324	46,950
Bonds payable	1,196,869	1,201,897
	1,248,333	1,254,011
NET POSITION (DEFICIT):		
Unrestricted (deficit)	(1,056,738)	(1,061,150)
	\$ (1,056,738)	\$ (1,061,150)

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

TSASC, INC.

(A Component Unit of The City of New York)

STATEMENTS OF ACTIVITIES**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
	(in thousands)	
REVENUES:		
Tobacco settlement revenue:		
Tobacco settlement revenue - pledged	\$ 67,355	\$ 79,144
Tobacco settlement revenue - unpledged	112,739	132,472
Total tobacco settlement revenue	<u>180,094</u>	<u>211,616</u>
Investment earnings	<u>503</u>	<u>943</u>
Total revenues	<u>180,597</u>	<u>212,559</u>
EXPENSES:		
Transfer to the Trust	112,743	132,474
Interest expense	63,002	63,774
General and administrative	<u>440</u>	<u>440</u>
Total expenses	<u>176,185</u>	<u>196,688</u>
Change in net position	4,412	15,871
NET POSITION (DEFICIT) - beginning of year	<u>(1,061,150)</u>	<u>(1,077,021)</u>
NET POSITION (DEFICIT) - end of year	<u>\$ (1,056,738)</u>	<u>\$ (1,061,150)</u>

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

TSASC, INC.
(A Component Unit of The City of New York)
GOVERNMENTAL FUNDS BALANCE SHEETS
AS OF JUNE 30, 2015

	(in thousands)		
	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS:			
Unrestricted cash equivalents	\$ 216	\$ -	\$ 216
Restricted cash equivalents	-	5,223	5,223
Unrestricted investments	416	-	416
Restricted investments	-	111,573	111,573
Tobacco settlement revenue receivable	46,324	27,676	74,000
Prepaid expenditure	167	-	167
	<u>\$ 47,123</u>	<u>\$ 144,472</u>	<u>\$ 191,595</u>
LIABILITIES:			
Accounts payable	\$ 22	\$ -	\$ 22
	<u>22</u>	<u>-</u>	<u>22</u>
DEFERRED INFLOWS OF RESOURCES:			
Unavailable tobacco settlement revenue	46,324	27,676	74,000
	<u>46,324</u>	<u>27,676</u>	<u>74,000</u>
FUND BALANCES:			
Nonspendable prepaid insurance	167	-	167
Restricted for debt service	-	116,796	116,796
Unassigned	610	-	610
	<u>777</u>	<u>116,796</u>	<u>117,573</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 47,123</u>	<u>\$ 144,472</u>	<u>\$ 191,595</u>

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

TSASC, INC.
(A Component Unit of The City of New York)
GOVERNMENTAL FUNDS BALANCE SHEETS

AS OF JUNE 30, 2014

	(in thousands)		
	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS:			
Unrestricted cash equivalents	\$ 194	\$ -	\$ 194
Restricted cash equivalents	-	8,456	8,456
Unrestricted investments	460	-	460
Restricted investments	-	108,584	108,584
Tobacco settlement revenue receivable	46,950	28,050	75,000
Prepaid expenditure	167	-	167
	\$ 47,771	\$ 145,090	\$ 192,861
LIABILITIES:			
Accounts payable	\$ 21	\$ -	\$ 21
	21	-	21
DEFERRED INFLOWS OF RESOURCES:			
Unavailable tobacco settlement revenue	46,950	28,050	75,000
	46,950	28,050	75,000
FUND BALANCES:			
Nonspendable prepaid insurance	167	-	167
Restricted for debt service	-	117,040	117,040
Unassigned	633	-	633
	800	117,040	117,840
	\$ 47,771	\$ 145,090	\$ 192,861

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

TSASC, INC.

(A Component Unit of The City of New York)

**RECONCILIATIONS OF GOVERNMENTAL FUNDS BALANCE SHEETS
TO THE STATEMENTS OF NET POSITION (DEFICIT)**

AS OF JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
	<u>(in thousands)</u>	
Total fund balances - governmental funds	\$ 117,573	\$ 117,840
Amounts reported for governmental activities in the statements of net position (deficit) are different because:		
Bond discounts are reported as other financing uses in the governmental funds financial statements upon issuance. However, in the statements of net position (deficit), bond discounts are reported as a component of bonds payable and amortized over the life of the bonds.		
	25,166	26,473
Unavailable tobacco settlement revenue accrued 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's not currently available; however it is recognized as revenue in the statements of net position (deficit).		
	74,000	75,000
Some liabilities are not due and payable in the current period from financial resources available currently at year-end and are therefore not reported in the governmental funds financial statements, but are reported in the statements of net position (deficit). Those liabilities consist of:		
Bonds payable	(1,222,035)	(1,228,370)
Accrued interest payable	(5,118)	(5,143)
Remittance payable to the Trust	(46,324)	(46,950)
Net position (deficit) of governmental activities	<u>\$ (1,056,738)</u>	<u>\$ (1,061,150)</u>

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

TSASC, INC.
(A Component Unit of The City of New York)

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2015

	(in thousands)		
	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES:			
Tobacco settlement revenue:			
Tobacco settlement revenue - pledged	\$ 416	\$ 67,313	\$ 67,729
Tobacco settlement revenue - unpledged	113,365	-	113,365
Total tobacco settlement revenue	113,781	67,313	181,094
Investment earnings	5	498	503
Total revenues	113,786	67,811	181,597
EXPENDITURES:			
Transfer to the Trust:			
Tobacco settlement revenue and interest earnings	113,369	-	113,369
Interest expenditure	-	61,720	61,720
Principal amount of bonds retired	-	6,335	6,335
General and administrative	440	-	440
Total expenditures	113,809	68,055	181,864
Net change in fund balances	(23)	(244)	(267)
FUND BALANCES - beginning of year	800	117,040	117,840
FUND BALANCES - end of year	\$ 777	\$ 116,796	\$ 117,573

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

TSASC, INC.
(A Component Unit of The City of New York)

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2014

	(in thousands)		
	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES:			
Tobacco settlement revenue:			
Tobacco settlement revenue - pledged	\$ 460	\$ 78,684	\$ 79,144
Tobacco settlement revenue - unpledged	132,472	-	132,472
Total tobacco settlement revenue	132,932	78,684	211,616
Investment earnings	2	941	943
Total revenues	132,934	79,625	212,559
EXPENDITURES:			
Transfer to the Trust:			
Tobacco settlement revenue and interest earnings	132,474	-	132,474
Interest expenditure	-	62,530	62,530
Principal amount of bonds retired	-	17,070	17,070
General and administrative	440	-	440
Total expenditures	132,914	79,600	212,514
Net change in fund balances	20	25	45
FUND BALANCES - beginning of year	780	117,015	117,795
FUND BALANCES - end of year	\$ 800	\$ 117,040	\$ 117,840

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

TSASC, INC.

(A Component Unit of The City of New York)

**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, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
	(in thousands)	
Net change in fund balances - governmental funds	\$ (267)	\$ 45
Amounts reported for governmental activities in the statements of activities are different because:		
Tobacco settlement revenue not available in the current period is deferred in governmental funds financial statements and included in revenue in the statements of activities.	(1,000)	-
Repayment of bond principal is an expenditure in the governmental funds financial statements, but the repayment reduces bonds payable on the statements of net position (deficit).	6,335	17,070
The governmental funds financial statements report bond discounts as other financing uses upon issuance. However, on the statements of activities, bond discounts are amortized to interest expense over the life of the bond.	(1,307)	(1,312)
Interest is reported on 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.	25	68
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.	<u>626</u>	<u>-</u>
Change in net position (deficit) - governmental activities	<u>\$ 4,412</u>	<u>\$ 15,871</u>

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

TSASC, INC.
(A Component Unit of The City of New York)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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 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 and the Speaker of the Council. 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.

Pursuant to a Purchase and Sale Agreement with the City, the City sold to TSASC all of its future right, 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 future right, title and interest of the City to the TSRs were sold to TSASC.

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.

Under the *Amended and Restated Indenture* dated January 1, 2006 (the “Indenture”), the Residual Certificate represents the entitlement to receive all amounts in excess of specified percentages of TSRs and other revenues (collectively, “Collections”) used to fund debt service and operating expenses of TSASC. The Collections in excess of the specified percentages will be transferred to the TSASC Tobacco Settlement Trust (the “Trust”), as owner of the Residual Certificate and then to the City as the beneficial owner of the Trust. The Indenture allows transfers to the Trust after December 6, 2007.

The Indenture provides that a specified percentage of Collections are Pledged (“Pledged”) and required to be applied to the payment of debt service and operating costs. The Pledged percentage is 37.4% and is subject to reduction on June 1, 2024, and at each June 1st thereafter, depending on the magnitude of cumulative bond redemptions under the turbo redemption feature (“turbo”) of the Series 2006-1 bonds. The turbo requires all Pledged Collections, after payment of operating costs, to be applied to payment of principal and interest on the Series 2006-1 bonds.

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.

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, INC.
(A Component Unit of The City of New York)

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2015 AND 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. 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. Fund balances are classified as either: 1) nonspendable, 2) restricted, 3) committed, 4) assigned, or 5) unassigned in accordance with GASB standards.

The Board of Directors of TSASC (the "Board") 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.

If and when 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.

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

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 1 to June 30. 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. Per the Indenture, 62.6% of TSRs receivable is due to the Trust. As such, a concurring payable is recorded in the government-wide financial statements.

Bond discounts are amortized over the life of the related debt using the interest method in the government-wide financial statements. The governmental funds financial statements recognize bond discounts, as well as bond issuance costs, during the current period. Bond issuance costs are recognized as an expense/expenditure in the period incurred in the government-wide and governmental funds financial statements, respectively. The amounts of unamortized bond discount at June 30, 2015 and June 30, 2014 were \$25.2 million and \$26.5 million, respectively, which were net of accumulated amortization of \$13.4 million and \$12.0 million, respectively.

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

TSASC, INC.
(A Component Unit of The City of New York)

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2015 AND 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 and standards which may impact TSASC in the future years.

- In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (“GASB 72”). GASB 72 defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information should be disclosed in the notes to the financial statements. The provisions of GASB 72 are effective for fiscal years beginning after June 15, 2015; however, TSASC has early adopted the standard during fiscal year 2015. Pursuant to the standard, TSASC has disclosed the hierarchy of valuation inputs and valuation techniques in its notes the financial statements.
- In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provision of GASB 67 and GASB 68* (“GASB 73”). GASB 73 provides guidance on assets accumulated for pension plans that are not administered through a trust and provides clarity on certain provision of GASB 67 and GASB 68. The requirements for GASB 73 are effective for fiscal years beginning after June 15, 2015. TSASC has not completed the process of evaluating GASB 73, but does not expect it to have an impact on TSASC’s financial statements as it has no employees.
- In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (“GASB 74”). GASB 74 establishes financial reporting standards to state and local governmental other postemployment benefit (“OPEB”) plans. The requirements of GASB 74 are effective for fiscal years beginning after June 15, 2016. TSASC has not completed the process of evaluating GASB 74, but does not expect it to have an impact on TSASC’s financial statements as it has no employees.
- In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (“GASB 75”). GASB 75 establishes accounting and financial reporting standards for OPEB that is provided to employees of state and local governmental employees. The requirements of GASB 75 are effective for fiscal years beginning after June 15, 2017. TSASC has not completed the process of evaluating GASB 75, but does not expect it to have an impact on TSASC’s financial statements as it has no employees.
- In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (“GASB 76”). GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction of other event is not specified within the source of authoritative GAAP. The requirements of GASB 76 are effective for fiscal years beginning after June 15, 2015. TSASC has not completed the process of evaluating GASB 76, but does not expect it to have an impact on TSASC’s financial statements.

TSASC, INC.
(A Component Unit of The City of New York)

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2015 AND 2014

NOTE 3 – BONDS PAYABLE

In accordance with the Indenture, Pledged Collections were used to fund operating expenses; then to fund interest payments due; and then to fund and make turbo redemption payments. During fiscal years 2015 and 2014, turbo redemptions were \$6.3 million and \$17.1 million, respectively.

Outstanding bonds payable bear interest at rates ranging from 4.750% to 5.125%. A summary of changes in outstanding bonds in fiscal years 2015 and 2014 is as follows (in thousands):

	Outstanding Principal Balance at June 30, 2013			Outstanding Principal Balance at June 30, 2014			Outstanding Principal Balance at June 30, 2015		
	Principal	Issued	Retired or Defeased	Principal	Issued	Retired or Defeased	Principal	Issued	Retired or Defeased
Series 2006-1	\$ 1,245,440	\$ -	\$ (17,070)	\$ 1,228,370	\$ -	\$ (6,335)	\$ 1,222,035		
Total before discounts (net)	1,245,440	-	(17,070)	1,228,370	-	(6,335)	1,222,035		
Less discounts (net)	(27,785)			(26,473)			(25,166)		
Total Bonds Payable	\$ 1,217,655	\$ -	\$ (17,070)	\$ 1,201,897	\$ -	\$ (6,335)	\$ 1,196,869		

Term bond maturities for these bonds represent the minimum amount of principal that TSASC must pay as of the specific distribution dates in order to avoid a default. The sinking fund principal payments represent the amount of principal that TSASC expects to pay from the pledged TSRs collected. If pledged TSRs collected exceed the principal and interest required under the term bond maturities, then the excess will be applied first to the sinking fund payment and then to turbo redemptions. Turbo redemption payments will be credited against both sinking fund installments and the term bond maturities in chronological order.

Debt service requirements for term bond maturities and anticipated sinking fund principal payments, including principal and interest as of June 30, 2015 are as follows (in thousands):

Year ended June 30,	<u>Term Bond Maturities</u>			<u>Sinking Fund Principal Payments</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ -	\$ 61,419	\$ 61,419	\$ -	\$ 61,419	\$ 61,419
2017	-	61,419	61,419	18,715	61,419	80,134
2018	-	61,419	61,419	25,130	60,530	85,660
2019	-	61,419	61,419	26,295	59,336	85,631
2020	-	61,419	61,419	27,440	58,087	85,527
2021 to 2025	152,595	285,350	437,945	155,695	269,841	425,536
2026 to 2030	137,765	243,301	381,066	205,410	226,175	431,585
2031 to 2035	372,650	217,780	590,430	262,285	169,411	431,696
2036 to 2040	-	143,250	143,250	338,855	95,461	434,316
2041 to 2042	559,025	57,300	616,325	162,210	12,576	174,786
	<u>\$ 1,222,035</u>	<u>\$ 1,254,076</u>	<u>\$ 2,476,111</u>	<u>\$ 1,222,035</u>	<u>\$ 1,074,255</u>	<u>\$ 2,296,290</u>

TSASC, INC.
(A Component Unit of The City of New York)

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2015 AND 2014

NOTE 3 – BONDS PAYABLE (continued)

As of June 30, 2015 and 2014, TSASC has funded its debt service and reserve accounts according to the Indenture requirements. As of June 30, 2015 and 2014, debt service accounts holdings totaled \$30.7 million and \$30.9 million, respectively. As of June 30, 2015 and 2014, the TSASC Liquidity Reserve Account balances were \$86.1 million and \$86.2 million, respectively, and in compliance with the Indenture.

NOTE 4 – CASH EQUIVALENTS

TSASC's cash equivalents consist of money market funds. As of June 30, 2015 and 2014, total cash equivalents are summarized as follows:

	<u>2015</u>	<u>2014</u>
	<u>(in thousands)</u>	
Restricted:		
Cash equivalents (see note 5)	\$ 5,223	\$ 8,456
Total restricted	<u>5,223</u>	<u>8,456</u>
Unrestricted:		
Cash equivalents (see note 5)	\$ 216	\$ 194
Total unrestricted	<u>216</u>	<u>194</u>
Total cash equivalents	<u>\$ 5,439</u>	<u>\$ 8,650</u>

TSASC, INC.
(A Component Unit of The City of New York)

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2015 AND 2014

NOTE 5 – INVESTMENTS

The investments, including cash equivalents, as of June 30, 2015 and 2014 are summarized as follows:

	2015	2014
	(in thousands)	
Restricted:		
Money Market Funds	\$ 5,223	\$ 8,456
Federal Home Loan Bank discount notes (Maturing within one year)	30,704	30,858
Federal Home Loan Bank term bonds (Maturing within one year)	63,969	54,983
Municipal Bonds--various states (Maturing over five years)	16,900	22,743
Total restricted	116,796	117,040
Unrestricted:		
Money Market Funds	216	194
Federal Home Loan Mortgage Corp discount notes (Maturing within one year)	416	460
Total unrestricted	632	654
Total investments including cash equivalents	117,428	117,694
Less amounts reported as cash equivalents (see note 4)	(5,439)	(8,650)
Total investments	\$ 111,989	\$ 109,044

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, 2015 and 2014:

- Money Market Funds are valued based on various market and industry inputs (Level 2 inputs).
- U.S. Agency securities are valued using a matrix pricing model (Level 2 inputs).
- Municipal bonds 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: 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. TSASC's investments are not collateralized. All investments are held in the Trustee's name by the Trustee.

TSASC, INC.
(A Component Unit of The City of New York)

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2015 AND 2014

NOTE 5 – INVESTMENTS (continued)

Credit risk: All investments held by TSASC at June 30, 2015 are securities invested as follows: state general obligations of Utah, Georgia and Texas rated by Moody's Aaa, S&P AAA and Fitch AAA; state general obligations of Nevada rated by Moody's Aa2, S&P AA and Fitch AA+; securities in Federal Home Loan Bank and Federal Home Loan Mortgage Corp. rated by Moody's P-1 and S&P A-1+; securities in Federal Home Loan Bank Debt rated by Moody's Aaa and S&P AA+.

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.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of TSASC's investment 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, 2015, more than 5% of TSASC's investments were in U.S. Government-sponsored entities and Utah State general obligation bonds. These investments are 80.9% and 6.5% of TSASC's total investments, respectively.
