TSASC, INC.

A COMPONENT UNIT OF THE CITY OF NEW YORK

Financial Statements
(Together with Independent Auditors' Report)

Years Ended June 30, 2010 and 2009

Marks Paneth & Shron LLP
Certified Public Accountants and Consultants

TSASC, INC.

FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2010 AND 2009

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INDEPENDENT AUDITORS' REPORT

To 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, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of TSASC's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the governmental activities of TSASC, Inc. as of June 30, 2010 and 2009 and the respective changes in financial position thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis on pages 2 – 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Marks Paneth & Shron LLP

New York, New York
September 23, 2010

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a narrative overview and analysis of the financial activities of TSASC, Inc. ("TSASC") for the fiscal years ended June 30, 2010 and 2009. It should be read in conjunction with TSASC's government-wide financial statements, governmental fund financial statements and the notes to the financial statements.

The annual financial statements consist of three parts: (1) management's discussion and analysis (this section); (2) the government-wide financial statements; and (3) the governmental fund financial statements.

The government-wide financial statements of TSASC, which include the statements of net assets (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.

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 debt service (governmental) fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. 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 interest on bonds payable, which is recognized when due.

The reconciliations of the statements of revenues, expenditures and changes in fund balances of the debt service fund to the statements of activities and the balance sheets of the debt service fund to the statements of net assets are presented to assist the reader in understanding the differences between government-wide and debt service fund 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, 62.60% of TSASC's annual collection of Tobacco Settlement Revenues ("TSR") 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 2010 and 2009, the Trust transferred to the City $121.19 million and $145.65 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 37.40% 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 following summarizes the activities of TSASC for the years ended June 30,

	2010	2009	2008	Variance 2010/2009	Variance 2009/2008
	----------(in thousands)---------			----------(in thousands)---------	
Revenues:					
Tobacco settlement revenue	$ 185,580	$ 233,612	$ 211,937	$ (48,032)	$ 21,675
Investment earnings	89	1,687	14,729	(1,598)	(13,042)
Total revenues	185,669	235,299	226,666	(49,630)	8,633
Expenses:					
Transfer to Trust	121,192	145,646	552,018	(24,454)	(406,372)
Interest expense	65,171	66,218	67,108	(1,047)	(890)
Other	6,202	18,856	19,240	(12,654)	(384)
Total expenses	192,565	230,720	638,366	(38,155)	(407,646)
Change in net deficit	(6,896)	4,579	(411,700)	(11,475)	416,279
Net deficit, beginning of year	(1,017,769)	(1,022,348)	(610,648)	4,579	(411,700)
Net deficit, end of year	$(1,024,665)	$(1,017,769)	$(1,022,348)	$ (6,896)	$ 4,579

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. The State receives 12.76% of the total TSRs collected of which TSASC receives 26.67% of the State's share or 3.40% of total TSRs paid by the participating cigarette manufacturers.

Tobacco Settlement Revenues received in the fiscal year are based upon tobacco sales during 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 $185.58 million, $233.61 million, and $211.94 million in fiscal years 2010, 2009, and 2008, respectively. The $48.03 million decrease in TSRs in fiscal year 2010 was primarily due to the cigarette manufacturers depositing an increase in funds into the MSA disputed escrow account until certain issues are resolved. The increase of $21.7 million of TSRs in fiscal year 2009 over fiscal year 2008 was primarily due to the $540 million released from the MSA disputed payment escrow account, of which TSASC received $18.4 million. The release of these funds to the Settling States in February 2009 was in exchange for the Settling States agreeing to submit to arbitration over $1.5 billion in disputed payments from 2003. The selection of the members of the arbitration panel, which consists of three members, was finalized in July 2010 and the panel has begun its proceedings. If the tobacco companies prevail in these disputes, the money released in February 2009 to the Settling States would be repaid through reduced settlement payments in the future. However, the probability and the amount of any such future reduction cannot be estimated at this time.

Interest earnings decreased in fiscal year 2010 due to the continued low interest rate environment.

Under the TSASC turbo redemption feature, $8.38 million of Series 2006-1 bonds were redeemed in fiscal year 2010 compared to $23.86 million in fiscal year 2009. The decrease in the turbo redemptions was primarily due to the reduction of TSRs received, as discussed above. TSASC had outstanding bonds of $1.26 billion and $1.27 billion as of June 30, 2010 and 2009, respectively.

Other expenses are composed primarily of the amortization of deferred bond refunding costs and the costs of issuance relating to the fiscal year 2006 restructuring of debt. In fiscal years 2010 and 2009, the amortization expense was $5.7 million and $18.35 million, respectively. The decrease in fiscal year 2010 amortization expense was primarily due to the scheduled payoff of the remaining principal of the refunded Series 1999-1 bonds of $662.96 million, resulting in a decrease in deferred bond refunding costs and costs of issuance related to those bonds.

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

	2010	2009	2008	Variance 2010/2009	Variance 2009/2008
	(in thousands)			(in thousands)	
Assets:					
Total assets – non-capital	$ 204,077	$ 212,743	$ 212,825	$ (8,666)	$ (82)
Liabilities:					
Current liabilities	5,290	5,323	5,430	(33)	(107)
Long-term liabilities:					
Bonds payable	1,265,305	1,273,690	1,297,545	(8,385)	(23,855)
Other	(41,853)	(48,501)	(67,802)	6,648	19,301
Total liabilities	1,228,742	1,230,512	1,235,173	(1,770)	(4,661)
Net assets (deficit):					
Restricted for debt service	(1,025,480)	(1,018,568)	(1,023,072)	(6,912)	4,504
Unrestricted	815	799	724	16	75
Net deficit, end of year	$(1,024,665)	$(1,017,769)	$(1,022,348)	$ (6,896)	$ 4,579

Bonds payable decreased $8.38 million in fiscal year 2010 and $23.86 million in fiscal year 2009 due to the turbo redemption of the Series 2006-1 bonds in December and June of fiscal years 2010 and 2009, respectively. Other liabilities are the remaining unamortized bond discount and deferred bond refunding costs related to the issuance of the Series 2006-1 bonds.

Total assets decreased due to the decrease in the TSR receivable in fiscal year 2010 resulting from the decrease in TSR revenue.

The net deficits are due to the issuance of the Series 2006-1 bonds. These bonds will be paid from future TSRs, with the final maturity occurring in fiscal year 2042.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS - GOVERNMENTAL FINANCIAL STATEMENTS

The following summarizes the changes in debt service fund balances for the years ended June 30,

	2010	2009	2008	Variance 2010/2009	Variance 2009/2008
	(in thousands)			(in thousands)	
Revenues:					
Tobacco settlement revenue	$ 193,580	$ 232,612	$ 210,937	$ (39,032)	$ 21,675
Investment earnings	89	1,687	14,729	(1,598)	(13,042)
Total revenues	193,669	234,299	225,666	(40,630)	8,633
Expenditures:					
Transfer to Trust	121,192	145,646	552,018	(24,454)	(406,372)
Interest expense	63,870	64,972	65,833	(1,102)	(861)
Principal amounts of bonds retired	8,385	23,855	19,315	(15,470)	4,540
Other	503	506	517	(3)	(11)
Total expenditures	193,950	234,979	637,683	(41,029)	(402,704)
Change in fund balance	(281)	(680)	(412,017)	399	411,337
Fund balance, beginning of year	118,162	118,842	530,859	(680)	(412,017)
Fund balance, end of year	$ 117,881	$ 118,162	$ 118,842	$ (281)	$ (680)

Tobacco Settlement Revenues decreased in fiscal year 2010 primarily due to the deposits into the MSA disputed escrow account by the participating cigarette manufactures as previously discussed. The decrease in TSRs received reduced the amount of the transfer to the Trust and therefore to the City as the beneficial owner of the Trust. The fiscal year 2008 transfers to the Trust included $420 million of TSRs and other amounts received in prior years and payable to the Trust in fiscal year 2008 under the terms of the Indenture.

The following summarizes the changes in the debt service fund assets, liabilities, and fund balances as of June 30,

	2010	2009	2008	Variance 2010/2009	Variance 2009/2008
	(in thousands)			(in thousands)	
Assets:					
Cash and investments	$ 117,713	$ 117,970	$ 118,642	$ (257)	$ (672)
Tobacco settlement revenue receivable	77,000	85,000	84,000	(8,000)	1,000
Other	168	192	213	(24)	(21)
Total assets	$ 194,881	$ 203,162	$ 202,855	$ (8,281)	$ 307
Liabilities:					
Deferred tobacco settlement revenue	$ 77,000	$ 85,000	$ 84,000	$ (8,000)	$ 1,000
Other	-	-	13	-	(13)
Total liabilities	77,000	85,000	84,013	(8,000)	987
Fund balance:					
Reserved for debt service	117,066	117,363	118,118	(297)	(755)
Unreserved	815	799	724	16	75
Total fund balance	117,881	118,162	118,842	(281)	(680)
Total liabilities and fund balance	$ 194,881	$ 203,162	$ 202,855	$ (8,281)	$ 307

As of June 30, 2010, TSASC's investments consisted of U.S. government-sponsored enterprise discount notes and in general obligation taxable municipal bonds. At June 30, 2009, TSASC's investments were primarily invested in U.S. government-sponsored enterprise discount notes.

The decrease in the TSRs receivable in fiscal year 2010 reflects a decrease in TSR revenue, a portion of which is related to estimated cigarette sales, which continue to decline, and which occur prior to the end of the fiscal year but for which manufacturers will make payment in the future. Other assets represent the value of prepaid insurance as of June 30, 2010 and 2009.

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 Raymond Orlando, Manager of Investor Relations, TSASC, Inc., 75 Park Place, New York, NY 10007.

**** END ****

TSAC, INC.

STATEMENTS OF NET ASSETS (DEFICIT)

AS OF JUNE 30, 2010 AND 2009

	2010	2009
	(in thousands)	
ASSETS:		
Restricted cash and cash equivalents	$ 77,408	$ 3
Unrestricted cash and cash equivalents	98	71
Restricted investments	39,658	117,360
Unrestricted investments	549	536
Tobacco settlement revenue receivable	77,000	85,000
Unamortized bond issuance costs	9,196	9,581
Other	168	192
TOTAL ASSETS	$ 204,077	$ 212,743
LIABILITIES:		
Accrued interest payable	$ 5,290	$ 5,323
Bonds payable	1,265,305	1,273,690
Unamortized bond discount	(31,766)	(33,101)
Unamortized deferred bond refunding costs	(10,087)	(15,400)
TOTAL LIABILITIES	$ 1,228,742	$ 1,230,512
NET ASSETS (DEFICIT):		
Restricted for debt service	(1,025,480)	(1,018,568)
Unrestricted	815	799
TOTAL DEFICIT	$ (1,024,665)	$ (1,017,769)

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

TSASC, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
	(in thousands)	
EXPENSES:		
Transfer to Trust	$ 121,192	$ 145,646
General and administrative expenses	503	506
Interest expense	65,171	66,218
Amortization of bond issuance costs	386	388
Amortization of deferred bond refunding costs	5,313	17,962
TOTAL EXPENSES	192,565	230,720
REVENUES:		
Tobacco settlement revenue:		
Tobacco settlement revenue - pledged	69,407	87,371
Tobacco settlement revenue - unpledged	116,173	146,241
Total tobacco settlement revenue	185,580	233,612
Investment earnings	89	1,687
TOTAL REVENUES	185,669	235,299
CHANGE IN DEFICIT	(6,896)	4,579
Deficit - beginning of year	(1,017,769)	(1,022,348)
DEFICIT - END OF YEAR	$ (1,024,665)	$ (1,017,769)

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

TSASC, INC.
DEBT SERVICE FUND BALANCE SHEETS
AS OF JUNE 30, 2010 AND 2009

	2010	2009
	(in thousands)	
ASSETS:		
Restricted cash and cash equivalents	$ 77,408	$ 3
Unrestricted cash and cash equivalents	98	71
Restricted investments	39,658	117,360
Unrestricted investments	549	536
Tobacco settlement revenue receivable	77,000	85,000
Other	168	192
TOTAL ASSETS	$ 194,881	$ 203,162
LIABILITIES AND FUND BALANCE:		
LIABILITIES:		
Deferred tobacco settlement revenue	$ 77,000	$ 85,000
TOTAL LIABILITIES	77,000	85,000
FUND BALANCE:		
Restricted for debt service	117,066	117,363
Unassigned	815	799
TOTAL FUND BALANCE	117,881	118,162
TOTAL LIABILITIES AND FUND BALANCE	$ 194,881	$ 203,162

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

TSASC, INC.
RECONCILIATIONS OF THE DEBT SERVICE FUND BALANCE SHEETS
TO THE STATEMENTS OF NET ASSETS (DEFICITS)
AS OF JUNE 30, 2010 AND 2009

	2010	2009
	(in thousands)	
Total fund balance- governmental fund	$ 117,881	$ 118,162
Amounts reported for governmental activities in the statements of net assets (deficits) are different because:		
Costs of debt issuance are expenditures in governmental activities. However, in the statements of net assets, the costs of debt issuance are reported as capitalized assets and amortized over the life of the related asset.	9,196	9,581
Bond discounts are reported as other financing uses in the debt service fund financial statements. However, in the statements of net assets, bond discounts are reported as a component of bonds payable and amortized over the lives of the related debt.	31,766	33,101
Deferred tobacco settlement revenue accrued but not received within two months after year end is deferred in the debt service fund financial statements; however it is recognized as revenue and not deferred in the statements of net assets.	77,000	85,000
Costs of bond refundings are reported as expenditures in the debt service fund financial statements. However, in the statements of net assets, those costs and the related gain or loss are deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt.	10,087	15,400
Some liabilities are not due and payable in the current period from currently available financial resources and therefore are not reported in the debt services fund financial statements. These liabilities consist of:		
Bonds payable	(1,265,305)	(1,273,690)
Accrued interest on bonds	(5,290)	(5,323)
Net deficit of governmental activities	$ (1,024,665)	$ (1,017,769)

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

TSASC, INC.
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
DEBT SERVICE FUND
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
	(in thousands)	
REVENUES:		
Tobacco settlement revenue:		
Tobacco settlement revenue - pledged	$ 72,399	$ 86,997
Tobacco settlement revenue - unpledged	121,181	145,615
Total tobacco settlement revenue	193,580	232,612
Investment earnings	89	1,687
TOTAL REVENUES	193,669	234,299
EXPENDITURES:		
Transfers to Trust:		
Tobacco settlement revenue and interest earnings	121,192	145,646
Interest expense	63,870	64,972
Principal amount of bonds retired	8,385	23,855
General and adminstrative	503	506
TOTAL EXPENDITURES	193,950	234,979
NET CHANGES IN FUND BALANCE	(281)	(680)
Fund Balance- beginning of year	118,162	118,842
FUND BALANCE - END OF YEAR	$ 117,881	$ 118,162

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

TSASC, INC.
RECONCILIATIONS OF THE STATEMENTS OF REVENUES, EXPENDIUTRES AND CHANGES IN FUND BALANCE FUND TO THE STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
	(in thousands)	
Net changes in fund balance - governmental fund	$ (281)	$ (680)
Amounts reported for governmental activities in the statements of activities are different because:		
Tobacco settlement revenue is deferred in debt service fund and included in revenue in the statements of activities.	(8,000)	1,000
Repayment of bond principal is an expenditure in the debt service fund, but the repayment reduces long-term liabilities in the statements of activities.	8,385	23,855
Debt service fund reports the cost of debt issuance and refunding bond issuance costs as expenditures. However, in the statement of activities, the cost of debt issuance is amortized over the life of the related debt.	(386)	(388)
Debt service fund reports bond discounts as other financing uses. However, in the statements of activities, bond discounts are amortized over the lives of the related debt as interest expense.	(1,335)	(1,339)
Costs of bond refundings are reported as expenditures in the debt service fund financial statements. However, in the statements of net assets, those costs and the related gain or loss are deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt.	(5,313)	(17,962)
Interest expense is reported in the statement of activities on the accrual basis, but interest is reported as an expenditure in the debt service fund when the outlay of financing resources is required.	34	93
Change in net (deficit) assets of governmental activities	$ (6,896)	$ 4,579

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

TSASC, Inc. ("TSASC") is a special purpose, local development corporation organized under the Not-For-Profit Corporation Law of the State of New York (the "State"). TSASC is an instrumentality of, but separate and apart from, The City of New York (the "City"). TSASC is governed by a Board of five directors, consisting of the following officials of the City: the Director of Management and Budget (who also serves as Chairperson), the Commissioner of Finance, the Corporation Counsel of the City, the Comptroller and the Speaker of the Council. Although legally separate from the City, TSASC is a component unit of the City and is included in the City's financial statements as a blended component unit in accordance with Governmental Standards Board ("GASB") standards.

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

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

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

The Indenture provides that a specified percentage of Collections are pledged ("Pledged"), and required to be applied to the payment of debt service and operating costs. The Pledged percentage is 37.40% 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 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 of 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The government-wide financial statements of TSASC, which include the statement of net assets (deficit) and the statement 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.

   TSASC's debt service (governmental) fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes susceptible to accrual, which 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 interest on bonds payable, which is recognized when due. TSASC's sole governmental fund is the debt service fund, which accounts for the accumulation of resources for payment of principal and interest on debt, as well as for TSASC's general operations. TSASC does not anticipate issuing additional debt.

B. Investments, including accrued interest, are reported at fair value as of the reporting date.

C. TSASC records TSRs receivable at June 30th. The TSRs receivable is expected to be received the following April and is based on an estimate of cigarette sales for the six month period from January 1 to June 30. As it is not received within two months of the fiscal year end, the revenue related to the TSRs receivable is deferred in the debt service fund.

D. Bond premiums, discounts and issuance costs are capitalized and amortized over the life of the related debt using the interest method in the government-wide financial statements. The debt service fund financial statements recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

E. Deferred bond refunding costs represent the accounting loss incurred in advance refunding of outstanding bonds. The deferred bond refunding costs are amortized over the shorter of the remaining life of the old debt or the life of the new debt. In the debt service fund, costs of the bond refundings are reported as expenditures when incurred.

F. Interest expense is recognized on the accrual basis in the government-wide financial statements. Interest expenditures are recognized when due in the debt service fund financial statements.

G. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires TSASC's management to make estimates and assumptions in determining the reported amounts of assets and liabilities, 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.

H. 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 new standards which will or may impact TSASC.

   In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The Statement requires all intangible assets not specifically excluded by its scope provisions to be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. The requirements for GASB 51 are effective for financial statements for periods beginning after June 15, 2009, and was thus implemented by the City for its fiscal year ended June 30, 2010. There was no impact on TSASC's financial statements as a result of the implementation of GASB 51.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The Statement establishes guidance on the recognition, measurement and disclosures related to derivative instruments entered into by governmental entities. GASB 53 requires that most derivative instruments be reported at fair value, and requires governmental entities to determine if derivatives are effective hedges of risks associated with related hedgeable items. Generally, for derivatives that are effective hedges, changes in fair values are deferred whereas for others the changes in fair value are recognized in the current period. The requirements for GASB 53 are effective for financial statements for periods beginning after June 15, 2009, and was thus implemented by the City for its fiscal year ended June 30, 2010. There was no impact on TSASC's financial statements as a result of the implementation of GASB 53.

Future Pronouncement

In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Statement affects the display of fund balances in the financial statements and requires that governments disclose their fund balance classifications, policies and procedures in the Notes. Fund balances will be classified as nonspendable, restricted, committed, assigned, and/or unassigned, depending on the definitions provided in the Statement. Additionally, GASB 54 refines the definitions of each of the governmental fund types, such as debt service and capital projects funds. The requirements for GASB 54 are effective for periods beginning after June 15, 2010. GASB 54 will not have any financial impact on TSASC but will change TSASC's governmental fund financial statement presentation.

NOTE 3 – CASH AND CASH EQUIVALENTS

TSASC's cash and cash equivalents consist of bank deposits, money market funds and short-term U.S. Government sponsored enterprise securities ("GSE") of three months or less and are held by TSASC's trustee in the trustee's name and are reported at fair value.

As of June 30, 2010 and 2009, total cash and cash equivalents are summarized as follows:

	2010	2009
	(in thousands)	
Restricted for Debt Service:		
Cash – FDIC insured	$ 2	$ 3
Cash equivalents (see Note 4)	77,406	-
Total restricted	$ 77,408	$ 3
Unrestricted:		
Cash – FDIC insured	$ 25	$ 25
Cash equivalents (see Note 4)	73	46
Total unrestricted	98	71
Total cash and cash equivalents	$ 77,506	$ 74

NOTE 4 – INVESTMENTS

The investments, including cash equivalents, as of June 30, 2010 and 2009 are summarized as follows:

	2010	2009
	(in thousands)	
Restricted for Debt Service:		
Securities of U.S. government agencies	$ 109,154	$ 117,360
Municipal Bond – Washington State General Obligation Build America Bond (Maturing August 1, 2040)	7,910	-
	$ 117,064	$ 117,360
Unrestricted:		
Money market funds	$ 73	$ 46
Securities of U.S. government agencies	549	536
Total investments including cash equivalents	117,686	117,942
Less amounts reported as cash equivalents	77,479	46
Total investments (see Note 3)	$ 40,207	$ 117,896

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

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

Credit risk: TSASC investments are primarily government-sponsored enterprise discount notes and general obligation municipal bonds rated by each rating agency in one of its three highest ratings categories.

Interest rate risk: TSASC's investments mature in six months or less, unless otherwise specified. Investments with longer term maturities are not expected to be liquidated prior to maturity thereby limiting exposure from rising interest rates.

NOTE 5 – BONDS PAYABLE

In accordance with the Indenture, Pledged Collections during fiscal years 2010 and 2009 were used to fund operating expenses, then to fund interest payments due on December 1, 2009 and 2008 and June 1, 2010, and 2009, then to fund and make turbo redemption payments. During fiscal years 2010 and 2009, turbo redemptions were $8.38 million and $23.86 million, respectively.

NOTE 5 – BONDS PAYABLE (Continued)

Outstanding bonds payable bear interest at rates ranging from 4.750% to 5.125%. A summary of changes in outstanding bonds in fiscal years 2009 and 2010 is as follows:

	Balance June 30, 2008	Bonds Issued	Bonds Retired or Defeased	Balance June 30, 2009	Bonds Issued	Bonds Retired or Defeased	Balance June 30, 2010
Series 2006-1	$ 1,297,545	$ -	$ (23,855)	$ 1,273,690	$ -	$ (8,385)	$ 1,265,305

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, 2010 are as follows (in thousands):

	Term Bond Maturities			Sinking Fund Principal Payments		
	Principal	Interest	Total	Principal	Interest	Total
Year ended June 30,						
2011	$ -	$ 63,474	$ 63,474	$ -	$ 63,474	$ 63,474
2012	-	63,474	63,474	-	63,474	63,474
2013	-	63,474	63,474	-	63,474	63,474
2014	-	63,474	63,474	6,715	63,474	70,189
2015 to 2019	-	317,372	317,372	102,400	307,482	409,882
2020 to 2024	195,865	298,765	494,630	152,140	277,639	429,779
2025 to 2029	137,765	250,189	387,954	195,380	235,944	431,324
2930 to 2034	372,650	236,413	609,063	249,645	181,893	431,538
2035 to 2039	-	143,250	143,250	321,655	111,946	433,601
2040 to 2042	559,025	85,950	644,975	237,370	24,741	262,111
	$1,265,305	$1,585,835	$2,851,140	$ 1,265,305	$ 1,393,541	$ 2,658,846

As of June 30, 2010 and 2009, TSASC has funded its debt service reserve accounts according to the Indenture requirements. As of June 30, 2010 and 2009, debt service accounts holdings totaled $31.75 million and $31.94 million, respectively.

As of June 30, 2010 and 2009, the TSASC Liquidity Reserve Account's balances were $85.32 million and $85.42 million, respectively, and in compliance with the Indenture.

TSASC, on February 8, 2006, refunded, with Defeasance Collateral, bonds totaling $1.11 billion of which $408.64 million are still to be paid from the Defeasance Collateral held in the escrow account on deposit with TSASC's escrow trustee.

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