



TSASC, Inc.

A Component Unit of The City of New York

**Financial Statements
(Together with Independent Auditors' Report)**

June 30, 2021 and 2020

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

TSASC, INC.

FINANCIAL STATEMENTS
(A Component Unit of The City of New York)

(Together with Independent Auditors' Report)

JUNE 30, 2021 AND 2020

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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 and governmental funds of TSASC, Inc. ("TSASC"), a component unit of The City of New York, as of and for the years ended June 30, 2021 and 2020, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 financial position of the governmental activities and governmental funds of TSASC, Inc. as of June 30, 2021 and 2020, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 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 20, 2021

TSASC, INC.

(A Component Unit of The City of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021 AND 2020

(unaudited)

The following is a narrative overview and analysis of the financial activities of TSASC, Inc. ("TSASC") for the fiscal years ended June 30, 2021 and 2020. 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. Therefore, 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.

On January 19, 2017, TSASC issued \$613 million 2017 Series A Senior Bonds and \$490 million 2017 Series B Subordinate Bonds, which allowed TSASC to refinance all its bonds outstanding under a new indenture. Of the \$490 million 2017 Series B Subordinate Bonds, \$450 million were exchanged rather than refunded. The Amended and Restated Indenture dated December 1, 2016, (the "2016 Indenture") continued to provide that 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 and interest earnings, are transferred to the City. During fiscal years 2021 and 2020, TSASC transferred to the Trust \$128 million and \$118 million, respectively. The 2016 Indenture also continued to provide that 37.4% of TSASC's annual collection of TSRs are pledged for the payment of TSASC's debt service and the operating costs.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2021 AND 2020
(unaudited)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

	2021	2020	2019	Variance	
				2021/2020	2020/2019
	(in thousands)				
Revenues:					
Tobacco settlement revenue	\$ 208,869	\$ 188,431	\$ 174,271	\$ 20,438	\$ 14,160
Investment earnings	62	1,387	2,588	(1,325)	(1,201)
Total revenues	208,931	189,818	176,859	19,113	12,959
Expenses:					
Transfer to the Trust	130,753	117,959	109,297	12,794	8,662
Bond interest	48,205	49,510	50,155	(1,305)	(645)
Other	547	441	432	106	9
Total expenses	179,505	167,910	159,884	11,595	8,026
Change in net position	29,426	21,908	16,975	7,518	4,933
Net position (deficit), beginning of year	(929,341)	(951,249)	(968,224)	21,908	16,975
Net position (deficit), end of year	\$ (899,915)	\$ (929,341)	\$ (951,249)	\$ 29,426	\$ 21,908

TSRs earned during the fiscal year are generally based upon tobacco sales of the previous calendar year; adjusted by such factors including inflation, volume, and the amount of reduction tied to the volume of cigarettes manufactured and sold on Native American reservations. TSASC earned TSRs of approximately \$209 million, \$188 million, and \$174 million in fiscal years 2021, 2020 and 2019, respectively.

The variances of investment earnings in each fiscal year were primarily attributable to market value and interest rate fluctuations on investments.

Transfers to the Trust are based on TSRs received during the fiscal year and fluctuated each year, as previously explained. Bond interest paid in each fiscal year was based on bond principal balances, which were offset by the amortization of bond premium and deferred refunding costs. Bond interest decreased each fiscal year as declining bonds outstanding resulted in reduced bond interest costs. Other expenses were composed of general and administrative costs and fluctuated each year based on allocated costs associated with management's time spent on conducting TSASC's operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2021 AND 2020
(unaudited)

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

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

	2021	2020	2019	Variance	
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2021/2020</u>	<u>2020/2019</u>
	(in thousands)				
Assets:					
Total assets - non-capital	\$ 181,664	\$ 182,631	\$ 193,227	\$ (967)	\$ (10,596)
Deferred outflows of resources	<u>15,410</u>	<u>16,181</u>	<u>16,951</u>	<u>(771)</u>	<u>(770)</u>
Liabilities:					
Current liabilities	94,050	94,941	93,880	(891)	1,061
Long-term liabilities	<u>1,002,939</u>	<u>1,033,212</u>	<u>1,067,547</u>	<u>(30,273)</u>	<u>(34,335)</u>
Total liabilities	<u>1,096,989</u>	<u>1,128,153</u>	<u>1,161,427</u>	<u>(31,164)</u>	<u>(33,274)</u>
Net position (deficit):					
Unrestricted	<u>(899,915)</u>	<u>(929,341)</u>	<u>(951,249)</u>	<u>29,426</u>	<u>21,908</u>
Net position (deficit), end of year	<u>\$ (899,915)</u>	<u>\$ (929,341)</u>	<u>\$ (951,249)</u>	<u>\$ 29,426</u>	<u>\$ 21,908</u>

TSASC's total assets for the fiscal years 2021, 2020 and 2019 primarily consisted of investments restricted for debt service and of TSRs due to TSASC at fiscal year-end.

The deferred outflows of resources reported in fiscal years 2021, 2020 and 2019 resulted from the 2017 bond refunding transaction and represents the difference between removing the carrying amount of the refunded bonds and recording the 2017 Series A and B bond transaction, which declined each year as the amount is amortized over the life of the bonds.

Current liabilities are composed of accrued operating expenses, accrued interest expenses, TSRs payable to the Trust and bonds payable due within one year.

Long-term liabilities decreased each year due to the schedule of annual principal payments and amortization of bond premium of the outstanding bonds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2021 AND 2020
(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,

	2021	2020	2019	Variance	
			(in thousands)	2021/2020	2020/2019
Revenues:					
Tobacco settlement revenue	\$ 128,018	\$ 118,391	\$ 103,075	\$ 9,627	\$ 15,316
Investment earnings	1	8	220	(7)	(212)
Total revenues	128,019	118,399	103,295	9,620	15,104
Expenditures:					
Transfer to the Trust	127,623	117,959	103,037	9,664	14,922
Other	547	441	432	106	9
Total expenditures	128,170	118,400	103,469	9,770	14,931
Net change in fund balances	(151)	(1)	(174)	(150)	173
Fund balances, beginning of year	682	683	857	(1)	(174)
Fund balances, end of year	\$ 531	\$ 682	\$ 683	\$ (151)	\$ (1)

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2021 AND 2020
(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,

	2021	2020	2019	Variance	
				2021/2020	2020/2019
	(in thousands)				
Revenues:					
Tobacco settlement revenue	\$ 75,851	\$ 70,040	\$ 61,196	\$ 5,811	\$ 8,844
Investment earnings	61	1,379	2,368	(1,318)	(989)
Total revenues	<u>75,912</u>	<u>71,419</u>	<u>63,564</u>	<u>4,493</u>	<u>7,855</u>
Expenditures:					
Bond interest	51,159	52,628	53,369	(1,469)	(741)
Principal amount of bonds retired	<u>30,570</u>	<u>29,375</u>	<u>18,355</u>	<u>1,195</u>	<u>11,020</u>
Total expenditures	<u>81,729</u>	<u>82,003</u>	<u>71,724</u>	<u>(274)</u>	<u>10,279</u>
Net change in fund balances	(5,817)	(10,584)	(8,160)	4,767	(2,424)
Fund balance, beginning of year	<u>85,937</u>	<u>96,521</u>	<u>104,681</u>	<u>(10,584)</u>	<u>(8,160)</u>
Fund balance, end of year	<u>\$ 80,120</u>	<u>\$ 85,937</u>	<u>\$ 96,521</u>	<u>\$ (5,817)</u>	<u>\$ (10,584)</u>

TSRs recorded in the DSF for fiscal years 2021, 2020 and 2019 were based on the amount collected each year to pay debt service obligations, pursuant to the applicable indenture. The variances of investment earnings in fiscal years 2021, 2020 and 2019 were primarily due to market value and interest rate fluctuations on investments, as well as declining investment balances.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2021 AND 2020
(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,

	2021	2020	2019	Variance	
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2021/2020</u>	<u>2020/2019</u>
	(in thousands)				
Assets:					
Cash equivalents	\$ 544	\$ 694	\$ 705	\$ (150)	\$ (11)
Tobacco settlement revenue receivable	63,226	60,096	60,096	3,130	-
Accrued interest receivable	<u>-</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>(1)</u>
Total assets	<u>\$ 63,770</u>	<u>\$ 60,790</u>	<u>\$ 60,802</u>	<u>\$ 2,980</u>	<u>\$ (12)</u>
Liabilities	<u>\$ 13</u>	<u>\$ 12</u>	<u>\$ 23</u>	<u>\$ 1</u>	<u>\$ (11)</u>
Deferred inflows of resources	<u>63,226</u>	<u>60,096</u>	<u>60,096</u>	<u>3,130</u>	<u>-</u>
Fund Balances:					
Unassigned	<u>531</u>	<u>682</u>	<u>683</u>	<u>(151)</u>	<u>(1)</u>
Total fund balances	<u>531</u>	<u>682</u>	<u>683</u>	<u>(151)</u>	<u>(1)</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 63,770</u>	<u>\$ 60,790</u>	<u>\$ 60,802</u>	<u>\$ 2,980</u>	<u>\$ (12)</u>

The GF assets at June 30, 2021, 2020 and 2019, totaled approximately \$63.8 million, \$60.8 million and \$60.8 million, respectively. The variances of total assets between fiscal years were primarily due to the change of estimated TSRs receivable, which is based on current year's 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2021 AND 2020
(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,

	2021	2020	2019	Variance	
				2021/2020	2020/2019
			(in thousands)		
Assets:					
Cash equivalents and investments	\$ 80,120	\$ 85,937	\$ 96,515	\$ (5,817)	\$ (10,578)
Tobacco settlement revenue receivable	37,774	35,904	35,904	1,870	-
Accrued interest receivable	-	-	6	-	(6)
Total assets	\$ 117,894	\$ 121,841	\$ 132,425	\$ (3,947)	\$ (10,584)
Deferred inflows of resources	\$ 37,774	\$ 35,904	\$ 35,904	\$ 1,870	\$ -
Fund Balances:					
Restricted for debt service	80,120	85,937	96,521	(5,817)	(10,584)
Total fund balances	80,120	85,937	96,521	(5,817)	(10,584)
Total deferred inflows of resources and fund balances	\$ 117,894	\$ 121,841	\$ 132,425	\$ (3,947)	\$ (10,584)

The changes in cash equivalents and investments each year result primarily from the amount held for debt service, as previously discussed. In addition, TSASC drew \$10.6 million, \$8.6 million and \$6.7 million in fiscal years 2021, 2020 and 2019, respectively, from its Subordinate Liquidity Reserve Account to make its debt service payments (see Note 3 for details).

Variances in receivables and deferred inflows of resources from year to year are primarily due to changes in TSRs receivable each year.

RISK FACTORS AND FUTURE REVENUE

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, Non-Participating Manufacturer (“NPM”) Adjustment, and miscalculated or disputed payments.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2021 AND 2020
(unaudited)

RISK FACTORS AND FUTURE REVENUE (continued)

In 2013, an arbitration panel ruling found that the State had met its 2003 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, the State entered into a settlement agreement with the tobacco companies that resolved all past and future disputes relating to the NPM Adjustment. The NPM Settlement Agreement provided for:

- Release of 90% of withheld TSRs relating to years 2004 through 2014;
- The reduction of future TSRs payment in accordance with a set formula 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. As part of the agreement, the State received a total of \$701 million from the disputed escrow account, of which TSASC received \$176 million. Of that amount, \$66 million was pledged for debt service and the remainder was remitted to the City, in accordance with the applicable indenture.

TSASC has no control over the amount of TSRs it receives. Risks in connection with future receipts of TSRs include the reduction of TSRs tied to the volume of cigarettes manufactured and sold on Native American reservations, litigation involving the participating manufacturers ("PMs") that could lead to bankruptcy of the PMs, continuing declines in cigarette consumption materially beyond forecasted levels, tobacco excise taxes, restrictions on smoking in public areas, and other potential 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 TSRs payments to TSASC could impair TSASC's ability to meet its payment obligations.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a pandemic, which continues to spread throughout the United States. TSASC could be materially and adversely affected by the risks, or the public perception of the risks, related to an epidemic, pandemic, outbreak, or other public health crisis, such as the recent outbreak of COVID-19. The ultimate extent of the impact of any epidemic, pandemic or other health crisis on TSASC's TSRs will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of such epidemic, pandemic or other health crisis and actions taken to contain or prevent their further spread, among others. Accordingly, TSASC cannot predict the extent to which its TSRs will be affected.

ECONOMIC OUTLOOK

On January 19, 2017, TSASC issued \$613 million 2017 Series A Senior Bonds and \$490 million 2017 Series B Subordinate Bonds under the 2016 Indenture, which allowed TSASC to refund its Series 2006-1 bonds outstanding and established a Senior Liquidity Reserve of \$48.0 million and Subordinate Liquidity Reserve of \$40.3 million. Future debt service payments on all outstanding bonds are contingent on TSRs collected by TSASC. TSRs are dependent on several factors, including, but not limited to a discount adjustment on the volume of cigarettes manufactured and sold on Native American reservations pursuant

TSASC, INC.

(A Component Unit of The City of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2021 AND 2020

(unaudited)

ECONOMIC OUTLOOK (continued)

to the NPM Settlement Agreement, as previously discussed. In structuring the financial transaction for the issuance of bonds, TSASC engaged the services of an independent consultant to develop forecasts of the TSRs. However, the actual TSRs received have been significantly different from those forecasted.

In April 2021, TSASC received \$76.2 million of pledged TSRs, which differed from the previous forecast of \$85 million. The reduced payments resulted primarily from the latest determination by an Independent Investigator that 165.9 million Tribal NPM Packs were sold in 2019; this figure was used in determining the 2021 payments. In April 2020, TSASC received \$70.5 million of pledged TSRs, which differed from the previous forecast of \$85 million. The reduced payments resulted primarily from the determination by an Independent Investigator that 175 million Tribal NPM Packs were sold in 2015, and a stipulation by the State and the PMs that the same number be used to represent Tribal NPM Packs sold in 2017; this figure was used in determining the 2020 payments. Due to the reduced payments of TSRs, TSASC projects that it will draw upon its Subordinate Liquidity Reserve Account an estimated \$5.1 million in order to meet its debt service requirement on December 1, 2021.

Due to the reduced payments of TSRs, TSASC drew a cumulative total of \$29.4 million from its Subordinate Liquidity Reserve Account beginning in December 2017 through December 2020 in order to meet its debt service requirements. As of June 30, 2021, the balance of the Subordinate Liquidity Reserve Account was \$12.4 million and, after the December 2021 estimated draw of \$5.1 million, the balance will be approximately \$7.3 million.

RATINGS

During the years reported herein, S&P Global Ratings ("S&P") issued several rating actions for TSASC's bonds. On May 10, 2019, S&P placed all of TSASC's rated bonds on CreditWatch with negative implications. As of October 24, 2019, S&P removed all of TSASC's rated bonds from CreditWatch with negative implications and changed certain ratings. For the 2017 Series A: the 2028 & 2029 serial bonds were rated "A-." For Series B: the 2020 serial bonds were rated "A-", the 2021 serial bonds were rated "BBB+", the 2022 serial bonds were rated "BBB", the 2023-2025 serial bonds were rated "B-", and the 2045 term bonds were rated "CCC+." On February 25, 2021, S&P upgraded the Series A maturity in 2030 to "A" from "A-." Moody's or Fitch did not rate TSASC bonds during the years reported therein.

REQUEST FOR INFORMATION

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, 2021 AND 2020

	2021	2020
	(in thousands)	
ASSETS:		
Unrestricted cash equivalents	\$ 544	\$ 694
Restricted cash equivalents	2	3
Restricted investments	80,118	85,934
Tobacco settlement revenue receivable	101,000	96,000
	181,664	182,631
DEFERRED OUTFLOWS OF RESOURCES:		
Unamortized deferred bond refunding costs	15,410	16,181
	15,410	16,181
LIABILITIES:		
Accrued expenses	13	12
Accrued interest payable	4,136	4,263
Remittance payable to the Trust	63,226	60,096
Bonds payable:		
Portion due within one year	26,675	30,570
Portion due after one year	1,002,939	1,033,212
	1,096,989	1,128,153
NET POSITION (DEFICIT):		
Unrestricted (deficit)	(899,915)	(929,341)
	\$ (899,915)	\$ (929,341)

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, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
	(in thousands)	
REVENUES:		
Tobacco settlement revenue:		
Tobacco settlement revenue - pledged	\$ 78,117	\$ 70,473
Tobacco settlement revenue - unpledged	130,752	117,958
Total tobacco settlement revenue	<u>208,869</u>	<u>188,431</u>
Investment earnings	<u>62</u>	<u>1,387</u>
Total revenues	<u>208,931</u>	<u>189,818</u>
EXPENSES:		
Transfer to the Trust	130,753	117,959
Bond interest	48,205	49,510
General and administrative	547	441
Total expenses	<u>179,505</u>	<u>167,910</u>
Change in net position	29,426	21,908
NET POSITION (DEFICIT) - beginning of year	<u>(929,341)</u>	<u>(951,249)</u>
NET POSITION (DEFICIT) - end of year	<u>\$ (899,915)</u>	<u>\$ (929,341)</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 SHEET

AS OF JUNE 30, 2021

	General Fund	Debt Service Fund	Total Governmental Funds
		(in thousands)	
ASSETS:			
Unrestricted cash equivalents	\$ 544	\$ -	\$ 544
Restricted cash equivalents	-	2	2
Restricted investments	-	80,118	80,118
Tobacco settlement revenue receivable	63,226	37,774	101,000
Total assets	\$ 63,770	\$ 117,894	\$ 181,664
 LIABILITIES:			
Accounts payable	\$ 13	\$ -	\$ 13
Total liabilities	13	-	13
 DEFERRED INFLOWS OF RESOURCES:			
Unavailable tobacco settlement revenue	63,226	37,774	101,000
Total deferred inflows of resources	63,226	37,774	101,000
 FUND BALANCES:			
Restricted for debt service	-	80,120	80,120
Unassigned	531	-	531
Total fund balances	531	80,120	80,651
Total liabilities, deferred inflows of resources and fund balances	\$ 63,770	\$ 117,894	\$ 181,664

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 SHEET

AS OF JUNE 30, 2020

	General Fund	Debt Service Fund	Total Governmental Funds
	(in thousands)		
ASSETS:			
Unrestricted cash equivalents	\$ 694	\$ -	\$ 694
Restricted cash equivalents	-	3	3
Restricted investments	-	85,934	85,934
Tobacco settlement revenue receivable	60,096	35,904	96,000
	<u>\$ 60,790</u>	<u>\$ 121,841</u>	<u>\$ 182,631</u>
Total assets	<u>\$ 60,790</u>	<u>\$ 121,841</u>	<u>\$ 182,631</u>
LIABILITIES:			
Accounts payable	\$ 12	\$ -	\$ 12
	<u>12</u>	<u>-</u>	<u>12</u>
Total liabilities	<u>12</u>	<u>-</u>	<u>12</u>
DEFERRED INFLOWS OF RESOURCES:			
Unavailable tobacco settlement revenue	60,096	35,904	96,000
	<u>60,096</u>	<u>35,904</u>	<u>96,000</u>
Total deferred inflows of resources	<u>60,096</u>	<u>35,904</u>	<u>96,000</u>
FUND BALANCES:			
Restricted for debt service	-	85,937	85,937
Unassigned	682	-	682
	<u>682</u>	<u>85,937</u>	<u>86,619</u>
Total fund balances	<u>682</u>	<u>85,937</u>	<u>86,619</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 60,790</u>	<u>\$ 121,841</u>	<u>\$ 182,631</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, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
	(in thousands)	
Total fund balances - governmental funds	\$ 80,651	\$ 86,619
Amounts reported for governmental activities in the statements of net position (deficit) are different because:		
Bond premiums are reported as other financing sources in the governmental funds financial statements upon issuance. However, in the statements of net position (deficit), bond premiums are reported as a component of bonds payable and amortized over the life of the bonds.		
	(36,999)	(40,597)
Costs of bond refundings are reported as expenditures in governmental funds financial statements. However, in the statements of net position (deficit), those costs and the related gain or loss are deferred and amortized over the shorter of the remaining life of the old debt or life of the new debt.		
	15,410	16,181
Unavailable tobacco settlement revenue earned but not received within two months after year-end is reported as a deferred inflows of resources in the governmental funds financial statements because it is not currently available; however, it is recognized as revenue in the statements of net position (deficit).		
	101,000	96,000
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	(992,615)	(1,023,185)
Accrued interest payable	(4,136)	(4,263)
Remittance payable to the Trust	(63,226)	(60,096)
Net position (deficit) of governmental activities	<u>\$ (899,915)</u>	<u>\$ (929,341)</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, 2021

	General Fund	Debt Service Fund	Total Governmental Funds
		(in thousands)	
REVENUES:			
Tobacco settlement revenue:			
Tobacco settlement revenue - pledged	\$ 396	\$ 75,851	\$ 76,247
Tobacco settlement revenue - unpledged	127,622	-	127,622
Total tobacco settlement revenue	128,018	75,851	203,869
Investment earnings	1	61	62
Total revenues	128,019	75,912	203,931
EXPENDITURES:			
Transfer to the Trust:			
Tobacco settlement revenue and interest earnings	127,623	-	127,623
Bond interest	-	51,159	51,159
Principal amount of bonds retired	-	30,570	30,570
General and administrative	547	-	547
Total expenditures	128,170	81,729	209,899
Net change in fund balances	(151)	(5,817)	(5,968)
FUND BALANCES - beginning of year	682	85,937	86,619
FUND BALANCES - end of year	\$ 531	\$ 80,120	\$ 80,651

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, 2020

	General Fund	Debt Service Fund	Total Governmental Funds
		(in thousands)	
REVENUES:			
Tobacco settlement revenue:			
Tobacco settlement revenue - pledged	\$ 433	\$ 70,040	\$ 70,473
Tobacco settlement revenue - unpledged	117,958	-	117,958
Total tobacco settlement revenue	118,391	70,040	188,431
Investment earnings	8	1,379	1,387
Total revenues	118,399	71,419	189,818
EXPENDITURES:			
Transfer to the Trust:			
Tobacco settlement revenue and interest earnings	117,959	-	117,959
Bond interest	-	52,628	52,628
Principal amount of bonds retired	-	29,375	29,375
General and administrative	441	-	441
Total expenditures	118,400	82,003	200,403
Net change in fund balances	(1)	(10,584)	(10,585)
FUND BALANCES - beginning of year	683	96,521	97,204
FUND BALANCES - end of year	\$ 682	\$ 85,937	\$ 86,619

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, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
	(in thousands)	
Net change in fund balances - governmental funds	\$ (5,968)	\$ (10,585)
Amounts reported for governmental activities in the statements of activities are different because:		
The governmental funds financial statements report costs of bond refundings as expenditures. However, in the statements of activities, the costs of bond refundings are amortized over the shorter of the life of the bonds refunded or the life of the bonds issued to refund the bonds.	(771)	(770)
Tobacco settlement revenue not available in the current period is deferred in the governmental funds financial statements and included in revenue in the statements of activities.	5,000	-
Payment of bond principal is an expenditure in the governmental funds financial statements, but the payment reduces bonds payable in the statements of net position (deficit).	30,570	29,375
The governmental funds financial statements report bond premiums as other financing (uses) upon issuance. However, in the statements of activities, bond premiums are amortized over the life of the bond and offset bond interest.	3,598	3,765
Interest is reported in the statements of activities on the accrual basis. However, interest is reported as an expenditure in the governmental funds financial statements when the outlay of financial resources is paid.	127	123
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>(3,130)</u>	<u>-</u>
Change in net position (deficit) - governmental activities	<u>\$ 29,426</u>	<u>\$ 21,908</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, 2021 AND 2020

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

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

On January 19, 2017, TSASC issued \$613 million 2017 Series A Senior Bonds and \$490 million 2017 Series B subordinate bonds, which allowed TSASC to refinance all its bonds outstanding under a new indenture. Of the \$490 million 2017 Series B subordinate bonds, \$450 million were exchanged rather than refunded. The Amended and Restated Indenture dated December 1, 2016, (the “2016 Indenture”) continued to provide that 62.6% of TSASC’s annual collection of TSRs and the related interest earnings are transferred to the TSASC Tobacco Settlement Trust (the “Trust”), as owner of the Residual Certificate. The City is the beneficial owner of the Trust and the funds received by the Trust, net of the Trust’s expenses and interest earnings, are transferred to the City. During fiscal years 2021 and 2020, TSASC transferred to the Trust \$128 million and \$118 million, respectively. The 2016 Indenture also continued to provide that 37.4% of TSASC’s annual collection of TSRs are pledged for the payment of TSASC’s debt service and the operating costs.

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

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, 2021 AND 2020

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 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 and reported as deferred inflows of resources. Per the 2016 Indenture, 62.6% of TSRs receivable is due to the Trust. Therefore, a corresponding payable is recorded in the government-wide financial statements.

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

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2021 AND 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Bond issuance costs are recognized as an expense/expenditure in the period incurred in the government-wide and governmental funds financial statements, respectively; except for prepaid debt insurance costs, which is amortized over the life of the related bonds on the government-wide financial statements.

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

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 (“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 future years:

- In June 2017, GASB issued Statement No. 87, *Leases*, (“GASB 87”). The objective of GASB 87 is to improve accounting and financial reporting for leases by governments. This statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are a financing of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The requirements of GASB 87 are effective for fiscal years beginning after December 15, 2019 (Postponed to fiscal years beginning after June 15, 2021. See GASB 95 below). TSASC has not completed the process of evaluating GASB 87 but does not expect it to have an impact on TSASC’s financial statements, as it does not enter into lease agreements.

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

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2021 AND 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- In January 2020, GASB issued Statement No. 92, *Omnibus 2020*, (“GASB 92”). GASB 92 enhances the comparability in accounting and financial reporting as well as improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements for GASB 92 are effective for reporting periods beginning after June 15, 2020 (Postponed to fiscal years beginning after June 15, 2021. See GASB 95 below). TSASC has not completed the process of evaluating GASB 92 but does not expect it to have an impact on TSASC’s financial statements.
- In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*, (“GASB 93”). GASB 93 addresses those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate (“IBOR”) – most notably, the London Interbank Offered Rate (“LIBOR”) resulting from global reference rate reform. LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements for GASB 93 are effective for reporting periods beginning after June 15, 2020. (Postponed paragraphs 13 and 14 to fiscal years beginning after June 15, 2021. See GASB 95 below). TSASC has not completed the process of evaluating GASB 93 but does not expect it to have an impact on TSASC’s financial statements.
- In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, (“GASB 94”). GASB 94 improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (“PPPs”). The requirements for GASB 94 are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. TSASC has not completed the process of evaluating GASB 94 but does not expect it to have an impact on TSASC’s financial statements as it does not enter into PPPs.
- In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, (“GASB 95”). GASB 95 provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.
- In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, (“GASB 96”). GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (“SBITAs”) for government end users (governments). The requirements of GASB 96 are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. TSASC has not completed the process of evaluating GASB 96 but does not expect it to have an impact on TSASC’s financial statements as it does not enter into SBITAs.

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

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2021 AND 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, (“GASB 97”). The objectives of GASB 97 are to 1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of GASB 97 are effective for fiscal years beginning after June 15, 2021. TSASC has not completed the process of evaluating GASB 97 but does not expect it to have an impact on TSASC’s financial statements, as TSASC does not have such plans.

NOTE 3 – BONDS PAYABLE

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

A summary of changes in outstanding bonds in fiscal years 2021 and 2020 is as follows (in thousands):

	Outstanding Principal Balance at June 30, 2019	Additions	Deletions	Outstanding Principal Balance at June 30, 2020	Additions	Deletions	Outstanding Principal Balance at June 30, 2021
Series 2017A	\$ 564,560	\$ -	\$ (23,375)	\$ 541,185	\$ -	\$ (24,370)	\$ 516,815
Series 2017B	488,000	-	(6,000)	482,000	-	(6,200)	475,800
Total before premiums	1,052,560	-	(29,375)	1,023,185	-	(30,570)	992,615
Premiums	44,362	-	(3,765)	40,597	-	(3,598)	36,999
Total bonds payable	<u>\$ 1,096,922</u>	<u>\$ -</u>	<u>\$ (33,140)</u>	<u>\$ 1,063,782</u>	<u>\$ -</u>	<u>\$ (34,168)</u>	<u>\$ 1,029,614</u>
Due within one year	<u>\$ 29,375</u>			<u>\$ 30,570</u>			<u>\$ 26,675</u>

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

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2021 AND 2020

NOTE 3 – BONDS PAYABLE (continued)

As of June 30, 2021, and 2020, TSASC's Senior Liquidity Reserve Account was funded in accordance with the 2016 Indenture requirements, as it had on deposit \$48.0 million and \$48.0 million, respectively. TSASC also fully funded its senior debt service requirements as of June 30, 2021 and 2020.

As of June 30, 2021, TSASC did not receive sufficient TSRs to fully fund its subordinate debt service requirement. The reduced TSRs from original forecasts resulted primarily from the adjustment based on the volume of cigarettes manufactured and sold on Native American reservations pursuant the NPM Settlement Agreement. Due to the reduced payment of TSRs, TSASC projects that it will draw upon its Subordinate Liquidity Reserve Account an estimated \$5.1 million in order to meet its debt service requirement on December 1, 2021. Additionally, TSASC previously drew \$29.4 million from its Subordinate Liquidity Reserve Account in December 2017 through December 2020 to make its debt service payments. Again, the adjustment for the volume of cigarettes manufactured and sold on Native American reservations caused TSRs to be less than originally forecasted. As of June 30, 2021, the balance of the Subordinate Liquidity Reserve Account was \$12.4 million and after the estimated December 2021 draw the balance will be approximately \$7.3 million.

Debt service requirements, including principal and interest as of June 30, 2021 are as follows (in thousands):

Year ended June 30,	SENIOR		SUBORDINATE		TOTAL		
	Principal	Interest	Principal	Interest	Principal	Interest	Debt Service
2022	\$ 20,375	\$ 25,841	\$ 6,300	\$ 23,790	\$ 26,675	\$ 49,631	\$ 76,306
2023	21,435	24,822	6,400	23,475	27,835	48,297	76,132
2024	22,550	23,750	6,500	23,155	29,050	46,905	75,955
2025	23,785	22,623	6,600	22,830	30,385	45,453	75,838
2026	25,135	21,434	-	22,500	25,135	43,934	69,069
2027 to 2031	137,180	87,392	-	112,500	137,180	199,892	337,072
2032 to 2036	133,690	53,037	-	112,500	133,690	165,537	299,227
2037 to 2041	132,665	20,433	-	112,500	132,665	132,933	265,598
2042 to 2046	-	-	175,000	103,750	175,000	103,750	278,750
2047 to 2048	-	-	275,000	27,500	275,000	27,500	302,500
Total	\$ 516,815	\$ 279,332	\$ 475,800	\$ 584,500	\$ 992,615	\$ 863,832	\$ 1,856,447

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

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2021 AND 2020

NOTE 4 – CASH EQUIVALENTS

As of June 30, 2021, and 2020, TSASC did not have any cash deposits on hand. Cash equivalents were comprised of money market funds. TSASC's cash equivalents are summarized as follows:

	2021	2020
	(in thousands)	
Restricted:		
Cash equivalents (see note 5)	\$ 2	\$ 3
Total restricted	2	3
Unrestricted:		
Cash equivalents (see note 5)	544	694
Total unrestricted	544	694
Total cash equivalents	\$ 546	\$ 697

NOTE 5 – INVESTMENTS

The investments, including cash equivalents, as of June 30, 2021 and 2020 are summarized as follows:

	2021	2020
	(in thousands)	
Restricted:		
Money Market Funds	\$ 2	\$ 3
Federal Home Loan Bank Discount Notes (Maturing within one year)	80,118	85,934
Total restricted	80,120	85,937
Unrestricted:		
Money Market Funds	544	694
Total unrestricted	544	694
Total investments including cash equivalents	80,664	86,631
Less amounts reported as cash equivalents (see note 4)	(546)	(697)
Total investments	\$ 80,118	\$ 85,934

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

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2021 AND 2020

NOTE 5 – INVESTMENTS (continued)

TSASC had the following recurring fair value measurements as of June 30, 2021 and 2020:

- 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).

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 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: Investments held by TSASC at June 30, 2021 were primarily securities invested in Federal Home Loan Bank discount notes rated by Moody's P-1, Standard & Poor's A-1+ and Fitch F1+.

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, 2021, more than 5% of TSASC's investments were in U.S. Government-sponsored entities. These investments were 99.3% of TSASC's total investments.
