



TSASC, Inc.

(A Component Unit of The City of New York)

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

June 30, 2023 and 2022

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

FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

JUNE 30, 2023 AND 2022

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INDEPENDENT AUDITORS' REPORT

The Members of the Board of Directors
TSASC, Inc.
New York, NY

Report on the Audits of the Financial Statements

Opinions

We have audited the 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, 2023 and 2022, and the related notes to the financial statements, which collectively comprise TSASC's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and governmental funds of TSASC as of June 30, 2023 and 2022, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of TSASC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about TSASC's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually, or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 TSASC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about TSASC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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.

Mayer Hoffman McCann CPAs

New York, NY
September 26, 2023

TSASC, INC.
(A Component Unit of The City of New York)
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2023 AND 2022
(unaudited)

The following is a narrative overview and analysis of the financial activities of TSASC, Inc. (“TSASC”) for the fiscal years ended June 30, 2023 and 2022. 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 2023 and 2022, TSASC transferred to the Trust \$124 million and \$131 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 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, 2023 AND 2022
(unaudited)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

	2023	2022	2021 (in thousands)	Variance	
				2023/2022	2022/2021
Revenues:					
Tobacco settlement revenue	\$ 192,085	\$ 212,096	\$ 208,869	\$ (20,011)	\$ 3,227
Investment earnings (loss)	3,327	(93)	62	3,420	(155)
Other	-	3	-	(3)	3
Total revenues	195,412	212,006	208,931	(16,594)	3,075
Expenses:					
Transfer to the Trust	120,425	132,796	130,753	(12,371)	2,043
Bond interest	45,639	46,831	48,205	(1,192)	(1,374)
General and administrative	512	537	547	(25)	(10)
Total expenses	166,576	180,164	179,505	(13,588)	659
Change in net position	28,836	31,842	29,426	(3,006)	2,416
Net position (deficit), beginning of year	(868,073)	(899,915)	(929,341)	31,842	29,426
Net position (deficit), end of year	<u>\$ (839,237)</u>	<u>\$ (868,073)</u>	<u>\$ (899,915)</u>	<u>\$ 28,836</u>	<u>\$ 31,842</u>

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 \$192 million, \$212 million, and \$209 million in fiscal years 2023, 2022 and 2021, respectively.

The negative investment income reported in fiscal year 2022 resulted from the mark to market valuation on Federal Home Loan Bank discount notes purchased on May 20, 2022. All investments held by TSASC are expected to be held to maturity and, as such, will not realize losses on market valuations. The variances of investment earnings in fiscal years 2023 and 2021 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 reported 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 conducting TSASC's operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2023 AND 2022
(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,

	2023	2022	2021	Variance	
				2023/2022	2022/2021
			(in thousands)		
Assets:					
Total assets - non-capital	\$ 180,810	\$ 185,912	\$ 181,664	\$ (5,102)	\$ 4,248
Deferred outflows of resources	13,869	14,640	15,410	(771)	(770)
Liabilities:					
Current liabilities	94,634	96,980	94,050	(2,346)	2,930
Long-term liabilities	939,282	971,645	1,002,939	(32,363)	(31,294)
Total liabilities	1,033,916	1,068,625	1,096,989	(34,709)	(28,364)
Net position (deficit):					
Unrestricted	(839,237)	(868,073)	(899,915)	28,836	31,842
Net position (deficit), end of year	<u>\$ (839,237)</u>	<u>\$ (868,073)</u>	<u>\$ (899,915)</u>	<u>\$ 28,836</u>	<u>\$ 31,842</u>

TSASC's total assets for the fiscal years 2023, 2022 and 2021 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 2023, 2022 and 2021 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, 2023 AND 2022
(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,

	<u>2023</u>	<u>2022</u>	<u>2021</u>	Variance	
			(in thousands)	<u>2023/2022</u>	<u>2022/2021</u>
Revenues:					
Tobacco settlement revenue	\$ 124,248	\$ 131,469	\$ 128,018	\$ (7,221)	\$ 3,451
Investment earnings	194	25	1	169	24
Total revenues	<u>124,442</u>	<u>131,494</u>	<u>128,019</u>	<u>(7,052)</u>	<u>3,475</u>
Expenditures:					
Transfer to the Trust	123,868	130,918	127,623	(7,050)	3,295
General and administrative	512	537	547	(25)	(10)
Total expenditures	<u>124,380</u>	<u>131,455</u>	<u>128,170</u>	<u>(7,075)</u>	<u>3,285</u>
Net change in fund balances	62	39	(151)	23	190
Fund balances, beginning of year	570	531	682	39	(151)
Fund balances, end of year	<u>\$ 632</u>	<u>\$ 570</u>	<u>\$ 531</u>	<u>\$ 62</u>	<u>\$ 39</u>

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 conducting TSASC’s operations, which determines the amount of general and administrative costs.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2023 AND 2022
(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,

	2023	2022	2021	Variance	
				2023/2022	2022/2021
	(in thousands)				
Revenues:					
Tobacco settlement revenue	\$ 73,337	\$ 77,627	\$ 75,851	\$ (4,290)	\$ 1,776
Investment earnings (loss)	3,133	(118)	61	3,251	(179)
Other	-	3	-	(3)	3
Total revenues	<u>76,470</u>	<u>77,512</u>	<u>75,912</u>	<u>(1,042)</u>	<u>1,600</u>
Expenditures:					
Bond interest	48,297	49,631	51,159	(1,334)	(1,528)
Principal amount of bonds retired	<u>27,835</u>	<u>26,675</u>	<u>30,570</u>	<u>1,160</u>	<u>(3,895)</u>
Total expenditures	<u>76,132</u>	<u>76,306</u>	<u>81,729</u>	<u>(174)</u>	<u>(5,423)</u>
Net change in fund balances	338	1,206	(5,817)	(868)	7,023
Fund balances, beginning of year	<u>81,326</u>	<u>80,120</u>	<u>85,937</u>	<u>1,206</u>	<u>(5,817)</u>
Fund balances, end of year	<u>\$ 81,664</u>	<u>\$ 81,326</u>	<u>\$ 80,120</u>	<u>\$ 338</u>	<u>\$ 1,206</u>

TSRs recorded in the DSF for fiscal years 2023, 2022 and 2021 were based on the amount collected each year to pay debt service obligations, pursuant to the 2016 Indenture. The variances of investment earnings (loss) in fiscal years 2023, 2022 and 2021 were primarily due to market value and interest rate fluctuations on investments, as previously discussed.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2023 AND 2022
(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,

	2023	2022	2021	Variance	
				2023/2022	2022/2021
	(in thousands)				
Assets:					
Cash equivalents	\$ 642	\$ 586	\$ 544	\$ 56	\$ 42
Tobacco settlement revenue receivable	61,661	65,104	63,226	(3,443)	1,878
Accrued interest receivable	4	-	-	4	-
Total assets	\$ 62,307	\$ 65,690	\$ 63,770	\$ (3,383)	\$ 1,920
Liabilities	\$ 14	\$ 16	\$ 13	\$ (2)	\$ 3
Deferred inflows of resources	61,661	65,104	63,226	(3,443)	1,878
Fund Balances:					
Unassigned	632	570	531	62	39
Total fund balances	632	570	531	62	39
Total liabilities, deferred inflows of resources and fund balances	\$ 62,307	\$ 65,690	\$ 63,770	\$ (3,383)	\$ 1,920

The GF assets at June 30, 2023, 2022 and 2021, totaled approximately \$62.3 million, \$65.7 million and \$63.8 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, 2023 AND 2022
(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,

	2023	2022	2021	Variance	
				2023/2022	2022/2021
	(in thousands)				
Assets:					
Cash equivalents and investments	\$ 81,663	\$ 81,326	\$ 80,120	\$ 337	\$ 1,206
Tobacco settlement revenue receivable	36,839	38,896	37,774	(2,057)	1,122
Accrued interest receivable	1	-	-	1	-
Total assets	\$ 118,503	\$ 120,222	\$ 117,894	\$ (1,719)	\$ 2,328
Deferred inflows of resources	\$ 36,839	\$ 38,896	\$ 37,774	\$ (2,057)	\$ 1,122
Fund Balances:					
Restricted for debt service	81,664	81,326	80,120	338	1,206
Total fund balances	81,664	81,326	80,120	338	1,206
Total deferred inflows of resources and fund balances	\$ 118,503	\$ 120,222	\$ 117,894	\$ (1,719)	\$ 2,328

The changes in cash equivalents and investments each year result from the amount held for debt service, which is affected by TSRs collections. A shortfall in TSRs collections resulted in TSASC drawing \$5.1 million and \$10.6 million during fiscal years 2022 and 2021, respectively, from its Subordinate Liquidity Reserve Account to make its December debt service payments. However, in April 2023 and April 2022, TSR receipts were sufficient for TSASC to fully fund its scheduled debt service payments and partially replenish its Subordinate Liquidity Reserve Account (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 Adjustment ("NPM Adjustment"), and miscalculated or disputed payments.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2023 AND 2022
(unaudited)

RISK FACTORS AND FUTURE REVENUE (continued)

In 2015, the State entered into a settlement agreement with the tobacco companies that resolved all past disputes and prohibits future disputes relating to the NPM Adjustment. The NPM Settlement Agreement provided for:

- Release of 90% of disputed and withheld TSRs relating to years 2004 through 2014;
- The reduction of future TSR payments 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 in fiscal year 2016. Of that amount, \$66 million was pledged for debt service and the remainder was remitted to the City, in accordance with the 2016 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.

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 Account of \$48.0 million and Subordinate Liquidity Reserve Account 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 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 2023, TSASC received \$73.9 million of pledged TSRs, which differed from the fiscal year 2017 forecast of \$85 million. In April 2022, TSASC received \$78.2 million of pledged TSRs, which differed from the 2017 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 2023 and 2022 payments.

Due to the reduced payments of TSRs, TSASC drew a cumulative total of \$34.5 million from its Subordinate Liquidity Reserve Account beginning in December 2017 through December 2021 in order to meet its debt service requirements. However, in April 2023 and April 2022 TSR receipts were sufficient for TSASC to fully fund its scheduled debt service payments and replenish its Subordinate Liquidity Reserve by \$59 thousand and \$2.0 million, respectively. As of June 30, 2023, the balance of the Subordinate Liquidity Reserve Account was \$9.7 million after giving effect of investment earnings.

TSASC, INC.

(A Component Unit of The City of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2023 AND 2022

(unaudited)

RATINGS

In a report released November 4, 2022, S&P affirmed or changed the assigned ratings on TSASC bonds as discussed below.

The 2017 Series A serial bonds maturing in fiscal years 2023 through 2031 were rated "A", 2017 Series A serial bonds maturing in fiscal year 2032 were upgraded to "A" from "A-" and Series A serial bonds maturing in fiscal years 2033 through 2036 were rated "A-." 2017 Series A Term Bonds maturing in fiscal year 2041 were rated "A-."

The 2017 Series B serial bonds maturing in fiscal years 2023 through 2025 are rated "B-." The 2017 Series B Turbo Term Bonds maturing in 2045 are rated "CCC+" and the Series B Turbo Term Bonds maturing in fiscal year 2048 are not rated.

Moody's and Fitch did not rate TSASC bonds during the years reported herein.

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, 2023 AND 2022

	2023	2022
	(in thousands)	
ASSETS:		
Unrestricted cash equivalents	\$ 642	\$ 586
Restricted cash equivalents	97	20
Restricted investments	81,566	81,306
Tobacco settlement revenue receivable	98,500	104,000
Accrued interest receivable	5	-
	<u>180,810</u>	<u>185,912</u>
Total assets		
DEFERRED OUTFLOWS OF RESOURCES:		
Unamortized loss on refunding	13,869	14,640
	<u>13,869</u>	<u>14,640</u>
Total deferred outflows of resources		
LIABILITIES:		
Accrued expenses	14	16
Accrued interest payable	3,909	4,025
Remittance payable to the Trust	61,661	65,104
Bonds payable:		
Portion due within one year	29,050	27,835
Portion due after one year	939,282	971,645
	<u>1,033,916</u>	<u>1,068,625</u>
Total liabilities		
NET POSITION (DEFICIT):		
Unrestricted (deficit)	(839,237)	(868,073)
	<u>(839,237)</u>	<u>(868,073)</u>
Total net position (deficit)	<u>\$ (839,237)</u>	<u>\$ (868,073)</u>

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, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
	(in thousands)	
REVENUES:		
Tobacco settlement revenue:		
Tobacco settlement revenue - pledged	\$ 71,840	\$ 79,324
Tobacco settlement revenue - unpledged	120,245	132,772
Total tobacco settlement revenue	<u>192,085</u>	<u>212,096</u>
Investment earnings (loss)	3,327	(93)
Other	-	3
Total revenues	<u>195,412</u>	<u>212,006</u>
EXPENSES:		
Transfer to the Trust	120,425	132,796
Bond interest	45,639	46,831
General and administrative	512	537
Total expenses	<u>166,576</u>	<u>180,164</u>
Change in net position	28,836	31,842
NET POSITION (DEFICIT) - beginning of year	<u>(868,073)</u>	<u>(899,915)</u>
NET POSITION (DEFICIT) - end of year	<u>\$ (839,237)</u>	<u>\$ (868,073)</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, 2023

	General Fund	Debt Service Fund	Total Governmental Funds
	(in thousands)		
ASSETS:			
Unrestricted cash equivalents	\$ 642	\$ -	\$ 642
Restricted cash equivalents	-	97	97
Restricted investments	-	81,566	81,566
Tobacco settlement revenue receivable	61,661	36,839	98,500
Accrued interest receivable	4	1	5
	<u>\$ 62,307</u>	<u>\$ 118,503</u>	<u>\$ 180,810</u>
Total assets			
LIABILITIES:			
Accounts payable	\$ 14	\$ -	\$ 14
	<u>14</u>	<u>-</u>	<u>14</u>
Total liabilities			
DEFERRED INFLOWS OF RESOURCES:			
Unavailable tobacco settlement revenue	61,661	36,839	98,500
	<u>61,661</u>	<u>36,839</u>	<u>98,500</u>
Total deferred inflows of resources			
FUND BALANCES:			
Restricted for debt service	-	81,664	81,664
Unassigned	632	-	632
	<u>632</u>	<u>81,664</u>	<u>82,296</u>
Total fund balances			
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 62,307</u>	<u>\$ 118,503</u>	<u>\$ 180,810</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, 2022

	General Fund	Debt Service Fund	Total Governmental Funds
		(in thousands)	
ASSETS:			
Unrestricted cash equivalents	\$ 586	\$ -	\$ 586
Restricted cash equivalents	-	20	20
Restricted investments	-	81,306	81,306
Tobacco settlement revenue receivable	65,104	38,896	104,000
	<u>\$ 65,690</u>	<u>\$ 120,222</u>	<u>\$ 185,912</u>
Total assets	<u>\$ 65,690</u>	<u>\$ 120,222</u>	<u>\$ 185,912</u>
LIABILITIES:			
Accounts payable	\$ 16	\$ -	\$ 16
	<u>16</u>	<u>-</u>	<u>16</u>
Total liabilities	<u>16</u>	<u>-</u>	<u>16</u>
DEFERRED INFLOWS OF RESOURCES:			
Unavailable tobacco settlement revenue	65,104	38,896	104,000
	<u>65,104</u>	<u>38,896</u>	<u>104,000</u>
Total deferred inflows of resources	<u>65,104</u>	<u>38,896</u>	<u>104,000</u>
FUND BALANCES:			
Restricted for debt service	-	81,326	81,326
Unassigned	570	-	570
	<u>570</u>	<u>81,326</u>	<u>81,896</u>
Total fund balances	<u>570</u>	<u>81,326</u>	<u>81,896</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 65,690</u>	<u>\$ 120,222</u>	<u>\$ 185,912</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 THE GOVERNMENTAL FUNDS BALANCE SHEETS
TO THE STATEMENTS OF NET POSITION (DEFICIT)**

AS OF JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
	(in thousands)	
Total fund balances - governmental funds	\$ 82,296	\$ 81,896
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.		
	(30,227)	(33,540)
The governmental funds financial statements recognize refunding bond proceeds and payments to the refunding escrow agent in the year the refunding occurs, however, in the statements of net position (deficit), the gain or loss as a result of the refunding is deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt.		
	13,869	14,640
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).		
	98,500	104,000
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	(938,105)	(965,940)
Accrued interest payable	(3,909)	(4,025)
Remittance payable to the Trust	(61,661)	(65,104)
	<u> </u>	<u> </u>
Net position (deficit) of governmental activities	<u>\$ (839,237)</u>	<u>\$ (868,073)</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, 2023

	General Fund	Debt Service Fund	Total Governmental Funds
		(in thousands)	
REVENUES:			
Tobacco settlement revenue:			
Tobacco settlement revenue - pledged	\$ 560	\$ 73,337	\$ 73,897
Tobacco settlement revenue - unpledged	123,688	-	123,688
Total tobacco settlement revenue	124,248	73,337	197,585
Investment earnings	194	3,133	3,327
Total revenues	124,442	76,470	200,912
EXPENDITURES:			
Transfer to the Trust:			
Tobacco settlement revenue and interest earnings	123,868	-	123,868
Bond interest	-	48,297	48,297
Principal amount of bonds retired	-	27,835	27,835
General and administrative	512	-	512
Total expenditures	124,380	76,132	200,512
Net change in fund balances	62	338	400
FUND BALANCES - beginning of year	570	81,326	81,896
FUND BALANCES - end of year	\$ 632	\$ 81,664	\$ 82,296

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, 2022

	General Fund	Debt Service Fund	Total Governmental Funds
		(in thousands)	
REVENUES:			
Tobacco settlement revenue:			
Tobacco settlement revenue - pledged	\$ 575	\$ 77,627	\$ 78,202
Tobacco settlement revenue - unpledged	130,894	-	130,894
Total tobacco settlement revenue	131,469	77,627	209,096
Investment earnings	25	(118)	(93)
Other	-	3	3
Total revenues	131,494	77,512	209,006
EXPENDITURES:			
Payment to The City of New York			
Transfer to the Trust:			
Tobacco settlement revenue and interest earnings	130,918	-	130,918
Bond interest	-	49,631	49,631
Principal amount of bonds retired	-	26,675	26,675
General and administrative	537	-	537
Total expenditures	131,455	76,306	207,761
Net change in fund balances	39	1,206	1,245
FUND BALANCES - beginning of year	531	80,120	80,651
FUND BALANCES - end of year	\$ 570	\$ 81,326	\$ 81,896

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, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
	(in thousands)	
Net change in fund balances - governmental funds	\$ 400	\$ 1,245
Amounts reported for governmental activities in the statements of activities are different because:		
The governmental funds financial statements recognize refunding bond proceeds and payments to refunding bond escrow agent in the year the refunding occurs, however, in the statements of activities the gain or loss as a result of the refunding is amortized over the shorter of the life of the bonds refunded or the life of the bonds issued to advance 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.	(5,500)	3,000
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).	27,835	26,675
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.	3,313	3,459
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.	116	111
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>3,443</u>	<u>(1,878)</u>
Change in net position (deficit) - governmental activities	<u>\$ 28,836</u>	<u>\$ 31,842</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, 2023 AND 2022

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 of the City 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 rights, 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 2023 and 2022, TSASC transferred to the Trust \$124 million and \$131 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 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

JUNE 30, 2023 AND 2022

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

JUNE 30, 2023 AND 2022

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 are 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 are 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 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") and also provides guidance for accounting and financial reporting for availability payment arrangements ("APAs"). The requirements for GASB 94 are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The adoption of GASB 94 did not have an impact on TSASC's financial statements as it does not enter into PPPs or APAs.
- 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. The adoption of GASB 96 did not 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

JUNE 30, 2023 AND 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- In April 2022, GASB issued Statement No. 99, *Omnibus 2022*, (“GASB 99”). GASB 99 enhances the comparability in accounting and financial reporting as well as improves the consistency of authoritative literature by addressing 1) several practice issues that have been identified during implementation and application of certain GASB Statements and 2) accounting and financial reporting for financial guarantees. The requirements for GASB 99 are effective for reporting periods ranging from immediate to fiscal years beginning after June 15, 2023. As of the fiscal year ending June 30, 2023, TSASC has adopted all requirements for GASB 99. The adoption of GASB 99 did not have an impact on TSASC’s financial statements as the practice issues and the accounting and financial reporting for financial guarantees addressed in GASB 99 are not applicable to TSASC.
- In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections-An Amendment to GASB Statement No. 62*, (“GASB 100”). GASB 100 enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements for GASB 100 are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Early application is encouraged. TSASC has not completed the process of evaluating GASB 100 but does not expect it to have an impact on TSASC’s financial statements.
- In June 2022, GASB issued Statement No. 101, *Compensated Absences*, (“GASB 101”). GASB 101 updates the recognition and measurement guidance for compensated absences and amends certain previously required disclosures. The requirements for GASB 101 are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Early application is encouraged. TSASC has not completed the process of evaluating GASB 101 but does not expect it to have an impact on TSASC’s financial statements as it does not have employees.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

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 2023 and 2022 is as follows (in thousands):

	<u>Outstanding Principal Balance at June 30, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding Principal Balance at June 30, 2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding Principal Balance at June 30, 2023</u>
Series 2017A	\$ 516,815	\$ -	\$ (20,375)	\$ 496,440	\$ -	\$ (21,435)	\$ 475,005
Series 2017B	475,800	-	(6,300)	469,500	-	(6,400)	463,100
Total before premiums	<u>992,615</u>	<u>-</u>	<u>(26,675)</u>	<u>965,940</u>	<u>-</u>	<u>(27,835)</u>	<u>938,105</u>
Premiums	36,999	-	(3,459)	33,540	-	(3,313)	30,227
Total bonds payable	<u>\$ 1,029,614</u>	<u>\$ -</u>	<u>\$ (30,134)</u>	<u>\$ 999,480</u>	<u>\$ -</u>	<u>\$ (31,148)</u>	<u>\$ 968,332</u>
Due within one year	<u>\$ 26,675</u>			<u>\$ 27,835</u>			<u>\$ 29,050</u>

As of June 30, 2023 and 2022, TSASC's Senior Liquidity Reserve Account was funded in accordance with the 2016 Indenture requirements, as it had on deposit \$48.3 million and \$48.0 million, respectively. TSASC also fully funded its senior debt service requirements as of June 30, 2023 and 2022.

As of June 30, 2023 and 2022, TSASC received sufficient TSRs to fully fund its scheduled June and December subordinate debt service requirements, as well as partially replenish the Subordinate Liquidity Reserve Account. TSASC has been receiving less TSRs than originally forecasted starting in fiscal year 2017, as discussed earlier. 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 previously drew \$34.5 million from its Subordinate Liquidity Reserve Account in December 2017 through December 2021 in order to make its debt service payments. As of June 30, 2023, the balance of the Subordinate Liquidity Reserve Account was \$9.7 million after giving effect of investment earnings.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

NOTE 3 – BONDS PAYABLE (continued)

Debt service requirements, including principal and interest as of June 30, 2023 are as follows (in thousands):

Year ended June 30,	SENIOR		SUBORDINATE		TOTAL		
	Principal	Interest	Principal	Interest	Principal	Interest	Debt Service
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	26,585	20,177	-	22,500	26,585	42,677	69,262
2028	26,830	18,848	-	22,500	26,830	41,348	68,178
2029 to 2033	138,300	73,616	-	112,500	138,300	186,116	324,416
2034 to 2038	129,635	39,790	-	112,500	129,635	152,290	281,925
2039 to 2043	82,185	8,431	-	112,500	82,185	120,931	203,116
2044 to 2048	-	-	450,000	86,250	450,000	86,250	536,250
Total	<u>\$ 475,005</u>	<u>\$ 228,669</u>	<u>\$ 463,100</u>	<u>\$ 537,235</u>	<u>\$ 938,105</u>	<u>\$ 765,904</u>	<u>\$ 1,704,009</u>

NOTE 4 – CASH EQUIVALENTS

As of June 30, 2023, and 2022, 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:

	<u>2023</u>	<u>2022</u>
	(in thousands)	
Restricted:		
Cash equivalents (see note 5)	\$ 97	\$ 20
Total restricted	<u>97</u>	<u>20</u>
Unrestricted:		
Cash equivalents (see note 5)	642	586
Total unrestricted	<u>642</u>	<u>586</u>
Total cash equivalents	<u>\$ 739</u>	<u>\$ 606</u>

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

NOTE 5 – INVESTMENTS

The investments, including cash equivalents, as of June 30, 2023 and 2022 are summarized as follows:

	2023	2022
	(in thousands)	
Restricted:		
Money Market Funds	\$ 97	\$ 20
Federal Home Loan Bank Discount Notes (Maturing within one year)	81,566	81,306
Total restricted	81,663	81,326
Unrestricted:		
Money Market Funds	642	586
Total unrestricted	642	586
Total investments including cash equivalents	82,305	81,912
Less amounts reported as cash equivalents (see note 4)	(739)	(606)
Total investments	\$ 81,566	\$ 81,306

TSASC categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

TSASC had the following recurring fair value measurements as of June 30, 2023 and 2022:

- 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, 2023 were primarily securities invested in Federal Home Loan Bank discount notes rated by Moody's P-1 and Standard & Poor's A-1+.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

NOTE 5 – INVESTMENTS (continued)

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, 2023, more than 5% of TSASC's investments were in U.S. Government-sponsored entities. These investments were 99.1% of TSASC's total investments.
