



TSASC, Inc.

A COMPONENT UNIT OF THE CITY OF NEW YORK

Financial Statements
(Together with Independent Auditors' Report)

Years Ended June 30, 2014 and 2013

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

TSASC, INC.
FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)
YEARS ENDED JUNE 30, 2014 AND 2013

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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, 2014 and 2013, 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, 2014 and 2013, 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.

Marks Paneth LLP

New York, NY
September 4, 2014

TSASC, INC.

(A Component Unit of The City of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014 AND 2013

(Unaudited)

The following is a narrative overview and analysis of the financial activities of TSASC, Inc. ("TSASC") for the fiscal years ended June 30, 2014 and 2013. 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 2014 and 2013, the Trust transferred to the City \$132.5 million and \$117.1 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, 2014 AND 2013
(Unaudited)

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

In fiscal year 2013, TSASC implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB 63") and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"). GASB 63 renamed the Statement of Net Assets to Statement of Net Position, as well as renaming reported Net Assets, and components thereof, to Net Position. GASB 65 resulted in the restatement of TSASC fiscal year 2012 government-wide financial statements to reflect the recognition of bond issuance costs as an expense in the period they were incurred. Prior to GASB 65, bond issuance costs were carried on the Statement of Net Position and amortized over the life of the bonds. Since GASB 65 requires retroactive treatment, any carrying costs and amortization thereof have been excluded pursuant to the requirement and reported as a restatement of beginning net position in fiscal year 2012 (see Note 2 for a detail of GASB 65 adjustments).

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

| | 2014 | 2013 | Restated 2012 | Variance | |
|---|-----------------------|------------------------|-----------------------|------------------------|-----------------|
| | | -----in thousands----- | | 2014/2013 | 2013/2012 |
| | | | | -----in thousands----- | |
| Revenues: | | | | | |
| Tobacco settlement revenue | \$ 211,616 | \$ 188,051 | \$ 183,168 | \$ 23,565 | \$ 4,883 |
| Investment earnings | 943 | (142) | 1,875 | 1,085 | (2,017) |
| | <u>212,559</u> | <u>187,909</u> | <u>185,043</u> | <u>24,650</u> | <u>2,866</u> |
| Total revenues | | | | | |
| Expenses: | | | | | |
| Transfer to Trust | 132,474 | 117,724 | 114,667 | 14,750 | 3,057 |
| Interest expense | 63,774 | 64,172 | 69,023 | (398) | (4,851) |
| Other | 440 | 446 | 477 | (6) | (31) |
| | <u>196,688</u> | <u>182,342</u> | <u>184,167</u> | <u>14,346</u> | <u>(1,825)</u> |
| Total expenses | | | | | |
| Change in net position | 15,871 | 5,567 | 876 | 10,304 | 4,691 |
| Net position (deficit), beginning of year | (1,077,021) | (1,082,588) | (1,074,181) | 5,567 | (8,407) |
| Restatement of beginning net position (deficit) | - | - | (9,283) | - | 9,283 |
| Net position (deficit), end of year | <u>\$ (1,061,150)</u> | <u>\$ (1,077,021)</u> | <u>\$ (1,082,588)</u> | <u>\$ 15,871</u> | <u>\$ 5,567</u> |

TSRs received 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 \$211.6 million, \$188.1 million, and \$183.2 million in fiscal years 2014, 2013 and 2012, respectively. TSRs increased by approximately \$23.6 million in fiscal year 2014 compared to fiscal year 2013. The large increase of tobacco revenue in fiscal year 2014 was primarily due to a release of \$28.4 million from the 2003 MSA disputed escrow account. An arbitration panel ruling found that NYS had met its diligent enforcement obligation under the MSA for 2003. TSRs increased by approximately \$4.9 million in fiscal year 2013 compared to fiscal year 2012. The variances in TSRs from one year to another are caused primarily by fluctuations in tobacco sales and cigarette manufacturers depositing funds into the MSA disputed escrow account.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

JUNE 30, 2014 AND 2013
(Unaudited)

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

The variances of investment earnings in fiscal years 2014, 2013 and 2012 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 expenses decreased in fiscal year 2014 compared to fiscal year 2013 primarily because of the declining bond principal outstanding resulted in reduced bond interest costs. Interest expense decreased in fiscal year 2013 by \$4.9 million compared to fiscal year 2012 because of the declining outstanding bond principal and because the remaining balance of \$4.5 million of unamortized deferred bond refunding costs was fully amortized in fiscal year 2012. Other expenses in fiscal years 2014, 2013 and 2012 were composed of general and administrative costs.

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

| | <u>2014</u> | <u>2013</u> | <u>Restated 2012</u> | <u>Variance</u> | |
|-------------------------------------|------------------------|-----------------------|--------------------------|------------------------|------------------|
| | -----in thousands----- | | | <u>2014/2013</u> | <u>2013/2012</u> |
| | | | | -----in thousands----- | |
| Assets: | | | | | |
| Total assets - non-capital | <u>\$ 192,861</u> | <u>\$ 192,815</u> | <u>\$ 192,637</u> | <u>\$ 46</u> | <u>\$ 178</u> |
| Liabilities: | | | | | |
| Current liabilities | 52,114 | 52,181 | 51,583 | (67) | 598 |
| Long-term liabilities: | | | | | |
| Bonds payable | 1,228,370 | 1,245,440 | 1,252,750 | (17,070) | (7,310) |
| Unamortized bond discount | <u>(26,473)</u> | <u>(27,785)</u> | <u>(29,108)</u> | <u>1,312</u> | <u>1,323</u> |
| Total liabilities | <u>1,254,011</u> | <u>1,269,836</u> | <u>1,275,225</u> | <u>(15,825)</u> | <u>(5,389)</u> |
| Net position (deficit): | | | | | |
| Unrestricted | <u>(1,061,150)</u> | <u>(1,077,021)</u> | <u>(1,082,588)</u> | <u>15,871</u> | <u>5,567</u> |
| Net position (deficit), end of year | <u>\$ (1,061,150)</u> | <u>\$ (1,077,021)</u> | <u>\$ (1,082,588)</u> | <u>\$ 15,871</u> | <u>\$ 5,567</u> |

TSASC's total assets for the fiscal years 2014, 2013 and 2012 primarily consisted of cash equivalents and investments restricted for debt service and of TSRs due to TSASC as of the end of the fiscal year.

Current liabilities are composed of accrued expenses, accrued interest expenses and TSRs payable to the Trust. Bonds payable decreased by \$17.1 million in fiscal year 2014 and \$7.3 million in fiscal year 2013, due to the turbo redemption (Note 1) of the Series 2006-1 bonds.

The end of year net position (deficits) are due to the issuance of the Series 2006-1 bonds. These bonds will be paid from future TSRs, with the final 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, 2014 AND 2013
(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"). GASB 65 required that the unavailable TSRs reported in the governmental funds balance sheets be reclassified as a deferred inflows of resources.

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

| | 2014 | 2013 | 2012 | Variance | |
|------------------------------------|------------------------|----------------|----------------|------------------------|--------------|
| | | | | 2014/2013 | 2013/2012 |
| | -----in thousands----- | | | -----in thousands----- | |
| Revenues: | | | | | |
| Tobacco settlement revenue | \$ 132,932 | \$ 117,587 | \$ 117,641 | \$ 15,345 | \$ (54) |
| Investment earnings | 2 | 4 | 5 | (2) | (1) |
| Total revenues | 132,934 | 117,591 | 117,646 | 15,343 | (55) |
| Expenditures: | | | | | |
| Transfer to Trust | 132,474 | 117,098 | 117,171 | 15,376 | (73) |
| Other | 440 | 446 | 477 | (6) | (31) |
| Total expenditures | 132,914 | 117,544 | 117,648 | 15,370 | (104) |
| Net change in fund balances | 20 | 47 | (2) | (27) | 49 |
| Fund balances, beginning of year | 780 | 733 | 735 | 47 | (2) |
| Fund balances, end of year | \$ 800 | \$ 780 | \$ 733 | \$ 20 | \$ 47 |

The amount recorded in the GF is 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 are used for operations. It fluctuates each year based on management's time spent on conducting TSASC's operations and amounts spent on other general administrative costs.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

JUNE 30, 2014 AND 2013
(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,

| | 2014 | 2013 | 2012 | Variance | |
|------------------------------------|------------------------|-------------------|-------------------|------------------------|-----------------|
| | | | | 2014/2013 | 2013/2012 |
| | -----in thousands----- | | | -----in thousands----- | |
| Revenues: | | | | | |
| Tobacco settlement revenue | \$ 78,684 | \$ 69,464 | \$ 69,527 | \$ 9,220 | \$ (63) |
| Investment earnings | 941 | (146) | 1,870 | 1,087 | (2,016) |
| Total revenues | 79,625 | 69,318 | 71,397 | 10,307 | (2,079) |
| Expenditures: | | | | | |
| Interest expenditure | 62,530 | 62,878 | 63,236 | (348) | (358) |
| Principal amount of bonds retired | 17,070 | 7,310 | 7,540 | 9,760 | (230) |
| Total expenditures | 79,600 | 70,188 | 70,776 | 9,412 | (588) |
| Net change in fund balances | 25 | (870) | 621 | 895 | (1,491) |
| Fund balance, beginning of year | 117,015 | 117,885 | 117,264 | (870) | 621 |
| Fund balance, end of year | <u>\$ 117,040</u> | <u>\$ 117,015</u> | <u>\$ 117,885</u> | <u>\$ 25</u> | <u>\$ (870)</u> |

TSRs recorded in the DSF for fiscal years 2014, 2013 and 2012 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 2014, 2013 and 2012 were primarily due to market value fluctuations of long term investments.

Interest expenditures were lower in fiscal years 2014, 2013 and 2012 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, 2014 AND 2013
(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,

| | 2014 | 2013 | 2012 | Variance | |
|---|-------------------------|-------------------------|-------------------------|------------------------|------------------------|
| | -----in thousands----- | -----in thousands----- | -----in thousands----- | 2014/2013 | 2013/2012 |
| | -----in thousands----- | -----in thousands----- | -----in thousands----- | -----in thousands----- | -----in thousands----- |
| Assets: | | | | | |
| Cash equivalents and investments | \$ 654 | \$ 634 | \$ 584 | \$ 20 | \$ 50 |
| Tobacco settlement revenue receivable | 46,950 | 46,950 | 46,324 | - | 626 |
| Prepaid expenditures | 167 | 166 | 168 | 1 | (2) |
| | <u>167</u> | <u>166</u> | <u>168</u> | <u>1</u> | <u>(2)</u> |
| Total assets | <u>\$ 47,771</u> | <u>\$ 47,750</u> | <u>\$ 47,076</u> | <u>\$ 21</u> | <u>\$ 674</u> |
| Liabilities: | | | | | |
| Other | \$ 21 | \$ 20 | \$ 19 | \$ 1 | \$ 1 |
| | <u>21</u> | <u>20</u> | <u>19</u> | <u>1</u> | <u>1</u> |
| Total liabilities | <u>21</u> | <u>20</u> | <u>19</u> | <u>1</u> | <u>1</u> |
| Deferred Inflows of Resources: | | | | | |
| Unavailable tobacco settlement revenue | 46,950 | 46,950 | 46,324 | - | 626 |
| | <u>46,950</u> | <u>46,950</u> | <u>46,324</u> | <u>-</u> | <u>626</u> |
| Total deferred inflows of resources | <u>46,950</u> | <u>46,950</u> | <u>46,324</u> | <u>-</u> | <u>626</u> |
| Fund Balances: | | | | | |
| Nonspendable prepaid expenditures | 167 | 166 | 168 | 1 | (2) |
| Unassigned | 633 | 614 | 565 | 19 | 49 |
| | <u>633</u> | <u>614</u> | <u>565</u> | <u>19</u> | <u>49</u> |
| Total fund balances | <u>800</u> | <u>780</u> | <u>733</u> | <u>20</u> | <u>47</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 47,771</u> | <u>\$ 47,750</u> | <u>\$ 47,076</u> | <u>\$ 21</u> | <u>\$ 48</u> |

The GF assets at June 30, 2014, 2013 and 2012, totaled approximately \$47.8 million, \$47.8 million and \$47.1 million, respectively. The slight variances of total assets in fiscal year 2014, 2013 and 2012 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 a 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, 2014 AND 2013
(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,

| | 2014 | 2013 | 2012 | Variance | |
|--|------------------------|-------------------|-------------------|------------------------|-----------------|
| | | | | 2014/2013 | 2013/2012 |
| | -----in thousands----- | | | -----in thousands----- | |
| Assets: | | | | | |
| Cash equivalents and investments | \$ 117,040 | \$ 117,015 | \$ 117,885 | \$ 25 | \$ (870) |
| Tobacco settlement revenue receivable | 28,050 | 28,050 | 27,676 | - | 374 |
| Total assets | \$ 145,090 | \$ 145,065 | \$ 145,561 | \$ 25 | \$ (496) |
| Deferred Inflows of Resources: | | | | | |
| Unavailable tobacco settlement revenue | \$ 28,050 | \$ 28,050 | \$ 27,676 | \$ - | \$ 374 |
| Total deferred inflows of resources: | 28,050 | 28,050 | 27,676 | - | 374 |
| Fund Balances: | | | | | |
| Restricted for debt service | 117,040 | 117,015 | 117,885 | 25 | (870) |
| Total fund balances | 117,040 | 117,015 | 117,885 | 25 | (870) |
| Total deferred inflows of resources and fund balances | \$ 145,090 | \$ 145,065 | \$ 145,561 | \$ 25 | \$ (496) |

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 two rating agencies maintaining credit ratings on TSASC issued one or more downgrades to TSASC's outstanding debt. Currently, Standard & Poor's rates TSASC's 2022 term bonds BB+, the 2026 term bonds B+, 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 term bonds B and the 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, 2014 AND 2013

| | 2014 | 2013 |
|---------------------------------------|----------------|----------------|
| | (in thousands) | |
| ASSETS: | | |
| Unrestricted cash equivalents | \$ 194 | \$ 141 |
| Restricted cash equivalents | 8,456 | 1,108 |
| Unrestricted investments | 460 | 493 |
| Restricted investments | 108,584 | 115,907 |
| Tobacco settlement revenue receivable | 75,000 | 75,000 |
| Prepaid expenses | 167 | 166 |
| | 192,861 | 192,815 |
| LIABILITIES: | | |
| Accrued expenses | 21 | 20 |
| Accrued interest payable | 5,143 | 5,211 |
| Remittance payable to the Trust | 46,950 | 46,950 |
| Bonds payable | 1,228,370 | 1,245,440 |
| Unamortized bond discount | (26,473) | (27,785) |
| | 1,254,011 | 1,269,836 |
| NET POSITION (DEFICIT): | | |
| Unrestricted (deficit) | (1,061,150) | (1,077,021) |
| | \$ (1,061,150) | \$ (1,077,021) |

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, 2014 AND 2013**

| | <u>2014</u> | <u>2013</u> |
|---|-----------------------|-----------------------|
| | (in thousands) | |
| REVENUES: | | |
| Tobacco settlement revenue: | | |
| Tobacco settlement revenue - pledged | \$ 79,144 | \$ 70,331 |
| Tobacco settlement revenue - unpledged | 132,472 | 117,720 |
| Total tobacco settlement revenue | <u>211,616</u> | <u>188,051</u> |
| Investment earnings | <u>943</u> | <u>(142)</u> |
| Total revenues | <u>212,559</u> | <u>187,909</u> |
| EXPENSES: | | |
| Transfer to Trust | 132,474 | 117,724 |
| Interest expense | 63,774 | 64,172 |
| General and administrative | 440 | 446 |
| Total expenses | <u>196,688</u> | <u>182,342</u> |
| Change in net position | 15,871 | 5,567 |
| NET POSITION (DEFICIT) - beginning of year | <u>(1,077,021)</u> | <u>(1,082,588)</u> |
| NET POSITION (DEFICIT) - end of year | <u>\$ (1,061,150)</u> | <u>\$ (1,077,021)</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 |
| | <u>\$ 47,771</u> | <u>\$ 145,090</u> | <u>\$ 192,861</u> |
| LIABILITIES: | | | |
| Accounts payable | \$ 21 | \$ - | \$ 21 |
| | <u>21</u> | <u>-</u> | <u>21</u> |
| DEFERRED INFLOWS OF RESOURCES: | | | |
| Unavailable tobacco settlement revenue | 46,950 | 28,050 | 75,000 |
| | <u>46,950</u> | <u>28,050</u> | <u>75,000</u> |
| FUND BALANCES: | | | |
| Nonspendable prepaid insurance | 167 | - | 167 |
| Restricted for debt service | - | 117,040 | 117,040 |
| Unassigned | 633 | - | 633 |
| | <u>800</u> | <u>117,040</u> | <u>117,840</u> |
| | <u>\$ 47,771</u> | <u>\$ 145,090</u> | <u>\$ 192,861</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, 2013

| | (in thousands) | | |
|---|-----------------------|----------------------|--------------------------------|
| | General Fund | Debt Service Fund | Total Governmental Funds |
| ASSETS: | | | |
| Unrestricted cash equivalents | \$ 141 | \$ - | \$ 141 |
| Restricted cash equivalents | - | 1,108 | 1,108 |
| Unrestricted investments | 493 | - | 493 |
| Restricted investments | - | 115,907 | 115,907 |
| Tobacco settlement revenue receivable | 46,950 | 28,050 | 75,000 |
| Prepaid expenditure | 166 | - | 166 |
| | <u>\$ 47,750</u> | <u>\$ 145,065</u> | <u>\$ 192,815</u> |
| Total assets | | | |
| LIABILITIES: | | | |
| Accounts payable | \$ 20 | \$ - | \$ 20 |
| | <u>20</u> | <u>-</u> | <u>20</u> |
| Total liabilities | | | |
| DEFERRED INFLOWS OF RESOURCES: | | | |
| Unavailable tobacco settlement revenue | 46,950 | 28,050 | 75,000 |
| | <u>46,950</u> | <u>28,050</u> | <u>75,000</u> |
| Total deferred inflows of resources | | | |
| FUND BALANCES: | | | |
| Nonspendable prepaid insurance | 166 | - | 166 |
| Restricted for debt service | - | 117,015 | 117,015 |
| Unassigned | 614 | - | 614 |
| | <u>780</u> | <u>117,015</u> | <u>117,795</u> |
| Total fund balances | | | |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 47,750</u> | <u>\$ 145,065</u> | <u>\$ 192,815</u> |

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, 2014 AND 2013

| | <u>2014</u> | <u>2013</u> |
|---|-----------------------|-----------------------|
| | (in thousands) | |
| Total fund balances - governmental funds | \$ 117,840 | \$ 117,795 |
| 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. | | |
| | 26,473 | 27,785 |
| 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). | | |
| | 75,000 | 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 | (1,228,370) | (1,245,440) |
| Accrued interest payable | (5,143) | (5,211) |
| Remittance payable to the Trust | (46,950) | (46,950) |
| Net position (deficit) of governmental activities | <u>\$ (1,061,150)</u> | <u>\$ (1,077,021)</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, 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 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)

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

FOR THE YEAR ENDED JUNE 30, 2013

| | (in thousands) | | |
|--|-----------------|----------------------|--------------------------------|
| | General Fund | Debt Service Fund | Total Governmental Funds |
| REVENUES: | | | |
| Tobacco settlement revenue: | | | |
| Tobacco settlement revenue - pledged | \$ 493 | \$ 69,464 | \$ 69,957 |
| Tobacco settlement revenue - unpledged | 117,094 | - | 117,094 |
| Total tobacco settlement revenue | 117,587 | 69,464 | 187,051 |
| Investment earnings | 4 | (146) | (142) |
| Total revenues | 117,591 | 69,318 | 186,909 |
| EXPENDITURES: | | | |
| Transfer to Trust: | | | |
| Tobacco settlement revenue and interest earnings | 117,098 | - | 117,098 |
| Interest expenditure | - | 62,878 | 62,878 |
| Principal amount of bonds retired | - | 7,310 | 7,310 |
| General and administrative | 446 | - | 446 |
| Total expenditures | 117,544 | 70,188 | 187,732 |
| Net change in fund balances | 47 | (870) | (823) |
| FUND BALANCES - beginning of year | 733 | 117,885 | 118,618 |
| FUND BALANCES - end of year | \$ 780 | \$ 117,015 | \$ 117,795 |

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, 2014 AND 2013**

| | <u>2014</u> | <u>2013</u> |
|--|------------------|-----------------|
| | (in thousands) | |
| Net change in fund balances - governmental funds | \$ 45 | \$ (823) |
| 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). | 17,070 | 7,310 |
| 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. | (1,312) | (1,323) |
| 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. | 68 | 29 |
| 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. | - | (626) |
| Change in net position (deficit) - governmental activities | <u>\$ 15,871</u> | <u>\$ 5,567</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, 2014 AND 2013

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 (who also serves as Chairperson), 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.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2014 AND 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. 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, including accrued interest, 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 and are 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 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 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 bond discounts, as well as bond issuance costs, during the current period. With the implementation of GASB 65 (discussed below) 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, 2014 and June 30, 2013 were \$26.5 million and \$27.8 million, respectively, which were net of accumulated amortization of \$12.0 million and \$10.7 million, respectively.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2014 AND 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"). GASB 65 established accounting and reporting standards that reclassified certain items that were previously reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources and that recognized certain items previously reported as assets and liabilities as outflows and inflows of resources. In addition, it limits the use of the term "deferred" in the financial statement presentation. In fiscal year 2013, TSASC implemented GASB 65, which required TSASC to retroactively recognize costs of issuance as outflows of resources and restate its fiscal 2012 government-wide financial statements by eliminating any carrying amounts of bond issuance costs and related amortization thereof. As a result, TSASC reduced its fiscal year 2012 beginning balance by \$9.283 million as follows: 1) excluded the previously reported fiscal year 2012 carrying value of \$8.426 million of unamortized bond issuance costs on its Statements of Net Position, and 2) excluded \$384 thousand of amortized bond issuance costs in fiscal year 2012 on its Statements of Activities and 3) excluded \$473 thousand of previously recorded amortized bond issuance costs related to deferred refunding costs in fiscal year 2012 on its Statements of Activities. In addition, in fiscal year 2012 TSASC reclassified \$4 million previously reported as amortization of deferred bond refunding costs to interest expense on the government-wide financial statements pursuant to GASB 65. In addition, the unavailable TSRs reported of \$75 million and \$74 million in fiscal years 2013 and 2012, respectively, which prior to the implementation of GASB 65 was reported as a liability on the governmental funds financial statements is now reported as a deferred inflow of resources.
- In March 2012, GASB issued Statement No. 66, *Technical Corrections-2012 an amendment of GASB Statements No. 10 and No. 62* ("GASB 66"). GASB 66 resolves conflicting accounting and reporting guidance that resulted from the issuance of two pronouncements, Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*, and Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of GASB 66 are effective for financial statements for periods beginning after December 15, 2012. The adoption of GASB 66 did not have an impact on TSASC's financial statements.
- In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans* ("GASB 67"). GASB 67 establishes financial reporting standards for defined benefit pensions and defined contribution pensions that are administered through trusts or equivalent arrangements. The requirements of GASB 67 are effective for fiscal years beginning after June 15, 2013. The adoption of GASB 67 did not have an impact on TSASC's financial statements as it is not an applicable pension-administered entity.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2014 AND 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (“GASB 68”). GASB 68 establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers. The requirements of GASB 68 are effective for fiscal years beginning after June 15, 2014 but was adopted by TSASC in the current year. The adoption of GASB 68 did not have an impact on TSASC’s financial statements as it has no employees or pension system.
- In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* (“GASB 69”). GASB 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. GASB 69 is effective for financial statement periods beginning after December 15, 2013 but was adopted by TSASC in the current year. The adoption of GASB 69 did not have an impact on TSASC’s financial statements as it has no disposals of operations.
- In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (“GASB 70”). GASB 70 establishes accounting and financial reporting standards for financial guarantees that are nonexchange transactions (nonexchange financial guarantees) extended or received by a state or local government. GASB 70 is effective for financial statement periods beginning after June 15, 2013. The adoption of GASB 70 did not have an impact on TSASC’s financial statements as it has no nonexchange transactions.
- In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (“GASB 71”). GASB 71 eliminates a potential source of understatement of restated beginning net position and expense in a government’s first year of implementing Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions of GASB 71 are effective for fiscal years beginning after June 15, 2014 but was adopted by TSASC in the current year. The adoption of GASB 71 did not have an impact on TSASC’s financial statements as it has no employees or pension system.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2014 AND 2013

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 2014 and 2013, turbo redemptions were \$17.1 million and \$7.3 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 2014 and 2013 is as follows (in thousands):

| | Outstanding Principal Balance at June 30, 2012 | | Principal Retired or Defeased | Outstanding Principal Balance at June 30, 2013 | | Principal Retired or Defeased | Outstanding Principal Balance at June 30, 2014 | |
|---------------|---|------|-------------------------------------|---|------|-------------------------------------|---|--|
| | <u>Issued</u> | | | <u>Issued</u> | | | <u>Issued</u> | |
| Series 2006-1 | \$ 1,252,750 | \$ - | \$ (7,310) | \$ 1,245,440 | \$ - | \$ (17,070) | \$ 1,228,370 | |

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, 2014 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> |
| 2015 | \$ - | \$ 61,720 | \$ 61,720 | \$ - | \$ 61,720 | \$ 61,720 |
| 2016 | - | 61,720 | 61,720 | 2,040 | 61,720 | 63,760 |
| 2017 | - | 61,720 | 61,720 | 18,715 | 61,623 | 80,338 |
| 2018 | - | 61,720 | 61,720 | 25,130 | 60,734 | 85,864 |
| 2019 | - | 61,720 | 61,720 | 26,295 | 59,540 | 85,835 |
| 2020 to 2024 | 158,930 | 293,501 | 452,431 | 152,140 | 277,639 | 429,779 |
| 2025 to 2029 | 137,765 | 250,189 | 387,954 | 195,380 | 235,944 | 431,324 |
| 2030 to 2034 | 372,650 | 236,413 | 609,063 | 249,645 | 181,893 | 431,538 |
| 2035 to 2039 | - | 143,250 | 143,250 | 321,655 | 111,946 | 433,601 |
| 2040 to 2042 | 559,025 | 85,950 | 644,975 | 237,370 | 24,741 | 262,111 |
| | <u>\$ 1,228,370</u> | <u>\$ 1,317,903</u> | <u>\$ 2,546,273</u> | <u>\$ 1,228,370</u> | <u>\$ 1,137,500</u> | <u>\$ 2,365,870</u> |

As of June 30, 2014 and 2013, TSASC has funded its debt service and reserve accounts according to the Indenture requirements. As of June 30, 2014 and 2013, debt service accounts holdings totaled \$30.9 million and \$31.3 million, respectively.

As of June 30, 2014 and 2013, the TSASC Liquidity Reserve Account balances were \$86.2 million and \$85.8 million, respectively, and in compliance with the Indenture.

TSASC, on February 8, 2006, refunded, with Defeasance Collateral, bonds totaling \$1.1 billion of which the remaining \$381.7 million held in escrow was paid in fiscal year 2013.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2014 AND 2013

NOTE 4 – CASH AND CASH EQUIVALENTS

TSASC's cash and cash equivalents consist of bank deposits and money market funds.

As of June 30, 2014 and 2013, total cash and cash equivalents are summarized as follows:

| | <u>2014</u> | <u>2013</u> |
|---------------------------------|-----------------|-----------------|
| | (in thousands) | |
| Restricted: | | |
| Cash--FDIC insured | \$ - | \$ - |
| Cash equivalents (see note 5) | 8,456 | 1,108 |
| Total restricted | <u>8,456</u> | <u>1,108</u> |
| Unrestricted: | | |
| Cash--FDIC insured | - | - |
| Cash equivalents (see note 5) | 194 | 141 |
| Total unrestricted | <u>194</u> | <u>141</u> |
| Total cash and cash equivalents | <u>\$ 8,650</u> | <u>\$ 1,249</u> |

NOTE 5 – INVESTMENTS

The investments, including cash equivalents, as of June 30, 2014 and 2013 are summarized as follows:

| | <u>2014</u> | <u>2013</u> |
|--|-------------------|-------------------|
| | (in thousands) | |
| Restricted: | | |
| Money Market Funds | \$ 8,456 | \$ 1,108 |
| Federal Home Loan Mortgage Corp discount notes (Maturing within one year) | - | 31,263 |
| Federal Home Loan Bank discount notes (Maturing within one year) | 30,858 | - |
| Federal Home Loan Bank term bonds (Maturing within one year) | 54,983 | 53,026 |
| Municipal Bonds--various states (Maturing over five years) | 22,743 | 31,618 |
| Total restricted | <u>117,040</u> | <u>117,015</u> |
| Unrestricted: | | |
| Money Market Funds | 194 | 141 |
| Federal Home Loan Bank discount notes (Maturing within one year) | - | 493 |
| Federal Home Loan Mortgage Corp discount notes (Maturing within one year) | 460 | - |
| Total unrestricted | <u>654</u> | <u>634</u> |
| Total investments including cash equivalents | 117,694 | 117,649 |
| Less amounts reported as cash equivalents (see note 4) | (8,650) | (1,249) |
| Total investments | <u>\$ 109,044</u> | <u>\$ 116,400</u> |

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

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2014 AND 2013

NOTE 5 – INVESTMENTS(continued)

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.

Credit risk: All investments held by TSASC at June 30, 2014 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. Of the \$22.7 million of municipal bonds held as of June 30, 2014, \$5.8 million are subject to optional tender at par, thereby reducing TSASC's exposure to interest rate risk.

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, 2014, more than 5% of TSASC's investments were in the Federated Prime Money Market Funds, U.S. Government-sponsored entities, Texas State and Utah State general obligation bonds. These investments are 7.3%, 73.3%, 7.1% and 6.4% of TSASC's total investments, respectively.
