



TSASC, Inc.

A COMPONENT UNIT OF THE CITY OF NEW YORK

Financial Statements
(Together with Independent Auditors' Report)

Years Ended June 30, 2016 and 2015

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, 2016 AND 2015

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis (Unaudited)	3-10
Basic Financial Statements as of and for the Years Ended June 30, 2016 and 2015:	
Government-wide Financial Statements	
Statements of Net Position (Deficit)	11
Statements of Activities	12
Governmental Funds Financial Statements	
Governmental Funds Balance Sheets	13-14
Reconciliations of the Governmental Funds Balance Sheets to the Statements of Net Position (Deficit)	15
Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balances.....	16-17
Reconciliations of the Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balances to the Statements of Activities	18
Notes to Financial Statements	19-26

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, 2016 and 2015, 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, 2016 and 2015, 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 10 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 22, 2016

MARKS PANETH

ACCOUNTANTS & ADVISORS

TSASC, INC.

(A Component Unit of The City of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015

(unaudited)

The following is a narrative overview and analysis of the financial activities of TSASC, Inc. ("TSASC") for the fiscal years ended June 30, 2016 and 2015. 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 2016 and 2015, the Trust transferred to the City \$229.0 million and \$113.4 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. TSRs reflect numerous adjustments as described in the MSA, including adjustments relating to inflation, sales volume, non-settling states, sales by non-participating manufacturers (the "NPM Adjustment"), and miscalculated or disputed payments.

TSASC, INC.

(A Component Unit of The City of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2016 AND 2015

(unaudited)

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

Under the MSA's dispute-resolution procedures, the tobacco companies withheld over \$700 million in combined annual settlement payments to New York State and its counties, including New York City, since 2003 in connection with a dispute relating to the NPM Adjustment.

In 2013, an arbitration panel ruling found that New York State had met its obligations in connection with the NPM Adjustment, which allowed for the release of \$92 million of TSRs withheld in that year, including \$28.4 million to TSASC.

In 2015, New York State entered into an agreement with the tobacco companies that resolved all past and future disputes relating to the NPM adjustment. The settlement allowed for:

- Release of 90% of withheld TSRs between 2004 through 2014;
- Future TSRs payment in accordance with a set formula reflecting a discount tied to the volume of cigarettes manufactured and sold on Native American reservations; and
- The termination of further disputed withholdings related to the NPM Adjustment.

The settlement does not preclude disputes related to other adjustments. The State received a total of \$701 million from the disputed escrow account, of which TSASC received \$176 million.

TSASC has no control over the amount of TSRs it receives. Risks in connection with future receipts of TSRs include litigation involving the participating manufacturers ("PM") and could lead to bankruptcy of the PMs, continuing increased decline in cigarette consumption materially beyond forecasted levels, tobacco excise taxes, restrictions on smoking in public areas, and other unforeseen future adjustments to the calculation of TSRs. Further, adverse court rulings, independent of the settlement, could impact upon future MSA payments to TSASC. Reductions in payments to TSASC could impair TSASC's ability to meet its payment obligations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2016 AND 2015
(unaudited)

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

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

	2016	2015	2014	Variance	
				2016/2015	2015/2014
	-----in thousands-----			-----in thousands-----	
Revenues:					
Tobacco settlement revenue	\$ 368,783	\$ 180,094	\$ 211,616	\$ 188,689	\$ (31,522)
Investment earnings	1,271	503	943	768	(440)
Total revenues	370,054	180,597	212,559	189,457	(31,962)
Expenses:					
Transfer to the Trust	230,910	112,743	132,474	118,167	(19,731)
Interest expense	62,359	63,002	63,774	(643)	(772)
Other	423	440	440	(17)	-
Total expenses	293,692	176,185	196,688	117,507	(20,503)
Change in net position	76,362	4,412	15,871	71,950	(11,459)
Net position (deficit), beginning of year	(1,056,738)	(1,061,150)	(1,077,021)	4,412	15,871
Net position (deficit), end of year	<u>\$ (980,376)</u>	<u>\$ (1,056,738)</u>	<u>\$ (1,061,150)</u>	<u>\$ 76,362</u>	<u>\$ 4,412</u>

TSRs generally 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 \$368.8 million, \$180.1 million, and \$211.6 million in fiscal years 2016, 2015 and 2014, respectively. TSRs increased by approximately \$188.7 million in fiscal year 2016 compared to fiscal year 2015. The large increase of tobacco revenue in fiscal year 2016 was primarily due to the release of funds from the disputed escrow account from the settlement related to the years 2004 through 2014, as previously discussed. The decrease in revenue in fiscal year 2015 compared to fiscal year 2014 was also due to a release of disputed funds received in fiscal year 2014. An arbitration panel ruling found that NYS had met its diligent enforcement obligation under the MSA for 2003, which resulted in a release of \$28.4 million in fiscal year 2014. In addition, variances in TSRs from one year to another are caused by fluctuations in tobacco sales.

The variances of investment earnings in fiscal years 2016, 2015 and 2014 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 fluctuated each year, as previously discussed. Interest expense decreases each fiscal year because of the declining bond principal balances, which are being reduced by the turbo redemption feature. Other expenses in fiscal years 2016, 2015 and 2014 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, 2016 AND 2015
(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,

	2016	2015	2014	Variance	
	-----in thousands-----			2016/2015	2015/2014
				-----in thousands-----	
Assets:					
Total assets - non-capital	\$ 193,255	\$ 191,595	\$ 192,861	\$ 1,660	\$ (1,266)
Liabilities:					
Current liabilities	53,025	51,464	52,114	1,561	(650)
Long-term liabilities	1,120,606	1,196,869	1,201,897	(76,263)	(5,028)
Total liabilities	1,173,631	1,248,333	1,254,011	(74,702)	(5,678)
Net position (deficit):					
Unrestricted	(980,376)	(1,056,738)	(1,061,150)	76,362	4,412
Net position (deficit), end of year	<u>\$ (980,376)</u>	<u>\$ (1,056,738)</u>	<u>\$ (1,061,150)</u>	<u>\$ 76,362</u>	<u>\$ 4,412</u>

TSASC's total assets for the fiscal years 2016, 2015 and 2014 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. Long-term liabilities decreased significantly in fiscal year 2016 due to the settlement and turbo redemption feature (Note 1) of the Series 2006-1 bonds. Long-term liabilities decreased in fiscal year 2015 due to the turbo redemption feature and the 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, 2016 AND 2015
(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,

	2016	2015	2014	Variance	
				2016/2015	2015/2014
	-----in thousands-----			-----in thousands-----	
Revenues:					
Tobacco settlement revenue	\$ 229,332	\$ 113,781	\$ 132,932	\$ 115,551	\$ (19,151)
Investment earnings	54	5	2	49	3
Total revenues	229,386	113,786	132,934	115,600	(19,148)
Expenditures:					
Transfer to the Trust	229,032	113,369	132,474	115,663	(19,105)
Other	423	440	440	(17)	-
Total expenditures	229,455	113,809	132,914	115,646	(19,105)
Net change in fund balances	(69)	(23)	20	(46)	(43)
Fund balances, beginning of year	777	800	780	(23)	20
Fund balances, end of year	\$ 708	\$ 777	\$ 800	\$ (69)	\$ (23)

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 large increase in the 2016 TSRs and offsetting transfer to trusts was due to the settlement agreement, as previously discussed.

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 of general administrative costs.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2016 AND 2015
(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,

	2016	2015	2014	Variance	
				2016/2015	2015/2014
	-----in thousands-----			-----in thousands-----	
Revenues:					
Tobacco settlement revenue	\$ 136,451	\$ 67,313	\$ 78,684	\$ 69,138	\$ (11,371)
Investment earnings	1,217	498	941	719	(443)
Total revenues	137,668	67,811	79,625	69,857	(11,814)
Expenditures:					
Interest expenditure	61,419	61,720	62,530	(301)	(810)
Principal amount of bonds retired	77,510	6,335	17,070	71,175	(10,735)
Total expenditures	138,929	68,055	79,600	70,874	(11,545)
Net change in fund balances	(1,261)	(244)	25	(1,017)	(269)
Fund balance, beginning of year	116,796	117,040	117,015	(244)	25
Fund balance, end of year	\$ 115,535	\$ 116,796	\$ 117,040	\$ (1,261)	\$ (244)

TSRs recorded in the DSF for fiscal years 2016, 2015 and 2014 were based on the amount collected each year to pay debt service obligations, pursuant to the Indenture. The large increase in the 2016 TSRs was due to the settlement agreement, as previously discussed. The variances of investment earnings in fiscal years 2016, 2015 and 2014 were primarily due to market value fluctuations of long-term investments.

Interest expenditures were lower in fiscal years 2016, 2015 and 2014 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. The large increase in the 2016 principal retired was due to the settlement agreement, as previously discussed.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2016 AND 2015
(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,

	2016	2015	2014	Variance	
		-----in thousands-----		2016/2015	2015/2014
				-----in thousands-----	
Assets:					
Cash equivalents and investments	\$ 556	\$ 632	\$ 654	\$ (76)	\$ (22)
Tobacco settlement revenue receivable	48,202	46,324	46,950	1,878	(626)
Prepaid expenditures	164	167	167	(3)	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 48,922</u>	<u>\$ 47,123</u>	<u>\$ 47,771</u>	<u>\$ 1,799</u>	<u>\$ (648)</u>
Liabilities:					
	<u>\$ 12</u>	<u>\$ 22</u>	<u>\$ 21</u>	<u>\$ (10)</u>	<u>\$ 1</u>
Deferred Inflows of Resources	<u>48,202</u>	<u>46,324</u>	<u>46,950</u>	<u>1,878</u>	<u>(626)</u>
Fund Balances:					
Nonspendable prepaid expenditures	164	167	167	(3)	-
Unassigned	544	610	633	(66)	(23)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>708</u>	<u>777</u>	<u>800</u>	<u>(69)</u>	<u>(23)</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 48,922</u>	<u>\$ 47,123</u>	<u>\$ 47,771</u>	<u>\$ 1,799</u>	<u>\$ (648)</u>

The GF assets at June 30, 2016, 2015 and 2014, totaled approximately \$48.9 million, \$47.1 million and \$47.8 million, respectively. The slight variances of total assets in fiscal years 2016, 2015 and 2014 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, 2016 AND 2015
(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,

	2016	2015	2014	Variance	
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016/2015</u>	<u>2015/2014</u>
	-----in thousands-----			-----in thousands-----	
Assets:					
Cash equivalents and investments	\$ 115,535	\$ 116,796	\$ 117,040	\$ (1,261)	\$ (244)
Tobacco settlement revenue receivable	28,798	27,676	28,050	1,122	(374)
Total assets	<u>\$ 144,333</u>	<u>\$ 144,472</u>	<u>\$ 145,090</u>	<u>\$ (139)</u>	<u>\$ (618)</u>
Deferred Inflows of Resources:	<u>\$ 28,798</u>	<u>\$ 27,676</u>	<u>\$ 28,050</u>	<u>\$ 1,122</u>	<u>\$ (374)</u>
Fund Balances:					
Restricted for debt service	<u>115,535</u>	<u>116,796</u>	<u>117,040</u>	<u>(1,261)</u>	<u>(244)</u>
Total fund balances	<u>115,535</u>	<u>116,796</u>	<u>117,040</u>	<u>(1,261)</u>	<u>(244)</u>
Total deferred inflows of resources and fund balances	<u>\$ 144,333</u>	<u>\$ 144,472</u>	<u>\$ 145,090</u>	<u>\$ (139)</u>	<u>\$ (618)</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-. On June 15, 2016, Fitch Ratings withdrew all ratings assigned on U.S. tobacco settlement asset-backed securities primarily because modifications to calculations under the MSA have eroded Fitch's confidence that ratings can be consistently maintained.

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.

* * *

TSASC, INC.
(A Component Unit of The City of New York)
STATEMENTS OF NET POSITION (DEFICIT)
AS OF JUNE 30, 2016 AND 2015

	2016	2015
	(in thousands)	
ASSETS:		
Unrestricted cash equivalents	\$ 204	\$ 216
Restricted cash equivalents	314	5,223
Unrestricted investments	352	416
Restricted investments	115,221	111,573
Tobacco settlement revenue receivable	77,000	74,000
Prepaid expenses	164	167
	193,255	191,595
LIABILITIES:		
Accrued expenses	12	22
Accrued interest payable	4,811	5,118
Remittance payable to the Trust	48,202	46,324
Bonds payable	1,120,606	1,196,869
	1,173,631	1,248,333
NET POSITION (DEFICIT):		
Unrestricted (deficit)	(980,376)	(1,056,738)
	\$ (980,376)	\$ (1,056,738)

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, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
	(in thousands)	
REVENUES:		
Tobacco settlement revenue:		
Tobacco settlement revenue - pledged	\$ 137,925	\$ 67,355
Tobacco settlement revenue - unpledged	230,858	112,739
Total tobacco settlement revenue	<u>368,783</u>	<u>180,094</u>
Investment earnings	<u>1,271</u>	<u>503</u>
Total revenues	<u>370,054</u>	<u>180,597</u>
EXPENSES:		
Transfer to the Trust	230,910	112,743
Interest expense	62,359	63,002
General and administrative	423	440
Total expenses	<u>293,692</u>	<u>176,185</u>
Change in net position	76,362	4,412
NET POSITION (DEFICIT) - beginning of year	<u>(1,056,738)</u>	<u>(1,061,150)</u>
NET POSITION (DEFICIT) - end of year	<u>\$ (980,376)</u>	<u>\$ (1,056,738)</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, 2016

	(in thousands)		
	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS:			
Unrestricted cash equivalents	\$ 204	\$ -	\$ 204
Restricted cash equivalents	-	314	314
Unrestricted investments	352	-	352
Restricted investments	-	115,221	115,221
Tobacco settlement revenue receivable	48,202	28,798	77,000
Prepaid expenditures	164	-	164
	<u>\$ 48,922</u>	<u>\$ 144,333</u>	<u>\$ 193,255</u>
LIABILITIES:			
Accounts payable	\$ 12	\$ -	\$ 12
	<u>12</u>	<u>-</u>	<u>12</u>
DEFERRED INFLOWS OF RESOURCES:			
Unavailable tobacco settlement revenue	48,202	28,798	77,000
	<u>48,202</u>	<u>28,798</u>	<u>77,000</u>
FUND BALANCES:			
Nonspendable prepaid expenditures	164	-	164
Restricted for debt service	-	115,535	115,535
Unassigned	544	-	544
	<u>708</u>	<u>115,535</u>	<u>116,243</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 48,922</u>	<u>\$ 144,333</u>	<u>\$ 193,255</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 expenditures	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 expenditures	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)

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

AS OF JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
	(in thousands)	
Total fund balances - governmental funds	\$ 116,243	\$ 117,573
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.		
	23,919	25,166
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).		
	77,000	74,000
Liabilities not due and not payable in the current period from current financial resources are not reported in the governmental funds financial statements, but are reported in the statements of net position (deficit). Those liabilities consist of:		
Bonds payable	(1,144,525)	(1,222,035)
Accrued interest payable	(4,811)	(5,118)
Remittance payable to the Trust	(48,202)	(46,324)
Net position (deficit) of governmental activities	<u>\$ (980,376)</u>	<u>\$ (1,056,738)</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, 2016

	(in thousands)		
	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES:			
Tobacco settlement revenue:			
Tobacco settlement revenue - pledged	\$ 352	\$ 136,451	\$ 136,803
Tobacco settlement revenue - unpledged	228,980	-	228,980
Total tobacco settlement revenue	229,332	136,451	365,783
Investment earnings	54	1,217	1,271
Total revenues	229,386	137,668	367,054
EXPENDITURES:			
Transfer to the Trust:			
Tobacco settlement revenue and interest earnings	229,032	-	229,032
Interest expenditure	-	61,419	61,419
Principal amount of bonds retired	-	77,510	77,510
General and administrative	423	-	423
Total expenditures	229,455	138,929	368,384
Net change in fund balances	(69)	(1,261)	(1,330)
FUND BALANCES - beginning of year	777	116,796	117,573
FUND BALANCES - end of year	\$ 708	\$ 115,535	\$ 116,243

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)

**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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
	(in thousands)	
Net change in fund balances - governmental funds	\$ (1,330)	\$ (267)
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.	3,000	(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).	77,510	6,335
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.	(1,247)	(1,307)
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.	307	25
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>(1,878)</u>	<u>626</u>
Change in net position (deficit) - governmental activities	<u>\$ 76,362</u>	<u>\$ 4,412</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, 2016 AND 2015

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 collections 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, 2016 AND 2015

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, 2016 and 2015 were \$23.9 million and \$25.2 million, respectively, which were net of accumulated amortization of \$14.6 million and \$13.4 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, 2016 AND 2015

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 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. The adoption of GASB 73 did not have an impact on TSASC’s financial statements.
- 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. The adoption of GASB 76 did not have an impact on TSASC’s financial statements.
- In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures* (“GASB 77”). GASB 77 requires state and local governments for the first time to disclose information about tax abatement agreements. GASB 77 requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government’s tax revenues. The requirements of GASB 77 are effective for fiscal years beginning after December 15, 2015. The adoption of GASB 77 did not have an impact on TSASC’s financial statements as it does not enter into any such agreements.

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

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2016 AND 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans* (“GASB 78”). GASB 78 amends the scope and applicability of Statement 68 to exclude pension plans provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local government pension plan, (2) is used to provide defined benefits both to employees of state or local governmental employers and to employees of employers that are not state or local governments, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pension through the pension plan). The requirements of GASB 78 are effective for fiscal years beginning after December 15, 2015. The adoption of GASB 78 did not have an impact on TSASC’s financial statements as it has no employees.
- In December 2015, GASB issued Statement No 79, *Certain External Investment Pools and Pool Participants* (“GASB 79”). GASB 79 will enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share. The requirements of GASB 79 are effective for fiscal years beginning after December 15, 2015. The adoption of GASB 79 did not have an impact on TSASC’s financial statements as it has no such investments.
- In January 2016, GASB issued Statement No 80, *Blending Requirements for Certain Component Units* (“GASB 80”). GASB 80 provides clarity on how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government. The requirements of GASB 80 are effective for fiscal years beginning after June 15, 2016. The adoption of GASB 80 did not have an impact on TSASC’s financial statements.
- In March 2016, GASB issued Statement No 81, *Irrevocable Split Interest Agreements* (“GASB 81”). GASB 81 addresses the situations under which an irrevocable split-interest agreement constitutes an asset for accounting and financial reporting purposes when the resources are administered by a third party. GASB 81 also provides expanded guidance for circumstances in which the government holds the assets. The requirements of GASB 81 are effective for fiscal years beginning after December 15, 2016. The adoption of GASB 81 did not have an impact on TSASC’s financial statements as it does not enter in such arrangements.
- In March 2016, GASB issued Statement No 82, *Pension Issues* (“GASB 82”). GASB 82 addresses practice issues raised during the implementation of the GASB’s pension accounting and financial reporting standards for state and local governments. The requirements of GASB 82 are effective for fiscal years beginning after June 15, 2016. The adoption of GASB 82 did not have an impact on TSASC’s financial statements as it has no employees.

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

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2016 AND 2015

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 2016 and 2015, turbo redemptions were \$77.5 million and \$6.3 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 2016 and 2015 is as follows (in thousands):

	Outstanding Principal Balance at			Outstanding Principal Balance at			Outstanding Principal Balance at June 30, 2016
	June 30, 2014	Additions	Deletions	June 30, 2015	Additions	Deletions	
Series 2006-1	\$ 1,228,370	\$ -	\$ (6,335)	\$ 1,222,035	\$ -	\$ (77,510)	\$ 1,144,525
Total before discounts (net)	1,228,370	-	(6,335)	1,222,035	-	(77,510)	1,144,525
Less discounts (net)	(26,473)	-	1,307	(25,166)	-	1,247	(23,919)
Total Bonds Payable and Discount	<u>\$ 1,201,897</u>	<u>\$ -</u>	<u>\$ (5,028)</u>	<u>\$ 1,196,869</u>	<u>\$ -</u>	<u>\$ (76,263)</u>	<u>\$ 1,120,606</u>

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, 2016 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>
2017	\$ -	\$ 57,737	\$ 57,737	\$ -	\$ 57,737	\$ 57,737
2018	-	57,737	57,737	-	57,737	57,737
2019	-	57,737	57,737	-	57,737	57,737
2020	-	57,737	57,737	27,440	57,737	85,177
2021	-	57,737	57,737	28,965	56,434	85,399
2022 to 2026	212,850	274,420	487,270	156,445	261,844	418,289
2027 to 2031	-	236,413	236,413	215,865	215,905	431,770
2032 to 2036	372,650	199,148	571,798	275,800	156,224	432,024
2037 to 2041	-	143,250	143,250	356,835	78,094	434,929
2042	559,025	28,650	587,675	83,175	4,263	87,438
	<u>\$ 1,144,525</u>	<u>\$ 1,170,566</u>	<u>\$ 2,315,091</u>	<u>\$ 1,144,525</u>	<u>\$ 1,003,712</u>	<u>\$ 2,148,237</u>

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

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2016 AND 2015

NOTE 3 – BONDS PAYABLE (continued)

As of June 30, 2016 and 2015, TSASC has funded its debt service and reserve accounts according to the Indenture requirements. As of June 30, 2016 and 2015, debt service accounts holdings totaled \$28.9 million and \$30.7 million, respectively. As of June 30, 2016 and 2015, the TSASC Liquidity Reserve Account balances were \$86.7 million and \$86.1 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, 2016 and 2015, total cash equivalents are summarized as follows:

	<u>2016</u>	<u>2015</u>
	<u>(in thousands)</u>	
Restricted:		
Cash equivalents (see note 5)	\$ 314	\$ 5,223
Total restricted	<u>314</u>	<u>5,223</u>
Unrestricted:		
Cash equivalents (see note 5)	\$ 204	\$ 216
Total unrestricted	<u>204</u>	<u>216</u>
Total cash equivalents	<u>\$ 518</u>	<u>\$ 5,439</u>

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

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2016 AND 2015

NOTE 5 – INVESTMENTS

The investments, including cash equivalents, as of June 30, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
	(in thousands)	
Restricted:		
Money Market Funds	\$ 314	\$ 5,223
United States Treasury notes (Maturing within one year)	68,952	-
Fannie Mae discount notes (Maturing within one year)	28,880	-
Federal Home Loan Bank discount notes (Maturing within one year)	-	30,704
Federal Home Loan Bank term bonds (Maturing within one year)	-	63,969
Municipal Bonds--various states (Maturing over five years)	17,389	16,900
Total restricted	<u>115,535</u>	<u>116,796</u>
Unrestricted:		
Money Market Funds	204	216
Fannie Mae discount notes (Maturing within one year)	352	-
Federal Home Loan Mortgage Corp discount notes (Maturing within one year)	-	416
Total unrestricted	<u>556</u>	<u>632</u>
Total investments including cash equivalents	116,091	117,428
Less amounts reported as cash equivalents (see note 4)	<u>(518)</u>	<u>(5,439)</u>
Total investments	<u>\$ 115,573</u>	<u>\$ 111,989</u>

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, 2016 and 2015:

- 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.

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

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2016 AND 2015

NOTE 5 – INVESTMENTS (continued)

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 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, 2016 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 Fannie Mae discount notes and United States Treasury notes rated by Moody's P-1 and S&P A-1+; securities in Fannie Mae discount notes and United States Treasury notes 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, 2016, more than 5% of TSASC's investments were in U.S. Government-sponsored entities and Utah State general obligation bonds. These investments are 84.6% and 6.7% of TSASC's total investments, respectively.
