

**STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY**

FINANCIAL AUDIT

For the Two Years Ended June 30, 2020

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
FINANCIAL AUDIT
For the Two Years Ended June 30, 2020

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The State of Illinois, Railsplitter Tobacco Settlement Authority’s <i>Compliance Examination</i> for the two years ended June 30, 2020, has been issued under a separate cover.	

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AGENCY OFFICIALS

Chairman of the Board (1/14/19 – Present)	Alexis Sturm
Chairman of the Board (12/7/18 – 1/13/19)	Hans Zigmund
Chairman of the Board (7/1/18 – 12/6/18)	Vacant
Board Member (1/14/19 – Present)	Alexis Sturm
Board Member (7/1/18 – 1/13/19)	Hans Zigmund
Board Member (7/1/18 – Present)	Elizabeth Weber
Board Member (7/1/18 – Present)	William O’Connell
Chief Financial Officer (12/5/19 – Present)	Paul Chatalas
Chief Financial Officer (5/7/19 – 12/4/19)	Vacant
Chief Financial Officer (7/1/18 – 5/6/19)	Kelly Hutchinson
Secretary (12/5/19 – Present)	Courtney Peterson
Secretary (12/7/18 – 12/4/19)	Charlie Salmans
Secretary (7/1/18 – 12/6/18)	Vacant

The Authority’s offices are located at:

James R. Thompson Center
100 West Randolph St., Suite 15-100
Chicago, Illinois 60601

603 Stratton Office Building
401 South Spring St.
Springfield, Illinois 62706

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FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Railsplitter Tobacco Settlement Authority (Authority) was performed by the Office of the Auditor General.

Based on their audit, the auditors expressed an unmodified opinion on the Authority's basic financial statements.

SUMMARY OF FINDINGS

The auditors identified one matter involving the Authority's internal control over financial reporting that they considered to be a material weakness. Further, the auditors identified one noncompliance matter.

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
CURRENT FINDINGS				
2020-001	37	New	Lack of Adequate Controls Over the Review of Internal Controls Over Service Providers	Material Weakness and Noncompliance
PRIOR FINDING NOT REPEATED				
A	40	2018	Inaccurate Financial Statement Preparation	

EXIT CONFERENCE

The Authority waived an exit conference in a correspondence from Courtney Peterson, Authority Secretary, on February 17, 2021. The response to the recommendation was provided by Courtney Peterson, Authority Secretary, in a correspondence dated February 25, 2021.

Springfield Office:
Iles Park Plaza
740 East Ash - 62703-3154
Phone: 217/782-6046
Fax: 217/785-8222 TTY (888) 261-2887



Chicago Office:
State of Illinois Building - Suite S900
160 North LaSalle – 60601-3103
Phone: 312/814-4000
Fax: 312/814-4006

Office Of The Auditor General
Frank Mautino

INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Board of Directors
Railsplitter Tobacco Settlement Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the State of Illinois, Railsplitter Tobacco Settlement Authority (Authority), as of and for the years ended June 30, 2019, and June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund for the Authority, as of June 30, 2019, and June 30, 2020, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 – 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2021, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and

not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

JANE CLARK, CPA
Director of Financial and Compliance Audits

Springfield, Illinois
February 25, 2021

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Two Years Ended June 30, 2020

(UNAUDITED)

The Management's Discussion and Analysis is designed to explain significant financial issues, provide an overview of the Authority's financial activity, identify changes in the Authority's financial position, and identify individual issues and concerns. This document should be read in conjunction with the basic financial statements.

The Authority was legally established on July 1, 2010.

FINANCIAL HIGHLIGHTS

Net Position

The Authority's total assets of governmental activities were \$296.0 million as of June 30, 2020. The Authority reported total cash and cash equivalents of \$163.6 million, and tobacco settlement receivables of \$132.3 million. The Authority reported deferred outflows of resources of \$334.2 million. Deferred outflows of resources include the unamortized balance of the payments to the State upon issuance of the bonds (\$316.0 million) and the unamortized balance of the deferred refunding amount from issuance of the 2017 refunding bonds (\$18.2 million).

The Authority's total assets of governmental activities were \$305.0 million as of June 30, 2019. The Authority reported total cash and cash equivalents of \$167.5 million, and tobacco settlement receivables of \$137.5 million. The Authority reported deferred outflows of resources of \$448.7 million. Deferred outflows of resources include the unamortized balance of the payments to the State upon issuance of the bonds (\$410.6 million) and the unamortized balance of the deferred refunding amount from issuance of the 2017 refunding bonds (\$38.0 million).

During FY 2020, the Authority reported liabilities of \$907.1 million, principal of which was \$844.1 million in revenue bonds payable (net). This resulted in a net position deficit of \$276.9 million as of June 30, 2020. During FY 2019, the Authority reported liabilities of \$1.017 billion, principal of which was \$951.9 million in revenue bonds payable (net). This resulted in a net position deficit of \$263.8 million as of June 30, 2019.

The Authority does not conduct any business-type activities.

Revenues

During FY2020, the governmental activities revenues totaled \$262.0 million. This consisted of \$259.6 million of recognized tobacco settlement revenues, and \$2.4 million in investment income. During FY 2019, the governmental activities revenues totaled \$262.9 million. This consisted of \$259.1 million of recognized tobacco settlement revenues, and \$3.8 million in investment income.

Cost of Authority Program

During FY 2020, the governmental activities expenses totaled \$275.1 million. Of this amount, \$123.5 million was for residual tobacco settlements to the State, \$94.6 million was amortization of the tobacco settlement deferred charges and \$54.4 million was interest expense. The Authority funded the required cash amounts of \$2.5 million per year into the Sub-Account held by the Trustee for the benefit of the Attorney General as required by the Indenture.

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During FY 2019, the governmental activities expenses totaled \$284.3 million. Of this amount, \$128.1 million was for residual tobacco settlements to the State, \$94.4 million was amortization of the tobacco settlement deferred charges and \$59.2 million was interest expense. The Authority funded the required cash amounts of \$2.5 million per year into the Sub-Account held by the Trustee for the benefit of the Attorney General as required by the Indenture.

Major Fund – Railsplitter Tobacco Settlement Authority Governmental Fund

For FY 2020, the revenues reported for the governmental fund (\$267.1 million) varied from revenues recognized for governmental activities (\$262.0 million). The difference between the amount recorded in the governmental fund and the amount reported in the government-wide Statement of Activities pertains to the change in revenue that was a deferred inflow in the fund because it was not collected in the availability period (TSRs receivable FY 2020 vs. FY 2019). At the fund level, expenditures totaled \$363.5 million. Included in this total is \$123.5 million for residual tobacco settlement payments to the State, \$94.6 million was amortization of the tobacco settlement deferred charges, \$142.8 million was for bond principal and interest expenditures, and \$2.5 million for the Attorney General expenses as discussed above. The principal difference between expenditures in the governmental fund and expenses in governmental activities pertains to debt related items. These differences are explained in the reconciliation provided on page 21.

For FY 2019, the revenues reported for the governmental fund (\$278.7 million) varied from revenues recognized for governmental activities (\$262.9 million). The difference between the amount recorded in the governmental fund and the amount reported in the government-wide Statement of Activities pertains to the change in revenue that was a deferred inflow in the fund because it was not collected in the availability period (TSRs receivable FY 2019 vs. FY 2018). At the fund level, expenditures totaled \$367.7 million. Included in this total is \$128.1 million for residual tobacco settlement payments to the State, \$94.4 million was amortization of the tobacco settlement deferred charges, \$142.5 million was for bond principal and interest expenditures, and \$2.5 million for the Attorney General expenses as discussed above. The principal difference between expenditures in the governmental fund and expenses in governmental activities pertains to debt related items. These differences are explained in the reconciliation provided on page 22.

USING THIS ANNUAL REPORT

In the past, the primary focus of State and local government financial statements was summarized by fund type and presented on a current financial resource basis. Now, financial statements are presented from two perspectives: government-wide and major fund. These perspectives allow the user to address relevant questions, broaden a basis for comparison and enhance the Authority's accountability.

Government-Wide Financial Statements

The government-wide financial statements are designed to emulate the corporate sector in that all government and business-type activities are consolidated into columns, which add to a total for the primary government. In the case of the Authority, there are currently no activities that are classified as business-type. The focus of the Statement of Net Position is designed to be similar to bottom line results for the Authority and its governmental-type activities. This statement combines and consolidates the governmental fund's current financial resources (short-term spendable resources) with long-term obligations using the accrual basis of accounting and economic resources measurement focus. This statement reports

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information on the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position.

The Statement of Activities is focused on both the gross and net cost of governmental activities, which are supported primarily by the tobacco settlement revenues. This Statement is intended to summarize and simplify the user's analysis of the cost of governmental services.

Fund Financial Statement

The Governmental Major Fund presentation is presented on a sources and uses of liquid resources basis. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Funds are established for various purposes and the Fund Financial Statement allows the demonstration of sources and uses and compliance associated therewith.

GOVERNMENT-WIDE STATEMENT

**Condensed Statement of Net Position
As of June 30, 2020, 2019, and 2018**

	Governmental Activities	Governmental Activities	Governmental Activities
	2020	2019	2018
Current and other assets	\$ 295,957,301	\$ 304,997,730	\$ 322,636,028
Total assets	<u>295,957,301</u>	<u>304,997,730</u>	<u>322,636,028</u>
Deferred outflows of resources	334,219,098	448,665,505	562,941,726
Total deferred outflows	<u>334,219,098</u>	<u>448,665,505</u>	<u>562,941,726</u>
Current liabilities	166,879,322	164,182,903	166,954,822
Noncurrent liabilities	740,212,920	853,303,359	961,058,800
Total liabilities	<u>907,092,242</u>	<u>1,017,486,262</u>	<u>1,128,013,622</u>
Net position (deficit): Unrestricted	<u>\$ (276,915,843)</u>	<u>\$ (263,823,027)</u>	<u>\$ (242,435,868)</u>

Net position can be a useful indicator of a government's financial condition. As shown above, liabilities exceeded assets and deferred outflows of resources by \$276.9, \$263.8, and \$242.4 million as of June 30, 2020, 2019, and 2018, respectively.

There are several transactions that will affect the comparability of the Statement of Net Position summary presentation for the Authority.

- 1) Net Results of Activities – which will impact (increase/decrease) current assets and unrestricted net position.

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- 2) Borrowing of Capital – which will increase current assets and long-term debt.
- 3) Spending Borrowed Proceeds on New Capital – which will reduce current assets and increase noncurrent assets.
- 4) Principal Payment on Debt – which will reduce current assets and reduce long-term debt.
- 5) Reduction of Noncurrent Assets through Amortization – which will reduce deferred outflows of resources and unrestricted net position.

The decrease in net position from 2019 to 2020 of \$13.1 million was a result of several factors. Total assets plus deferred outflows of resources decreased by \$123.5 million. The decrease was primarily due to the amortization of the payment to the State of \$94.6 million, and amortization of deferred refunding amount of \$19.8 million resulting from the issuance of the 2017 series bonds to partially refund the 2010 series bonds in a previous year. The refunding resulted in a loss, which is reported as a deferred outflow of resources, and the unamortized balance at June 30, 2020 was \$18.2 million. Additionally, tobacco settlement receivables decreased by \$5.1 million (3.7%), and cash decreased by \$3.9 million (2.3%). Total liabilities decreased by \$110.4 million, primarily due to 1) the principal retirement of revenue bonds of \$98.6 million, 2) the amortization of bond premium of \$9.2 million, and 3) a \$2.2 million decrease in residual TSRs owed to the State.

The decrease in net position from 2018 to 2019 of \$21.4 million was a result of several factors. Total assets plus deferred outflows of resources decreased by \$131.9 million. The decrease was primarily due to the amortization of the payment to the State of \$94.4 million, and amortization of deferred refunding amount of \$19.8 million resulting from the issuance of the 2017 series bonds to partially refund the 2010 series bonds in the previous year. The refunding resulted in a loss, which is reported as a deferred outflow of resources, and the unamortized balance at June 30, 2019 was \$38.0 million. Additionally, tobacco settlement receivables decreased by \$15.8 million (10.3%), and cash decreased by \$1.9 million (1.1%). Total liabilities decreased by \$110.5 million, primarily due to 1) the principal retirement of revenue bonds of \$93.6 million, 2) the amortization of bond premium of \$9.2 million, 3) a \$6.8 million decrease in residual TSRs owed to the State.

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The following table reports revenues and expenses for the current and prior years:

Condensed Statement of Activities
Year Ended June 30, 2020, 2019, and 2018

	Governmental Activities <u>2020</u>	Governmental Activities <u>2019</u>	Governmental Activities <u>2018</u>
Revenues			
Program revenues			
Tobacco settlement revenues (TSRs)	\$ 259,593,269	\$ 259,126,294	\$ 334,538,059
General revenue			
Investment income	2,421,999	3,799,116	2,399,061
Total revenue	<u>262,015,268</u>	<u>262,925,410</u>	<u>336,937,120</u>
Expenses			
Excess residual payments to State	123,458,432	128,085,710	180,182,697
Amortization of payment to State - TSRs	94,607,619	94,437,432	121,920,916
Professional fees	115,318	109,300	99,600
Attorney General	2,500,000	2,500,000	2,500,000
Interest and issuance costs	54,426,715	59,180,127	67,537,354
Total Expenses	<u>275,108,084</u>	<u>284,312,569</u>	<u>372,240,567</u>
Change in net position	(13,092,816)	(21,387,159)	(35,303,447)
Net position (deficit) - beginning	<u>(263,823,027)</u>	<u>(242,435,868)</u>	<u>(207,132,421)</u>
Net position (deficit) - ending	<u>\$ (276,915,843)</u>	<u>\$ (263,823,027)</u>	<u>\$ (242,435,868)</u>

There are several impacts on revenues and expenses for the Authority as reflected below:

Revenues:

- 1) Changing Patterns in Tobacco Settlement Revenues – TSRs may experience significant changes periodically and are less predictable than many governmental revenues and often distort year-to-year comparisons.
- 2) Market Impacts on Investment Income – Market conditions may cause investment income to fluctuate.

Expenses:

- 3) Interest Rates – The Series 2010 revenue bonds were issued at fixed rates that vary over the life of the debt (from 3.00% to 6.25%, depending on maturity date). This will be seen in year-to-year comparisons of interest expense. The interest rate on the Series 2017 refunding bonds is fixed at 5% over the life of the bonds.

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- 4) Changing Patterns in Tobacco Settlement Revenues – Changes in TSRs will cause a corresponding change in the excess residual payments to the State. Changes in TSRs also impact the amortization of the deferred charges.

For the fiscal year ended June 30, 2020, revenues from governmental activities totaled \$262.0 million compared with \$262.9 million in the prior year, a decrease of \$0.9 million (0.3%). The decrease is due to a decrease in investment income of \$1.4 million, offset by an increase in tobacco settlement revenues of \$0.5 million.

For the fiscal year ended June 30, 2019, revenues from governmental activities totaled \$262.9 million compared with \$336.9 million in the prior year, a decrease of \$74.0 million (22.0%). The decrease is due to a decrease in tobacco settlement revenues of \$75.4 million, offset by an increase in investment income of \$1.4 million.

Total expenses for the year ended June 30, 2020 were \$275.1 million compared to \$284.3 million in the previous year. The \$9.2 million decrease (3.2%) is attributable to the decrease in excess residual payments to the State of \$4.6 million. This decrease was due to the decrease in tobacco settlement revenues. Interest expense decreased by \$4.7 million from the prior year due to a decrease in outstanding debt.

Total expenses for the year ended June 30, 2019 were \$284.3 million compared to \$372.2 million in the previous year. The \$87.9 million decrease (23.6 %) is mostly attributable to the decrease in excess residual payments to the State of \$52.1 million. This decrease was due to the large decrease in tobacco settlement revenues. Also, the amortization of the payment to the State decreased \$27.5 million over the prior year. Amortization is also a function of the TSR revenues recorded each year. Interest expense decreased by \$3.6 million from the prior year and issuance costs decreased by \$4.8 million due to the debt refunding in FY 2018.

FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS

Governmental Fund

The focus of the Authority's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Restricted fund balance represents amounts for which the Authority has little or no spending discretion, as external constraints limit how these funds may be used.

At June 30, 2020, the governmental fund reported restricted fund balance of \$419.9 million, compared with \$516.3 million as of June 30, 2019. The \$96.4 million decrease is mainly due to the amortization of the deferred outflows of resources (\$94.6 million).

At June 30, 2019, the governmental fund reported restricted fund balance of \$516.3 million, compared with \$605.2 million as of June 30, 2018. The \$89.0 million decrease is mainly due to the amortization of the deferred outflows of resources (\$94.4 million).

Fund balance is presented as restricted because the Trust Indenture pertaining to the Authority's revenue bonds strictly limits how all resources in the fund may be used.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Total revenues for the governmental fund for FY 2020 and FY 2019 were \$267.1 and \$278.7 million, respectively, a decrease of \$11.6 million (4.2%). The FY 2020 tobacco settlement revenues decreased from FY 2019 amounts by \$10.2 million. The FY 2020 investment income decreased from FY 2019 amounts by \$1.4 million.

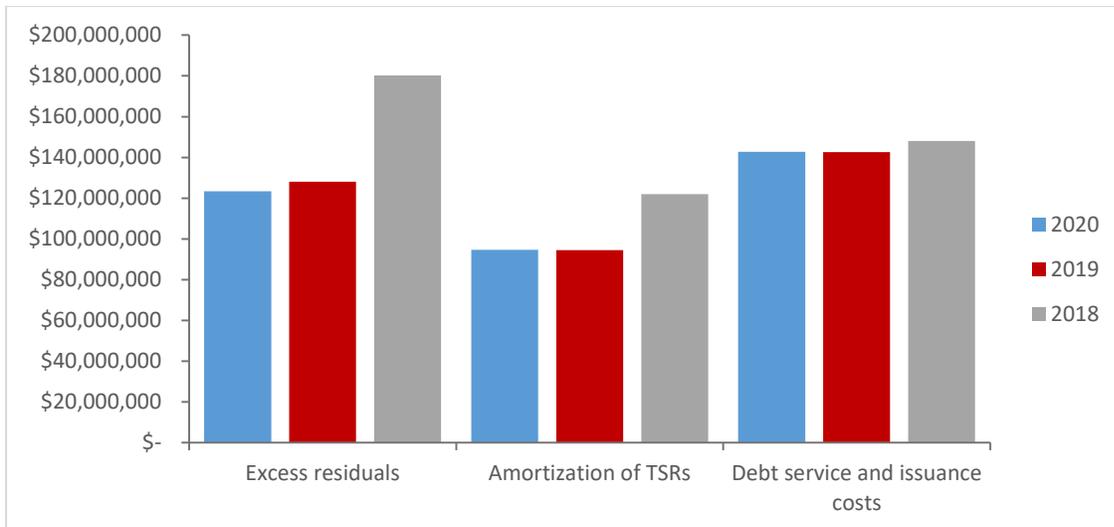
Total revenues for the governmental fund for FY 2019 and FY 2018 were \$278.7 and \$308.9 million, respectively, a decrease of \$30.2 million. The FY 2019 investment income exceeded FY 2018 amounts by \$1.4 million and FY 2019 tobacco settlement revenues decreased from FY 2018 amounts by \$31.6 million.

Total expenditures for the governmental fund for the years ended June 30, 2020 and 2019, were \$363.5 and \$367.7 million, respectively. The \$4.2 million decrease is due to the decreased residual payments to the State (\$4.6 million), and a lower interest expenditures on the bonds (\$4.7 million), offset by a larger principal payment in 2020 (\$4.9 million).

Total expenditures for the governmental fund for the years ended June 30, 2019 and 2018, were \$367.7 and \$452.8 million, respectively. The \$85.1 million decrease is due to the decreased residual payments to the State (\$52.1 million), and a lower amortization of the deferred outflows of resources (\$27.5 million). There were lower interest and issuance cost expenditures on the bonds (\$10.1 million), offset by a larger principal payment in FY2019 (\$4.6 million).

See the charts that follow.

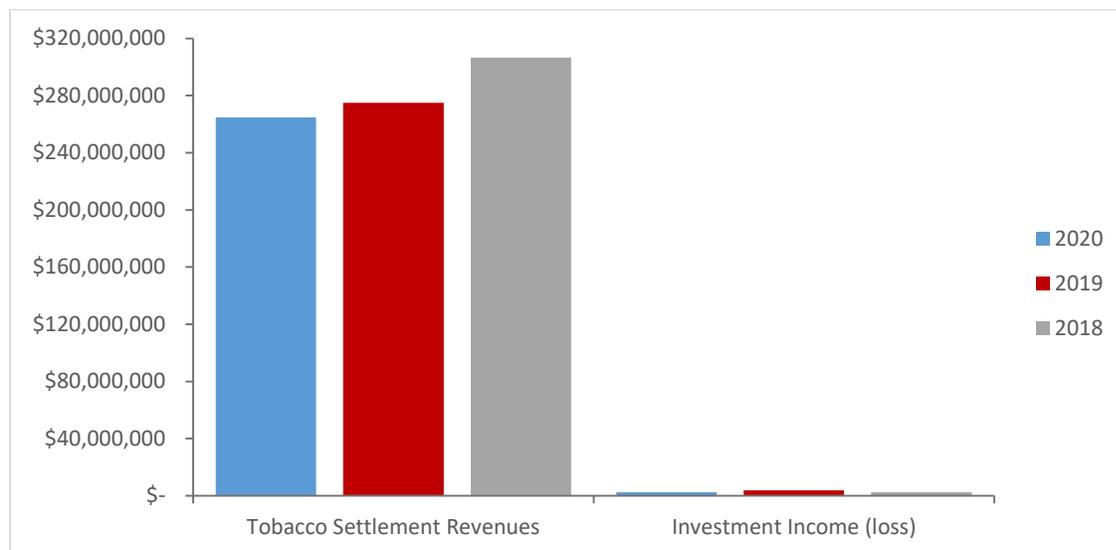
**Major Expenditures - by Type (Governmental Fund)
Years Ended June 30, 2020, 2019 and 2018**



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**Revenues - by Type (Governmental Fund)
Years Ended June 30, 2020, 2019, and 2018**



Outstanding Debt

In December 2010, the Authority issued \$1,503,460,000 Tobacco Settlement Revenue Bonds (Series 2010) pursuant to a purchase and sale agreement between the Authority and the State of Illinois (State). Of the total \$1.51 billion in bond proceeds, \$1.35 billion was paid to the State of Illinois in FY 2011. An additional amount of \$308,209 was paid in FY 2012. The remaining bond proceeds were deposited in 4 restricted accounts held by the bond trustee and are generally restricted for the payment of debt issuance costs, interest and principal.

In December 2017 the Authority issued \$670,965,000 Tobacco Settlement Revenue Bonds (Series 2017) to currently refund \$104.9 million and advance refund \$577.4 million of the Series 2010 bonds. The Series 2017 Refunding bonds were issued at a premium of \$90.8 million. The proceeds from the bonds were used to refund a portion of the outstanding 2010 Series bonds and pay issuance costs. As a result of the Series 2017 issuance, excess funds in the Reserve Account (\$6.4 million) and excess funds in the Issuance Account (\$18 thousand) were paid to the State in FY 2018.

In exchange for the \$1.35 billion in bond proceeds/excess funds, the State sold to the Authority its rights to substantially all Tobacco Settlement Revenues (TSRs), made pursuant to the Master Settlement Agreement entered into with participating tobacco product manufacturers. These TSRs have been pledged to pay principal and interest on the bonds. TSRs received that are in excess of a specified formula are defined as "Residual Revenues" and are paid back to the State. TSRs collected in FY 2020 and FY2019 were sufficient to pay the upcoming and current interest requirements on the debt. Residual revenues of \$125.7 and \$135.0 million, respectively, were determined by the Trustee to be owed to the State for the calendar years 2019 and 2018 TSR collections, respectively, and were paid to the State during the respective fiscal year. Additionally, the Authority has estimated an additional \$57.2 million in residual

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revenues owed to the State for the period January 1, 2020 through June 30, 2020, and an additional \$59.4 million in residual revenues owed to the State for the period January 1, 2019 through June 30, 2019.

As of June 30, 2020, the Authority has \$844.1 million of outstanding debt, and \$951.9 million as of June 30, 2019. Additional information as well as the debt service requirements associated with this issue are outlined in Note 5 of these Financial Statements.

Economic Factors and a Look to the Future

The tobacco settlement revenues received in FY 2020 (cash received) of \$264.7 million was higher than the anticipated amount of \$224.2 million. On a cumulative basis, collections are \$122.4 million higher than the original estimate. The amount of TSRs received each year can fluctuate greatly and are difficult to predict.

The tobacco settlement revenues received in FY 2019 (cash received) of \$275.0 million was higher than the anticipated amount of \$233.0 million. On a cumulative basis, collections are \$82.0 million higher than the original estimate. The amount of TSRs received each year can fluctuate greatly and are difficult to predict.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, customers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Questions concerning this report may be directed to Courtney Peterson, James R. Thompson Center, 100 West Randolph Street, Chicago, Illinois 60601.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
For the Year Ended June 30, 2020

	Governmental Fund - RTSA	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents			
Assets Account	\$ 28,722	\$ -	\$ 28,722
Operating Sub-Account	209,181	-	209,181
Attorney General Sub-Account	2,501,012	-	2,501,012
Debt Service Account	20,387,060	-	20,387,060
Debt Service Reserve Account	140,482,180	-	140,482,180
Residual Account	1	-	1
Total cash and cash equivalents	163,608,156	-	163,608,156
Receivables			
Tobacco settlement revenues (TSRs)	132,349,145	-	132,349,145
Total assets	295,957,301	-	295,957,301
Deferred Outflow of Resources			
Payment to State	316,033,541	-	316,033,541
Deferred refunding amount	-	18,185,557	18,185,557
Total deferred outflows	316,033,541	18,185,557	334,219,098
Liabilities			
Current:			
Accrued interest payable	-	3,252,910	3,252,910
Due to Attorney General	2,500,000	-	2,500,000
Due to State - residual TSRs	57,226,412	-	57,226,412
Revenue bonds payable	-	103,900,000	103,900,000
Total current liabilities	59,726,412	107,152,910	166,879,322
Noncurrent:			
Revenue bonds payable, net			
of unamortized premium of \$69,247,920	-	740,212,920	740,212,920
Total liabilities	59,726,412	847,365,830	907,092,242
Deferred Inflow of Resources			
Deferred TSRs	132,349,145	(132,349,145)	-
Fund Balance/Net Position			
Fund balance - restricted for debt service	419,915,285	(419,915,285)	-
Net position - unrestricted deficit	-	(276,915,843)	(276,915,843)
Total fund balance/net position (deficit)	\$ 419,915,285	\$ (696,831,128)	\$ (276,915,843)

See Notes to Financial Statements.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
For the Year Ended June 30, 2019

	Governmental Fund - RTSA	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents			
Assets Account	\$ 341,222	\$ -	\$ 341,222
Operating Sub-Account	208,754	-	208,754
Attorney General Sub-Account	2,503,509	-	2,503,509
Debt Service Account	23,747,769	-	23,747,769
Debt Service Reserve Account	140,733,974	-	140,733,974
Residual Account	8,335	-	8,335
Total cash and cash equivalents	167,543,563	-	167,543,563
Receivables			
Tobacco settlement revenues (TSRs)	137,454,167	-	137,454,167
Total assets	304,997,730	-	304,997,730
Deferred Outflow of Resources			
Payment to State	410,641,160	-	410,641,160
Deferred refunding amount	-	38,024,345	38,024,345
Total deferred outflows	410,641,160	38,024,345	448,665,505
Liabilities			
Current:			
Accrued interest payable	-	3,684,132	3,684,132
Due to Attorney General	2,500,000	-	2,500,000
Due to State - residual TSRs	59,433,771	-	59,433,771
Revenue bonds payable	-	98,565,000	98,565,000
Total current liabilities	61,933,771	102,249,132	164,182,903
Noncurrent:			
Revenue bonds payable, net of unamortized premium of \$78,438,359	-	853,303,359	853,303,359
Total liabilities	61,933,771	955,552,491	1,017,486,262
Deferred Inflow of Resources			
Deferred TSRs	137,454,167	(137,454,167)	-
Fund Balance/Net Position			
Fund balance - restricted for debt service	516,250,952	(516,250,952)	-
Net position - unrestricted deficit	-	(263,823,027)	(263,823,027)
Total fund balance/net position	\$ 516,250,952	\$ (780,073,979)	\$ (263,823,027)

See Notes to Financial Statements.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITION**
For the Year Ended June 30, 2020

Total fund balances-governmental fund	\$	419,915,285
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Amounts reported for governmental activities in the
Statement of Net Position are different because:

Revenues in the Statement of Activities that do not provide current financial resources are deferred inflows in the funds.		132,349,145
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Some balances reported in the Statement of Net Position do not provide current financial resources or require the use of current financial resources and, therefore, are not reported in governmental funds.

These amounts consist of:

Bonds payable		(774,865,000)
Deferred refunding amount		18,185,557
Accrued interest payable		(3,252,910)
Unamortized bond premium		(69,247,920)
		(69,247,920)

Net position (deficit) of governmental activities	\$	<u>(276,915,843)</u>
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See Notes to Financial Statements.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITION**
For the Year Ended June 30, 2019

Total fund balances-governmental fund	\$	516,250,952
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Amounts reported for governmental activities in the
Statement of Net Position are different because:

Revenues in the Statement of Activities that do not provide current financial resources are deferred inflows in the funds.		137,454,167
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Some balances reported in the Statement of Net Position do not provide current financial resources or require the use of current financial resources and, therefore, are not reported in governmental funds.

These amounts consist of:

Bonds payable		(873,430,000)
Deferred refunding amount		38,024,345
Accrued interest payable		(3,684,132)
Unamortized bond premium		(78,438,359)
		(78,438,359)

Net position of governmental activities	\$	(263,823,027)
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See Notes to Financial Statements.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE**
For the Year Ended June 30, 2020

	Governmental Fund - RTSA	Adjustments	Statement of Activities
Expenditures/expenses			
Excess residual payments to State	\$ 123,458,432	\$ -	\$ 123,458,432
Amortization of payment to State - TSRs	94,607,619	-	94,607,619
Professional fees	115,318	-	115,318
Attorney General	2,500,000	-	2,500,000
Debt service - principal retirement	98,565,000	(98,565,000)	-
Debt service - interest	44,209,588	10,217,127	54,426,715
Total expenditures/expenses	363,455,957	(88,347,873)	275,108,084
Program revenues			
Tobacco settlement revenues (TSRs)	264,698,291	(5,105,022)	259,593,269
Net program revenues (expenditures/expenses)	(98,757,666)	83,242,851	(15,514,815)
General revenues			
Investment income	2,421,999	-	2,421,999
Change in fund balance/net assets	(96,335,667)	83,242,851	(13,092,816)
Net change in fund balance/net position	(96,335,667)	83,242,851	(13,092,816)
Fund balance/net position (deficit) July 1, 2019	516,250,952	(780,073,979)	(263,823,027)
Fund balance/net position (deficit) June 30, 2020	\$ 419,915,285	\$ (696,831,128)	\$ (276,915,843)

See Notes to Financial Statements.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE**
For the Year Ended June 30, 2019

	Governmental Fund - RTSA	Adjustments	Statement of Activities
Expenditures/expenses			
Excess residual payments to State	\$ 128,085,710	\$ -	\$ 128,085,710
Amortization of payment to State - TSRs	94,437,432	-	94,437,432
Professional fees	109,300	-	109,300
Attorney General	2,500,000	-	2,500,000
Debt service - principal retirement	93,620,000	(93,620,000)	-
Debt service - interest	48,924,706	10,255,421	59,180,127
Debt issuance costs	-	-	-
Total expenditures/expenses	367,677,148	(83,364,579)	284,312,569
Program revenues			
Tobacco settlement revenues (TSRs)	274,908,334	(15,782,040)	259,126,294
Net program revenues (expenditures/expenses)	(92,768,814)	67,582,539	(25,186,275)
General revenues			
Investment income	3,799,116	-	3,799,116
Change in fund balance/net assets	(88,969,698)	67,582,539	(21,387,159)
Net change in fund balance/net position	(88,969,698)	67,582,539	(21,387,159)
Fund balance/net position July 1, 2018	605,220,650	(847,656,518)	(242,435,868)
Fund balance/net position June 30, 2019	\$ 516,250,952	\$ (780,073,979)	\$ (263,823,027)

See Notes to Financial Statements.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND TO THE STATEMENT
OF ACTIVITIES**

For the Year Ended June 30, 2020

Net change in fund balances-total governmental fund \$ (96,335,667)

Amounts reported for governmental activities in the Statement of
Activities are different because:

Revenues in the Statement of Activities that do not provide current
financial resources are not reported as revenues in the funds.

In the fund financial statements, revenues are recorded when earned,
subject to availability. Under this basis of accounting, earned amounts
not received by August 31 of each year are removed from revenue and
reported as deferred inflows. The adjustment is the difference between
deferred inflows for FY 2019 and FY 2020 to reflect revenue on an earned
basis (accrual basis) in the Statement of Activities.

(5,105,022)

The issuance and refunding of long-term debt provides (uses) current financial
resources in governmental funds, while the repayment of the principal of
long-term debt consumes current financial resources of governmental funds.
These transactions, however, have no effect on net position.

Debt retirement

98,565,000

Some expenses reported in the Statement of Activities do not
require the use of current financial resources and, therefore,
are not reported as expenditures in governmental funds. These
activities consist of:

Amortization of bond premium

9,190,439

Amortization of deferred refunding amount

(19,838,788)

Decrease in interest payable

431,222

Change in net position of governmental activities

\$ (13,092,816)

See Notes to Financial Statements.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND TO THE STATEMENT
OF ACTIVITIES**

For the Year Ended June 30, 2019

Net change in fund balances-total governmental fund \$ (88,969,698)

Amounts reported for governmental activities in the Statement of
Activities are different because:

Revenues in the Statement of Activities that do not provide current
financial resources are not reported as revenues in the funds.

In the fund financial statements, revenues are recorded when earned,
subject to availability. Under this basis of accounting, earned amounts
not received by August 31 of each year are removed from revenue and
reported as deferred inflows. The adjustment is the difference between
deferred inflows for FY 2018 and FY 2019 to reflect revenue on an earned
basis (accrual basis) in the Statement of Activities. (15,782,040)

The issuance and refunding of long-term debt provides (uses) current financial
resources in governmental funds, while the repayment of the principal of
long-term debt consumes current financial resources of governmental funds.
These transactions, however, have no effect on net position.

Debt retirement 93,620,000

Some expenses reported in the Statement of Activities do not
require the use of current financial resources and, therefore,
are not reported as expenditures in governmental funds. These
activities consist of:

Amortization of bond premium	9,190,441
Amortization of deferred refunding amount	(19,838,789)
Decrease in interest payable	392,927
	392,927

Change in net position of governmental activities \$ (21,387,159)

See Notes to Financial Statements.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2020

Note 1. Summary of Significant Accounting Policies

The Railsplitter Tobacco Settlement Authority (Authority) was created by 30 ILCS 171 on July 1, 2010 as a special purpose corporation which has a body corporate and politic of, but is legally independent and separate from the State of Illinois (State).

The Authority was established to sell revenue bonds, repayment of which is supported solely by future tobacco settlement revenues (TSRs) (pledged revenues). Rights to approximately \$4.1 billion of the State's TSRs were relinquished by the State to the Authority in exchange for a significant portion of the Series 2010 revenue bond proceeds (\$1.35 billion) and a residual certificate. The residual certificate represents the State's ownership in excess TSRs to be received by the Authority during the term of the Sales Agreement. Residual TSRs are defined as all pledged revenues that are in excess of amounts needed to pay annual debt service and fund the various accounts established under the Trust Indenture (see Note 5). The Sales Agreement continues until the Authority's liabilities (including the bonds) have been met or otherwise discharged.

The Authority is governed by a three-member board consisting of the State's Budget Director and two other members appointed by the Governor. The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

Reporting Entity

Accounting principles generally accepted in the United States of America require the reporting entity to include (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that the exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on these criteria there are no potential component units which should be included with the Authority's financial statements; however, the Authority is considered to be a component unit of the State. These financial statements are included in the State's comprehensive annual financial report.

Government-wide and Fund Financial Statements

Government-wide Financial Statements: The government-wide Statement of Net Position and Statement of Activities report the overall financial activity of the Authority. The financial activities of the Authority consist only of governmental activities, which are primarily supported by TSRs.

The Statement of Net Position presents the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported in three potential categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds and other debt that are attributable to the acquisition, construction, or improvement of those assets, if any. The Authority does not report any capital assets as of June 30, 2020, or June 30, 2019.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Unrestricted net position consists of net position that does not meet the criteria of the two preceding categories.

The Statement of Activities demonstrates the degree to which the direct expenses of the Authority are offset by program revenues. Direct expenses are those that are clearly identifiable with the Authority's principal function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs (including fines and fees), and (b) grants and contributions that are restricted to meeting the operational requirements of a particular program. Tobacco settlement revenues are considered program revenues because the Trust Indenture restricts use of those revenues to debt repayment (including reserve requirements). Revenues that are not classified as program revenues, such as investment income, are presented as general revenues.

Fund Financial Statements: Separate financial statements are provided for the Authority's governmental fund.

Measurement Focus and Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. On an accrual basis, revenues from tobacco settlements are recognized when the Authority has a legal claim to the resources. Interest income is recorded as it is earned.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 2 months of the end of the fiscal year (availability period). Tobacco settlement revenues for the periods of January 1, 2019, through June 30, 2019, and January 1, 2020, through June 30, 2020, have been estimated and accrued as of June 30, 2019, and June 30, 2020, respectively. These revenues will not be collected, however, within the availability period, and accordingly have been reported as deferred inflows of resources in the governmental fund.

Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, accrued interest on long-term debt is not reported as expenditures in governmental funds.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The “Deferred Outflow of Resources – Payment to the State” is being amortized over the life of the agreement based on the estimated amount of tobacco settlement revenues expected to be collected over the life of the bonds, as detailed in the debt issuance prospectus. Actual receipts could differ significantly from this estimated total of \$4,125,334,734.

Cash and Cash Equivalents

Cash and cash equivalents consist solely of a money market fund that invests in U.S. Treasury securities only.

Deferred Inflows of Resources – TSRs

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

Deferred Outflows of Resources – Payment to the State

In accordance with GASB Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, bond proceed amounts paid to the State under the Sales Agreement have been reported as deferred outflows of resources and will be recognized as an expense ratably over the life of the agreement. For this purpose, the Authority has used an amortization rate of 36.445% of recognized TSRs. The rate used represents the ratio of the original principal (\$1,503,460,000) to the total estimated TSRs sold to the Authority by the State (\$4,125,334,734). The Authority’s policy requires that this estimate be assessed after 5 years of collection data is available (FY 2017) and every 5 years thereafter, throughout the period debt is outstanding. In FY 2019 and FY 2020, the Authority reviewed the rate used and determined that no change to the estimate was necessary.

Long-term Obligations

In the government-wide financial statements, long-term debt is reported as a liability. Bond premiums are reported net of bonds payable and amortized over the life of the bonds using the straight-line method. Bond issuance costs are expensed when incurred. Gains or Losses on debt refundings are deferred and amortized over the remaining life of the old or new debt, whichever is shorter.

In the fund financial statements, governmental funds recognize bond premiums as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are also reported as other financing sources.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

Fund Balance and Net Position

As of June 30, 2020, the governmental fund of the Authority reported \$419,915,285 of fund balance that is restricted for the retirement of debt principal and interest or restricted for various debt reserve requirements. As of June 30, 2019, the governmental fund of the Authority reported \$516,250,952 of fund balance that is restricted for the retirement of debt principal and interest or restricted for various debt reserve requirements. The Authority considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which both unrestricted and restricted fund balances are available. In the government-wide Statement of Net Position, the Authority has reported its net position deficit of \$276,915,843 as unrestricted as of June 30, 2020, and \$263,823,027 as unrestricted as of June 30, 2019.

Residual Tobacco Settlement Revenues

As part of the consideration for the sale to the Authority by the State of the pledged settlement payments, the Authority issued a residual certificate to the State. In accordance with the provisions of the Trust Indenture, upon payment in full of the deposits required by the Trust Indenture (see Note 5), the remaining balance of pledged revenues shall be transferred to the State as owner of the residual certificate. During the year ended June 30, 2020, \$125.7 million of residual revenues were paid to the State (cash basis amount). Of this, \$59.4 million pertained to FY 2019 and \$66.2 pertained to FY 2020. An additional amount of \$57.2 million was recorded as a liability to the State as of year-end for FY 2020 estimated balances. During the year ended June 30, 2019, \$134.9 million of residual revenues were paid to the State (cash basis amount). Of this, \$66.3 million pertained to FY 2018 and \$68.7 pertained to FY 2019. An additional amount of \$59.4 million was recorded as a liability to the State as of year-end for FY 2019 estimated balances.

Expenditures/Expenses

The Authority's expenditures/expenses consist solely of excess residuals paid to the State, amortization of the deferred outflow of resources, debt related items such as principal, interest and issuance costs related to debt, amortization of debt related balances, professional fees for audit and rating services and Attorney General expenses. The Authority has no employees and is not liable for any post-employment related employee obligations.

Note 2. Cash and Cash Equivalents

The Authority maintains various cash equivalent accounts, established in accordance with the Trust Indenture for specific purposes. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All of the Authority's cash equivalents of \$163,608,156 at June 30, 2020 and \$167,543,563 at June 30, 2019, were invested in a money market fund comprised of U.S. Treasury securities, valued using quoted market prices (Level 1 inputs).

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2020

Note 2. Cash and Cash Equivalents (Continued)

Authorized Deposits and Investments

The Authority is permitted by the Public Funds Investment Act (30 ILCS 235) to engage in a wide variety of investment activities. These include:

- bonds, notes, certificates of indebtedness, treasury bills or other securities guaranteed by the United States Government;
- bonds, notes, debentures, or other similar obligations of the United States of America, its agencies and its instrumentalities;
- interest-bearing savings accounts, certificates of deposit, interest-bearing time deposits or any other investments that constitute direct obligations of any bank;
- short-term obligations of certain qualified United States Corporations;
- short-term discount obligations of the Federal National Mortgage Association;
- shares or other securities legally issued by certain state or federal savings and loans associations;
- insured dividend-bearing share accounts and certain other accounts of chartered credit unions;
- certain money market mutual funds;
- the Illinois funds investment pool;
- repurchase agreements that meet certain instrument and transactions requirements.

The Trust Indenture for the Series 2010 Revenue Bonds authorizes the Authority to invest in the following, to the extent permitted by the Public Funds Investment Act:

- Direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States of America and which are entitled to the full faith and credit thereof;
- Bonds, notes, debentures, or other obligations or securities issued by a federal government agency that is rated "AAA" (or equivalent) by Standard & Poor's and Fitch, or if not rated by both of them, so rated by one of them and in the equivalent category by another nationally recognized rating agency;
- Prime commercial paper of a corporation incorporated under the laws of any state of the United States of America with assets exceeding \$500,000,000 if (i) such obligations are rated at the time of purchase rated "A-1" and "F1" by Standard & Poor's and Fitch, respectively, or if not rated by both of them, so rated by one of them and in the equivalent category by another nationally recognized rating agency and which mature not later than 180 days from the date of purchase, (ii) such purchases do not exceed 10% of the corporation's outstanding obligations and (iii) no more than one-third of the public agency's funds may be invested in short-term obligations of corporations;
- Bankers' acceptances issued by a domestic bank or a federally chartered domestic office of a foreign bank which are eligible for purchase by the Federal Reserve System, rated "A-1" and "F1" by Standard & Poor's and Fitch, respectively or, if not rated by either of them, rated in the equivalent category by another nationally recognized rating agency;
- Demand deposits, including interest bearing money market accounts, time deposits, trust funds, trust accounts, overnight bank deposits and interest-bearing deposits of depository institutions, including the Trustee or any of its affiliates, rated in the equivalent category by another nationally recognized rating agency or which are fully FDIC-insured;

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2020

Note 2. Cash and Cash Equivalents (Continued)

Authorized Deposits and Investments (Continued)

- Shares in diversified open-end, no load investment funds, provided such funds are registered under the Investment Company Act of 1940, which is a money market mutual fund, which has been rated “AAAm” and “AAAm-G” or the equivalent by Standard & Poor’s and Fitch, or if not rated by either of them, rated in the equivalent category by another nationally recognized rating agency, and such fund is limited to obligations described above and to agreements to repurchase such obligations, including those for which the Trustee or an affiliate performs services for a fee, whether as a custodian, transfer agent, investment advisor or otherwise;
- Federally insured or collateralized certificates of deposit issued by banks (which may include the Trustee) which are state chartered banks, federally chartered banks or foreign banks with domestic offices. Collateralized certificates of deposit shall be collateralized by obligations described in the first and second paragraphs above, which such obligations at all times have a market value (exclusive of accrued interest) at least equal to a minimum of one hundred and two percent (102%) of such bank deposits so secured, including interest;
- Repurchase agreements relating to securities of the type specified in the first and second paragraph above; provided that such securities in an amount at least equal to a market value at all times of at least one hundred and two percent (102%) of the amount of the agreements shall be delivered as security for such agreements to the account of the Trustee to be held therein during the term of the agreements; and
- Any other obligations conforming to the requirements of the Public Funds Investment Act, so long as such obligations are rated at least in the two highest rating categories of each of Standard & Poor’s and Fitch, or if not rated by both of them, so rated by one of them and in the equivalent category by another nationally recognized rating agency.

The Authority does not have a policy that further limits its permitted deposits and investments. The Authority adheres to the Public Funds Investment Act and Trust Indenture identified above and has not adopted any additional policies addressing custodial risk, interest rate risk or credit risk.

Credit Risk, including Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of the investments that are in the possession of an outside party. The Authority’s investments are all held by the Trustee, BNY Mellon, in the name of the Authority. The money market investments were rated AAAm and Aaa-mf by Standard & Poor’s and Moody’s, respectively, in fiscal years 2020 and 2019.

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will decrease as a result of an increase in interest rates. The Authority’s investments in the money market account are highly liquid with a weighted average maturity of 43 days and 44 days during FY 2020 and FY2019, respectively.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2020

Note 3. Receivables – Tobacco Settlement Revenues (TSRs)

The Master Settlement Agreement (MSA) is an industry-wide settlement of litigation between the settling states (including Illinois), and the tobacco product manufacturers (PMs), dated November 23, 1998. The settlement represents the resolution of a large potential financial liability of the PMs for smoking related injuries. Pursuant to the MSA, the settling states agreed to settle all their past, present and future smoking related claims against the PMs in exchange for agreements and undertakings by the PMs concerning a number of issues. These issues include, among others, making payments to the settling states, abiding by more stringent advertising restrictions, funding educational programs and more.

Under the MSA, annual payments are required each April 15th in perpetuity and are based on several factors, including the volume of domestic cigarette shipments during the previous calendar year.

The Authority received \$264,698,291 in April 2020, under the MSA, pertaining to calendar year 2019. Of this amount, \$137,454,167 was recorded as a receivable in FY 2019 and pertains to the period January 1, 2019 to June 30, 2019. Likewise, the Authority has accrued \$132,349,145 in TSRs receivable for the period beginning January 1, 2020 and ending June 30, 2020. The amount accrued is considered earned but will not be received by the Authority until April 2021, and has been reported as a deferred inflow of resources in the governmental fund.

The Authority received \$274,908,334 in April 2019, under the MSA, pertaining to calendar year 2018. Of this amount, \$153,236,207 was recorded as a receivable in FY 2018 and pertains to the period January 1, 2018 to June 30, 2018. Likewise, the Authority has accrued \$137,454,167 in TSRs receivable for the period beginning January 1, 2019 and ending June 30, 2019. The amount accrued is considered earned but will not be received by the Authority until April 2020, and has been reported as a deferred inflow of resources in the governmental fund.

Note 4. Balances and Transactions with the State of Illinois - Related Party Transactions

Transactions and balances with the State of Illinois are as follows:

Deferred outflow of resources – payment to State – For FY 2020, this \$316,033,541 balance represents the payments of bond proceeds and excess issuance/reserve funds made to the State of \$1,356,749,680, less accumulated amortization of \$1,040,716,139. For FY 2019, this \$410,641,160 balance represents the payments of bond proceeds and excess issuance/reserve funds made to the State of approximately \$1.4 billion, less accumulated amortization of \$946.1 million. The balance is being amortized over the life of the Sales Agreement which corresponds with the final maturity of the related revenue bonds.

Due to State – residual TSRs – For FY 2020, this liability represents the estimated amount that will be paid to the State upon receipt of the April 2021 TSRs that pertain to the period beginning January 1, 2020 through June 30, 2020 of \$57,226,412. Residual TSRs are estimated to be 43.239% of TSRs receivable. For FY 2019, this liability represents the estimated amount that will be paid to the State upon receipt of the April 2020 TSRs that pertain to the period beginning January 1, 2019 through June 30, 2019 of \$59,433,771. Residual TSRs are estimated to be 43.239% of TSRs receivable.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2020

Note 4. Balances and Transactions with the State of Illinois - Related Party Transactions (Continued)

Excess Residual Payment to State – For FY 2020, this \$123,458,432 expenditure/expense includes the residual payments made to the State in FY 2020 of \$125,665,791, plus the accrued portion of the estimated residuals for the period beginning January 1, 2020 through June 30, 2020 of \$57,226,412, and less the prior year accrual of \$59,433,771. For FY 2019, this \$128,085,710 expenditure/expense includes the residual payments made to the State in FY 2019 of \$134,909,701, plus the accrued portion of the estimated residuals for the period beginning January 1, 2019 through June 30, 2019 of \$59,433,771, and less the prior year accrual of \$66,257,763.

Due to Attorney General – For FY 2020, as reported on page 15, the “Attorney General Sub-Account”, reported as cash and cash equivalents of \$2,501,012, represents amounts funded into the Attorney General Sub-Account as required under the Indenture, that have not yet been drawn by the Attorney General, as well as investment income earned in the Sub-Account which is not available to the Attorney General. It is expected that a portion of this amount will be drawn by the Attorney General in FY 2021. Expenditures/expenses of \$2,500,000 represent the annual amount required to be provided to the Attorney General’s Office under the Trust Indenture. For FY 2019, as reported on page 16, the “Attorney General sub – account”, reported as cash and cash equivalents of \$2,503,509, represents amounts funded into the Attorney General Sub-Account as required under the indenture, that have not yet been drawn by the Attorney General, as well as investment income earned in the Sub-Account which is not available to the Attorney General. It is expected that a portion of this amount will be drawn by the Attorney General in FY 2020. Expenditures/expenses of \$2,500,000 represent the annual amount required to be provided to the Attorney General’s Office under the Trust Indenture.

Note 5. Long-Term Obligations

The following is a summary of long-term obligation activity associated with governmental activities for the year ended June 30, 2020:

	Balance July 1, 2019	Additions	Retirements	Balance June 30, 2020	Due Within One Year
Revenue bonds payable	\$ 873,430,000	\$ -	\$ 98,565,000	\$ 774,865,000	\$ 103,900,000
Unamortized premium	78,438,359	-	9,190,439	69,247,920	-
	<u>\$ 951,868,359</u>	<u>\$ -</u>	<u>\$ 107,755,439</u>	<u>\$ 844,112,920</u>	<u>\$ 103,900,000</u>

The following is a summary of long-term obligation activity associated with governmental activities for the year ended June 30, 2019:

	Balance July 1, 2018	Additions	Retirements	Balance June 30, 2019	Due Within One Year
Revenue bonds payable	\$ 967,050,000	\$ -	\$ 93,620,000	\$ 873,430,000	\$ 98,565,000
Unamortized premium	87,628,800	-	9,190,441	78,438,359	-
	<u>\$ 1,054,678,800</u>	<u>\$ -</u>	<u>\$ 102,810,441</u>	<u>\$ 951,868,359</u>	<u>\$ 98,565,000</u>

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2020

Note 5. Long-Term Obligations (Continued)

The following is a summary of the Authority's Debt:

Revenue Bonds – Series 2010

On December 8, 2010, the Authority issued \$1,503,460,000 in Tobacco Settlement Revenue Bonds, Series 2010. As noted below, \$682.4 million of the outstanding bonds were refunded during FY 2018. The remaining serial bonds are due in one remaining installment of \$103,900,000 plus interest at 5.25% and 5.375% on June 1, 2021.

Revenue Bonds – Series 2017

On December 27, 2017, the Authority issued \$670,965,000 in Tobacco Settlement Revenue Bonds, Series 2017 at a premium of \$90,804,355, to currently refund \$104.9 million and advance refund \$577.4 million of the 2010 series revenue bonds. The net proceeds of \$757.0 million (after payment of \$4.8 million in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded 2010 series revenue bonds. As a result, a portion of the 2010 series bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Position. Of the total refunded debt, \$577.4 million remains outstanding at June 30, 2020. The bonds remaining in escrow will be called and paid off on June 1, 2021.

The 2017 series revenue bonds are due in annual installments of \$23,270,000 to \$112,260,000 plus interest at 5.0% through June 1, 2028.

As of June 30, 2020, debt service requirements to maturity on the outstanding debt, including interest, are as follows:

Year Ending June 30,	Governmental Activities		
	Revenue Bonds		
	Principal	Interest	Total
2021	\$ 103,900,000	\$ 39,034,925	\$ 142,934,925
2022	109,655,000	33,548,250	143,203,250
2023	112,260,000	28,065,500	140,325,500
2024	109,745,000	22,452,500	132,197,500
2025	107,305,000	16,965,250	124,270,250
2026-2028	232,000,000	19,095,000	251,095,000
Total	\$ 774,865,000	\$ 159,161,425	\$ 934,026,425

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2020

Note 5. Long-Term Obligations (Continued)

As of June 30, 2019, debt service requirements to maturity on the outstanding debt, including interest, are as follows:

Year Ending June 30,	Governmental Activities		
	Revenue Bonds		
	Principal	Interest	Total
2020	\$ 98,565,000	\$ 44,209,588	\$ 142,774,588
2021	103,900,000	39,034,925	142,934,925
2022	109,655,000	33,548,250	143,203,250
2023	112,260,000	28,065,500	140,325,500
2024	109,745,000	22,452,500	132,197,500
2025-2028	339,305,000	36,060,250	375,365,250
Total	\$ 873,430,000	\$ 203,371,013	\$ 1,076,801,013

Pledged Revenues

The Authority has pledged future tobacco settlement revenues (TSRs), net of specified operating expenditures, to retire the remaining revenue bonds and interest. The bonds are payable solely from TSRs and are payable through 2028. Annual principal and interest on the bonds are expected to require on average, less than 70% of net revenues. The total principal and interest remaining to be paid on the bonds is approximately \$934.0 million as of June 30, 2020 and \$1.1 billion as of June 30, 2019. Debt service expenditures for FY 2020 and total TSR revenues received were \$142.8 million and \$264.7 million, respectively. Debt service expenditures for FY 2019 and total TSR revenues received were \$142.5 million and \$274.9 million, respectively.

Trust Indenture Agreement

On December 1, 2010, the Authority executed a Trust Indenture with the Trustee acting as fiduciary for the bondholders. The Indenture provides for the following transactions: a) the Authority's issuance of the Residual Certificate and the Bonds, including specifically the Series 2010 Bonds and b) the Authority's assignment and pledge to the Trustee, in trust for the benefit and security of the beneficiaries, of the Pledged Revenues (TSRs), Pledged Accounts and assets thereof to be received and held by the Trustee. With the issuance of the Series 2017 bonds, certain provisions of the Indenture were amended and are reflected in the information that follows.

The Indenture establishes the following funds:

- (i) Tobacco Assets Account
- (ii) Pledged Revenues Account
- (iii) Operating Account
- (iv) Authority Operating Sub-Account
- (v) State Attorney General Operating Sub-Account
- (vi) Debt Service Account
- (vii) Debt Service Reserve Account

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2020

Note 5. Long-Term Obligations (Continued)

- (viii) Costs of Issuance Account
- (ix) Lump Sum Account
- (x) Residual Account
- (xi) Rebate Account

Application of Tobacco Assets and Pledged Revenues

Under the Trust Indenture, upon the Bond closing date, the Attorney General of the State directed the MSA agent to pay all Tobacco Assets (tobacco settlement payments pursuant to the terms of the MSA) to the Trustee on behalf of the Authority. All Tobacco Assets received by the Trustee are required to be deposited in the Tobacco Assets Account. From there, the assets shall be transferred first to the Pledged Revenues Account then distributed as described below:

No later than five business days following each deposit of pledged revenues to the Pledged Revenues Account (but in no event later than the next distribution date), the Trustee will withdraw pledged revenues on deposit in the Pledged Revenues Account and transfer such amounts as follows and in the following order of priority; provided, however, that investment earnings on amounts in the funds and accounts (other than the Debt Service Reserve Account, investment earnings on which shall be retained therein until the amounts on deposit therein are at least equal to the debt service reserve requirement, and on the fifth business day preceding each distribution date amounts on deposit in the Debt Service Reserve Account in excess of the debt service requirement may, at the direction of the Authority, be deposited directly to the Debt Service Account) will be deposited directly to the Debt Service Account; and provided, further, that upon the occurrence of a payment default, pledged revenues shall be transferred as set forth in clauses (1), (2) and (4) below and then all remaining pledged revenues will be applied to make extraordinary prepayments:

- (1) (a) to the Authority Operating Sub-Account, the amount required to pay (i) Trustee fees and expenses (including reasonable attorney's fees, if applicable) reasonably expected to be due during the next fiscal year and (ii) an amount specified by the Officer's certificate for operating expenses of the Authority (provided that such amounts paid pursuant to this clause (a) shall not exceed the operating cap and operating expenses shall not include any termination payments or loss amounts on related contracts) and (b) to the State Attorney General Operating Sub-Account, the amount required to be deposited therein to fund such subaccount in an amount not to exceed \$2,500,000 for the next fiscal year;
- (2) To the Debt Service Account an amount sufficient to cause the amount therein (together with interest and earnings reasonably expected by the Authority to be received on investments in the Debt Service Account on or prior to the next distribution date) to equal interest (including interest at the stated rate on the principal of outstanding bonds and on overdue interest, if any) due on the next succeeding distribution date;

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2020

Note 5. Long-Term Obligations (Continued)

Application of Tobacco Assets and Pledged Revenues (Continued)

- (3) To the Debt Service Account, exclusive of the amount on deposit therein under clause (2) above, an amount sufficient to cause the amount therein (together with any partial lump sum payment to be applied to the payment of principal or Sinking Fund installments on the next succeeding June 1 and interest and earnings reasonably expected by the Authority to be received on investments in the Debt Service Account on or prior to the next succeeding June 1 to the extent not counted for purposes of clause (2) above), to equal the principal and Sinking Fund installments due on the next succeeding June 1;
- (4) To the Debt Service Account, exclusive of the amounts deposited therein pursuant to clauses (2) and (3) above, an amount sufficient to cause the amount on deposit therein (together with interest and earnings reasonably expected by the Authority to be received on investments in the Debt Service Account on or prior to the second succeeding distribution date to the extent not counted for purposes of clause (2) or (3) above) to equal interest (including interest at the stated rate on the principal of outstanding bonds and on overdue interest, if any) due on the second succeeding distribution date;
- (5) To replenish the Debt Service Reserve Account until the amount on deposit therein equals the debt service reserve requirement of \$140,461,875;
- (6) In the amounts and to the funds and accounts established by Series Supplement for Junior Payments; and
- (7) To the residual account, the remaining pledged revenues.

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Office Of The Auditor General
Frank Mautino

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Board of Directors
Railsplitter Tobacco Settlement Authority

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and major fund of the State of Illinois, Railsplitter Tobacco Settlement Authority (Authority), as of and for the years ended June 30, 2019, and June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and we have issued our report thereon dated February 25, 2021.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as item 2020-001.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting (internal control).

In planning and performing our audit of the financial statements, we considered the Authority's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as item 2020-001 that we consider to be a material weakness.

Authority's Response to the Finding

The Authority's response to the finding identified in our audit is described in the accompanying Schedule of Findings. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

JANE CLARK, CPA
Director of Financial and Compliance Audits

Springfield, Illinois
February 25, 2021

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS
For the Two Years Ended June 30, 2020

2020-001. **FINDING** (Lack of Adequate Controls Over the Review of Internal Controls Over Service Providers)

The Railsplitter Tobacco Settlement Authority (Authority) did not obtain or conduct an independent internal control review over its service provider.

The Authority utilized a service provider to serve as the trustee of the Authority’s funds. The service provider is responsible for making financial transactions on behalf of the Authority.

During our testing, we noted the Authority did not obtain a System and Organization Control (SOC) report or conduct an independent internal control review of the service provider.

The Authority is responsible for the design, implementation, and maintenance of internal controls related to information systems and transaction processing to assure its critical and confidential data are adequately safeguarded. This responsibility is not limited due to the processes being outsourced.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State’s resources. The National Institute of Standards and Technology, Maintenance and System and Service Acquisition sections requires entities outsourcing IT environment or operations to obtain assurance over the entities internal controls related to the services provided. Such assurance may be obtained via System and Organization Control reports or independent reviews.

Authority management indicated they relied on federal regulation and strong reputation of the service provider, the legal protections of the Trust Indenture Agreement with the service provider, and routine transactional reporting for assurance that controls were sufficient.

Without having obtained and reviewed a SOC report or another form of independent internal controls review, the Authority does not have assurance the service provider’s internal controls are adequate to ensure proper accounting and safekeeping of assets and data. (Finding Code No. 2020-001)

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS
For the Two Years Ended June 30, 2020

2020-001. **FINDING** (Lack of Adequate Controls Over the Review of Internal Controls Over Service Providers) - Continued

RECOMMENDATION

We recommend the Authority obtain a SOC report or perform independent reviews of internal controls of service providers at least annually.

In addition, upon receipt of a SOC report, the Authority should:

- Monitor and document the operation of the Complementary User Entity Controls (CUECs) relevant to operations.
- Either obtain and review SOC reports for subservice organizations or perform alternative procedures to satisfy itself the usage of the subservice organizations would not impact the internal control environment.
- Document its review of the SOC reports and review all significant issues with subservice organizations to ascertain if a corrective action plan exists and when it will be implemented, any impacts to the Authority, and any compensating controls.

AUTHORITY RESPONSE

The Authority accepts the Auditor’s finding and recommendations. The Authority obtained the Trustee’s SOC 1 report in fiscal year 2021 and will continue to comply with the Auditor’s recommendation by obtaining SOC 1 reports from, or performing independent reviews of internal controls of, its service providers on an annual basis.

While the Authority agrees that its failure during the audited period to obtain SOC reports or perform independent reviews may be a significant deficiency in internal control meriting attention and corrective action, we do not agree that it constituted a material weakness in its internal control such that there was ever a reasonable possibility that a material misstatement of its financial statements would not be prevented, or detected and corrected, on a timely basis.

During the audited period, and continuing today, the Authority has ensured the accuracy of the transactions handled by its service provider through a close working relationship and at least monthly review of all transactions. All transactions handled by the service provider are either at the immediate direction of the Authority or as authorized in the governing Trust Indenture. The Authority obtains and reviews

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS
For the Two Years Ended June 30, 2020

2020-001. **FINDING** (Lack of Adequate Controls Over the Review of Internal Controls Over Service Providers) - Continued

monthly bank statements on a monthly basis to verify the accuracy of reporting. Transactions are minimal; only a few occur each month, so they are easily tracked.

The Authority reviews all transactions such as deposits of tobacco settlement revenues, payments of debt service, payments to the State and payments to vendors and matches them with the Authority’s internal records, calculations and expectations.

We do not believe there was ever a reasonable possibility that a material misstatement of its financial statements would not be prevented, or detected and corrected, on a timely basis. There have been no errors in the Trustee’s reporting according to the Authority’s knowledge that have not been corrected by the Authority’s staff.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
SCHEDULE OF FINDINGS – PRIOR FINDING NOT REPEATED
For the Two Years Ended June 30, 2020

A. **FINDING** (Inaccurate Financial Statement Preparation)

During the prior examination, the Railsplitter Tobacco Settlement Authority (Authority) did not ensure its financial reports were accurate and prepared in conformity with U.S. generally accepted accounting principles (GAAP). We noted the Authority did not perform a sufficient review of all accounts and amounts recorded within its financial statements and related footnotes.

During the current examination, we noted the Authority implemented procedures to ensure financial statements were reviewed for potential errors and misstatements and agreed to underlying accounting records. As a result, this finding is not repeated. (Finding Code No. 2018-001)