

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

For the Two Years Ended June 30, 2014

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
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STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
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AGENCY OFFICIALS

Chairman of the Board (12/19/14 to Current)	Vacant
Chairman of the Board (6/20/12 to 12/18/14)	Jerome Stermer
Board Member	Rory Hoskins
Board Member	Jennifer Woodard
Chief Financial Officer	John Sinsheimer
Secretary (11/15/12 to Current)	Jessica Akey
Secretary (6/20/11 to 11/14/12)	James Prichard

Authority's office is located at:

James R. Thompson Center
100 W. Randolph St.
Chicago, IL 60601



MANAGEMENT ASSERTION LETTER

Honorable William G. Holland
Auditor General
Illes Park Plaza
740 East Ash Street
Springfield, IL 62703-3154

12/31/2014

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Railsplitter Tobacco Settlement Authority (Authority). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Authority's compliance with the following assertions during the two-year period ended June 30, 2014. Based on this evaluation, we assert that during the years ended June 30, 2013 and June 30, 2014, the Authority has materially complied with the assertions below.

- A. The Authority has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Authority has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Authority on behalf of the State or held in trust by the Authority have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours truly,

Railsplitter Tobacco Settlement Authority

(John Sinsheimer, Chief Financial Officer)

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

COMPLIANCE REPORT

SUMMARY

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

ACCOUNTANT'S REPORT

The Independent Accountant's Report on State Compliance and on Internal Control Over Compliance does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

<u>Number of</u>	<u>Current</u> <u>Report</u>	<u>Prior</u> <u>Report</u>
Findings	0	0
Repeated findings	0	N/A
Prior recommendations implemented or not repeated	0	N/A

PRIOR FINDINGS NOT REPEATED

The Railsplitter Tobacco Settlement Authority did not have any prior year findings.

EXIT CONFERENCE

The Railsplitter Tobacco Settlement Authority waived an exit conference in correspondence dated December 29, 2014.

SPRINGFIELD OFFICE:
ILES PARK PLAZA
740 EAST ASH • 62703-3154
PHONE: 217/782-6046
FAX: 217/785-8222 • TTY: 888/261-2887
FRAUD HOTLINE: 1-855-217-1895



CHICAGO OFFICE:
MICHAEL A. BILANDIC BLDG. • SUITE 5-900
160 NORTH LASALLE • 60601-3103
PHONE: 312/814-4000
FAX: 312/814-4006
FRAUD HOTLINE: 1-855-217-1895

OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT ACCOUNTANT'S REPORT ON STATE COMPLIANCE AND
ON INTERNAL CONTROL OVER COMPLIANCE

Honorable William G. Holland
Auditor General
State of Illinois

And

Board of Directors
Railsplitter Tobacco Settlement Authority

Compliance

We have examined the State of Illinois, Railsplitter Tobacco Settlement Authority's compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the two years ended June 30, 2014. The management of the State of Illinois, Railsplitter Tobacco Settlement Authority is responsible for compliance with these requirements. Our responsibility is to express an opinion on the State of Illinois, Railsplitter Tobacco Settlement Authority's compliance based on our examination.

- A. The State of Illinois, Railsplitter Tobacco Settlement Authority has obligated, expended, received, and used public funds in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The State of Illinois, Railsplitter Tobacco Settlement Authority has obligated, expended, received, and used public funds in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The State of Illinois, Railsplitter Tobacco Settlement Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

- D. Revenues and receipts collected by the State of Illinois, Railsplitter Tobacco Settlement Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the State of Illinois, Railsplitter Tobacco Settlement Authority on behalf of the State or held in trust by the State of Illinois, Railsplitter Tobacco Settlement Authority have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the State of Illinois, Railsplitter Tobacco Settlement Authority's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the State of Illinois, Railsplitter Tobacco Settlement Authority's compliance with specified requirements.

In our opinion, the State of Illinois, Railsplitter Tobacco Settlement Authority complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the two years ended June 30, 2014.

Internal Control

Management of the State of Illinois, Railsplitter Tobacco Settlement Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the State of Illinois, Railsplitter Tobacco Settlement Authority's internal control over compliance with the requirements listed in the first paragraph of this report to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Railsplitter Tobacco Settlement Authority's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Railsplitter Tobacco Settlement Authority's internal control over compliance.

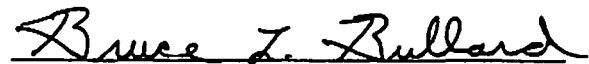
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a

requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

There were no immaterial findings that have been excluded from this report.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, agency management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.



BRUCE L. BULLARD, CPA

Director of Financial and Compliance Audits

Springfield, Illinois
December 31, 2014

SPRINGFIELD OFFICE:
ILES PARK PLAZA
740 EAST ASH • 62703-3154
PHONE: 217/782-6046
FAX: 217/785-8222 • TTY: 888/261-2887
FRAUD HOTLINE: 1-855-217-1895



CHICAGO OFFICE:
MICHAEL A. BILANDIC BLDG. • SUITE S-900
160 NORTH LASALLE • 60601-3103
PHONE: 312/814-4000
FAX: 312/814-4006
FRAUD HOTLINE: 1-855-217-1895

OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

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 William G. Holland
Auditor General
State of Illinois

And

Board of Directors
Railsplitter Tobacco Settlement Authority

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, as of and for the years ended June 30, 2013 and June 30, 2014, and the related notes to the financial statements, which collectively comprise the State of Illinois, Railsplitter Tobacco Settlement Authority's basic financial statements, and have issued our report thereon dated December 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Illinois, Railsplitter Tobacco Settlement Authority's internal control over financial reporting (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 State of Illinois, Railsplitter Tobacco Settlement Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Railsplitter Tobacco Settlement 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Railsplitter Tobacco Settlement Authority's financial statements are free of 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 determination of financial statement amounts. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 State of Illinois, Railsplitter Tobacco Settlement Authority'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 State of Illinois, Railsplitter Tobacco Settlement Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


BRUCE L. BULLARD, CPA
Director of Financial and Compliance Audits

Springfield, Illinois
December 31, 2014

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the Railsplitter Tobacco Settlement Authority was performed by staff of the Office of the Auditor General.

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

SPRINGFIELD OFFICE:
ILES PARK PLAZA
740 EAST ASH • 62703-3154
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FAX: 312/814-4006
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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
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, as of and for the years ended June 30, 2013 and June 30, 2014, and the related notes to the financial statements, which collectively comprise the State of Illinois, Railsplitter Tobacco Settlement 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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund for the State of Illinois, Railsplitter Tobacco Settlement Authority, as of June 30, 2013 and June 30, 2014, 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.

Emphasis of Matter

As discussed in Note 1, the financial statements of the State of Illinois, Railsplitter Tobacco Settlement Authority are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and the major fund of the State that is attributable to the transactions of the State of Illinois, Railsplitter Tobacco Settlement Authority. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2013 and June 30, 2014, and the changes in its financial position, for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 6, the State of Illinois, Railsplitter Tobacco Settlement Authority adopted new accounting guidance from Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

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 14-24 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 Information

Our audit for the years ended June 30, 2013 and June 30, 2014 was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Illinois, Railsplitter Tobacco Settlement Authority's basic financial statements. The accompanying supplementary information, the State Compliance Schedules 1 and 2, and the Analysis of Operations Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information for the years ended June 30, 2013 and June 30, 2014, in the State Compliance Schedules 1 and 2 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying supplementary information for the years ended June 30, 2013 and June 30, 2014, in the State Compliance Schedules 1 and 2 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the years ended June 30, 2013 and June 30, 2014, in the State Compliance Schedules 1 and 2 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the State of Illinois, Railsplitter Tobacco Settlement Authority's basic financial statements as of and for the years ended June 30, 2011 and June 30, 2012 (not presented herein), and have issued our report thereon dated March 25, 2013, which contained unmodified opinions on the respective financial statements of the governmental activities and the major fund. The accompanying supplementary information for the year ended June 30, 2012 in Schedules 1 and 2 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the June 30, 2012 financial statements. The accompanying supplementary information for the year ended June 30, 2012 in Schedules 1 and 2 has been subjected to the auditing procedures applied in the audit of the June 30, 2012 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic

financial statements or to those basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the year ended June 30, 2012 in Schedules 1 and 2 is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived.

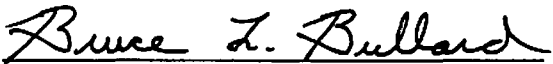
The accompanying supplementary information in the Analysis of Operations Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2014 on our consideration of the State of Illinois, Railsplitter Tobacco Settlement 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 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 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 State of Illinois, Railsplitter Tobacco Settlement Authority's internal control over financial reporting and compliance.

Restricted Use of this Auditor's Report

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, agency management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.


Bruce L. Bullard, CPA
Director of Financial and Compliance Audits

Springfield, Illinois
December 31, 2014

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Two Years Ended June 30, 2014

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 financial statements.

The Authority was legally established on July 1, 2010 and has completed its first four years of operations.

FINANCIAL HIGHLIGHTS

Net Position

The Authority's total assets of governmental activities were \$325.34 million as of June 30, 2014. In addition, the Authority reported total cash and cash equivalents of \$189.73 million and tobacco settlement receivables of \$135.61 million as of June 30, 2014. The Authority reported deferred outflows of resources of \$904.99 million as of June 30, 2014. Deferred outflows of resources represent the unamortized balance of the initial payment to the State of \$1.35 billion, upon issuance of the bonds. The Authority's total assets of governmental activities were \$328.25 million as of June 30, 2013. The Authority reported total cash and cash equivalents of \$147.42 million, investments of \$44.09 million, and deferred charges of \$1.00 billion as of June 30, 2013. The Authority's total assets of governmental activities were \$1.44 billion as of June 30, 2012. In addition, the Authority reported total cash and cash equivalents of \$101 million, investments of \$91 million, and deferred charges of \$1.1 billion as of June 30, 2012.

As of June 30, 2014, the Authority reported liabilities of \$1.38 billion, principal of which was \$1.31 billion in revenue bonds payable. This resulted in a net asset deficit of \$154.22 million at June 30, 2014. As of June 30, 2013, the Authority reported liabilities of \$1.46 billion, principal of which was \$1.39 billion in revenue bonds payable. This resulted in a net position deficit of \$125.36 million at June 30, 2013. As of June 30, 2012, the Authority reported liabilities of \$1.5 billion, principal of which was \$1.45 billion in revenue bonds payable. This resulted in a net asset deficit of \$74.7 million at June 30, 2012.

The Authority does not conduct any business-type activities.

Revenues

During fiscal year 2014, the governmental activities revenues totaled \$270.35 million. This consisted of \$270.09 million of recognized tobacco settlement revenues, and \$.26 million in net investment income. During fiscal year 2013, the governmental activities revenues totaled \$274.11 million. This consisted of \$273.68 million of recognized tobacco settlement revenues, and \$.43 million in net investment income. During fiscal year 2012, the governmental activities

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Two Years Ended June 30, 2014

revenues totaled \$276.2 million. This consisted of \$275.4 million of recognized tobacco settlement revenues, and \$.8 million in net investment income.

Cost of Authority Program

During fiscal year 2014, the governmental activities expenses totaled \$299.20 million. Of this amount, \$123.92 million was for residual tobacco settlement payments to the State, \$98.43 million was amortization of the tobacco settlement deferred charges and \$74.30 million was interest expense. During fiscal year 2013, the governmental activities expenses totaled \$315.45 million. Of this amount, \$131.27 million was for residual tobacco settlement payments to the state, \$99.74 million was amortization of the tobacco settlement deferred charges, and \$76.89 million was interest expenses. 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. These funds were not shown as expenses in prior years as they were not drawn by the Attorney General. Upon further interpretation of the Indenture, the accounting for the Attorney General portion of funding was changed in fiscal year 2013, resulting in an expense of \$7.5 million. During fiscal year 2012, the governmental activities expenses totaled \$313.2 million. Of this amount, \$133.2 million was for residual tobacco settlement payments to the state, \$100.4 million was amortization of the tobacco settlement deferred charges, and \$80 million was interest expense.

Major Fund – Railsplitter Tobacco Settlement Authority Governmental Fund

For fiscal year 2014, the revenues reported for the governmental fund (\$271.48 million) varied from revenues recognized for governmental activities (\$270.35 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 deferred in the fund because it was not collected in the availability period (TSRs receivable). At the fund level, expenditures totaled \$370.7 million. Included in this total is \$123.92 million for residual tobacco settlement payments to the State, \$98.43 million was amortization of the tobacco settlement deferred charges, \$145.8 million for interest expense and principal retirement, 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.

For fiscal year 2013, the revenues reported for the governmental fund (\$273.93 million) varied from revenues recognized for governmental activities (\$274.11 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 deferred in the fund because it was not collected in the availability period (TSRs receivable). At the fund level, expenditures totaled \$379.59 million. Included in this total is \$131.27 million for residual tobacco settlement payments to the State, \$99.74 million was amortization of the tobacco settlement deferred

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Two Years Ended June 30, 2014

charges, \$141.03 million for interest expense and principal retirement, and \$7.5 million for the Attorney General expenses as discussed above.

For fiscal year 2012, the revenues reported for the governmental fund (\$273.9 million) varied from revenues recognized for governmental activities (\$276.2 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 deferred in the fund because it was not collected in the availability period (TSRs receivable). At the fund level, expenditures totaled \$372.6 million. Included in this total is \$133.2 million for residual tobacco settlement payments to the state, \$100.4 million was amortization of the tobacco settlement deferred charges, and \$139.0 million for interest expense and principal retirement. The principal difference between expenditures in the governmental fund and expenses in governmental activities pertains to debt related items.

USING THIS ANNUAL REPORT

In the past, the primary focus of 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 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.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Two Years Ended June 30, 2014

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, 2014 and 2013

	<u>Governmental Activities</u>	<u>Governmental Activities</u>	<u>Governmental Activities</u>
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 325,342,475	\$ 328,251,356	\$ 1,440,887,232
Total assets	<u>325,342,475</u>	<u>328,251,356</u>	<u>1,440,887,232</u>
Deferred outflow of resources	904,992,115	1,003,423,556	-
Total deferred outflows	<u>904,992,115</u>	<u>1,003,423,556</u>	<u>-</u>
Current liabilities	146,446,200	141,733,524	129,055,259
Noncurrent liabilities	1,238,108,802	1,315,306,321	1,386,543,841
Total liabilities	<u>1,384,555,002</u>	<u>1,457,039,845</u>	<u>1,515,599,100</u>
Net Position:			
Unrestricted	<u>(154,220,412)</u>	<u>(125,364,933)</u>	<u>(74,711,868)</u>
Total net position	<u>\$ (154,220,412)</u>	<u>\$ (125,364,933)</u>	<u>\$ (74,711,868)</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 \$154.22 million and \$125.36 million as of June 30, 2014 and 2013, respectively. In addition, liabilities exceeded assets by \$74.71 million as of June 30, 2012.

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

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Two Years Ended June 30, 2014

- 1) Net Results of Activities – which will impact (increase/decrease) current assets and unrestricted net position.
- 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 2013 to 2014 of \$28.86 million was a result of several factors. Total assets plus deferred outflows of resources decreased by \$101.34 million. The decrease was primarily due to the amortization of the payment to the State of \$98.43 million. Total liabilities decreased by \$72.48 million, primarily due to the bond principal retirement of \$70.86 million in 2014.

The decrease in net position from 2012 to 2013 of \$50.65 million was a result of several factors. Total assets and deferred outflows of resources decreased by \$109.21 million. The decrease was primarily due to the amortization of the deferred charges (payment to State) of \$99.74 million. Total liabilities decreased by \$58.56 million, primarily due to the bond principal retirement of \$63.55 million in 2013, offset by a liability to the Attorney General of \$5.5 million.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Two Years Ended June 30, 2014

The following table reports revenues and expenses on a comparative basis:

Condensed Statement of Activities
Year Ended June 30, 2014, 2013, and 2012

	<u>Governmental Activities</u>	<u>Governmental Activities</u>	<u>Governmental Activities</u>
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues			
Program revenues			
Tobacco settlement revenues	\$270,085,430	\$273,680,933	\$275,468,104
General revenue			
Investment income	262,222	431,376	774,557
Total revenue	<u>270,347,652</u>	<u>274,112,309</u>	<u>276,242,661</u>
Expenses			
Excess residual payments to State	123,917,311	131,266,931	133,160,074
Amortization of payment to State - TSRs	98,431,442	99,741,806	100,393,132
Professional fees	49,500	52,000	58,000
Attorney General	2,500,047	7,500,211	-
Debt service - interest	74,304,831	76,890,777	79,629,998
Total expenses	<u>299,203,131</u>	<u>315,451,725</u>	<u>313,241,204</u>
Change in net position	(28,855,479)	(41,339,416)	(36,998,543)
Net position - beginning	(125,364,933)	(74,711,868)	(37,713,325)
Cumulative effect of change in accounting principle	<u>-</u>	<u>(9,313,649)</u>	<u>-</u>
Net position - ending	<u><u>\$ (154,220,412)</u></u>	<u><u>\$(125,364,933)</u></u>	<u><u>\$ (74,711,868)</u></u>

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Two Years Ended June 30, 2014

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:

- 1) Interest Rates – The 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.
- 2) 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, 2014, revenues from all activities totaled \$270.35 million compared with \$274.11 million in the prior year, a decrease of \$3.76 million.

Total expenses for the year ended June 30, 2014 were \$299.20 million compared to \$315.45 million in the previous year. The \$16.25 million decrease (5.2%) is mostly attributable to the decrease in excess residual payments to the State of \$7.35 million, as well as a decrease in the Attorney General expense of \$5.0 million. Excess residuals expense in FY13 exceeded FY14 due to a decline in tobacco settlement revenues and an increase in debt service costs. The Attorney General expense decline was because in 2014, an expense was recorded for only the annual \$2.5 million required under the bond indenture to support Attorney General (AG) enforcement activities. In FY13 however, the Authority funded the required amounts of \$2.5 million per year into the sub-account held by the Trustee for three fiscal periods (2011 through 2013). The change was based on an interpretation of the indenture requirements (amount expensed annually as compared to when the transfer is requested by the AG).

Additional decreases in expenses were due to scheduled interest requirements (\$2.59 million decrease) and amortization of the amount paid to the State (\$1.31 million). Amortization is a function of the TSR revenues recorded each year.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Two Years Ended June 30, 2014

For the fiscal year ended June 30, 2013, revenues from governmental activities totaled \$274.11 million compared with \$276.24 million in the prior year, a decrease of \$2.13 million (.8%).

Total expenses for the year ended June 30, 2013 were \$315.45 million compared to \$313.24 million in the previous year. The \$2.21 million increase (.71%) is mostly attributable to the change in accounting for Attorney General expenses of \$7.5 million, offset by a decrease in interest expense for the year of \$2.15 million, as well as a \$1.89 million decrease in excess residual payments to the State. In 2013, an expense was recorded for the annual \$2.5 million required under the bond indenture to support Attorney General (AG) enforcement activities. Prior to 2013, the Authority funded the required 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; however, there were no fund transfers requested by the Attorney General's office, so an expense was not recorded in 2011 or 2012. In 2013, based on further interpretation of the indenture requirements, an expense was recorded for 2011, 2012 and 2013. Residuals paid in 2012 exceeded 2013 because of better yields on invested debt reserve funds that are factored into the residual calculation. Additionally, amortization related to the deferred TSR charges declined by .65 million (.6%). The amortization of deferred TSR charges is a function of tobacco settlement revenues.

FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS

Governmental Funds

The focus of the Authority's governmental funds 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 outside constraints limit how these funds may be used.

At June 30, 2014, the governmental fund reported restricted fund balance of \$1.03 billion, compared with \$1.13 billion as of June 30, 2013. The \$99.21 million decrease is mainly due to the amortization of the deferred outflow of resources.

At June 30, 2013, the governmental fund reported restricted fund balance of \$1.13 billion, compared with \$1.24 billion as of June 30, 2012. The \$105.66 million decrease is mainly due to the amortization of the deferred charges and Attorney General expenditures as previously discussed.

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.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Two Years Ended June 30, 2014

Total revenues for the Governmental Fund for FY14 and FY13 were \$271.48 million and \$273.93 million, respectively, a decrease of \$2.44 million. The FY13 investment income exceeded FY14 amounts by \$169 thousand and FY13 tobacco settlement revenues exceed FY14 by \$2.27 million.

Total revenues for the Governmental Fund for FY13 and FY12 were \$273.93 million and \$273.90 million, respectively, a less than \$30 thousand difference. The FY12 investment income exceeded FY13 amounts by \$343 thousand; however, FY13 tobacco settlement revenues exceed FY12 by \$370 thousand.

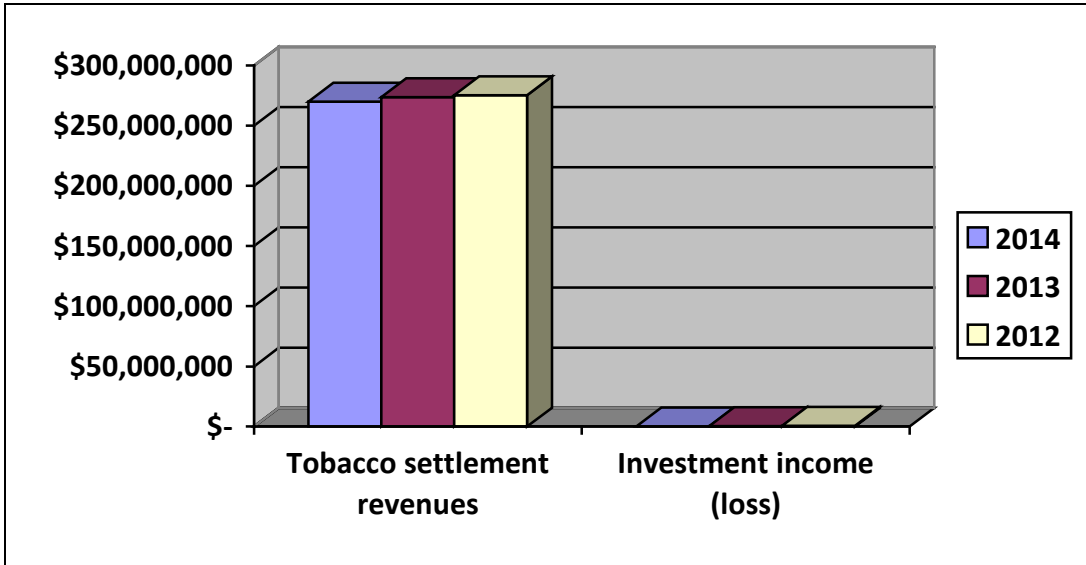
Total expenditures for the governmental fund for the year ended June 30, 2014 and 2013, were \$370.70 and \$379.59 million, respectively. The \$8.89 million decrease is due to reduced residual payments to the State (\$7.35 million), a lower amortization of the deferred outflows of resources (\$1.31 million), and lower Attorney General expenses (\$5 million). These amounts were offset by a larger principal payment in FY14 (\$7.31 million) less lower interest paid on the bonds (\$2.54 million).

Total expenditures for the governmental fund for the years ended June 30, 2013 and 2012, were \$379.59 and \$372.59 million, respectively. The \$7 million increase is due to the \$7.5 million Attorney General expenses, a larger principal payment in FY13 (\$4.2 million) offset by lower residuals paid to the State (\$1.9 million), lower interest paid on the bonds (\$2.1 million) and lower amortization of the deferred charges for TSRs (\$651 thousand).

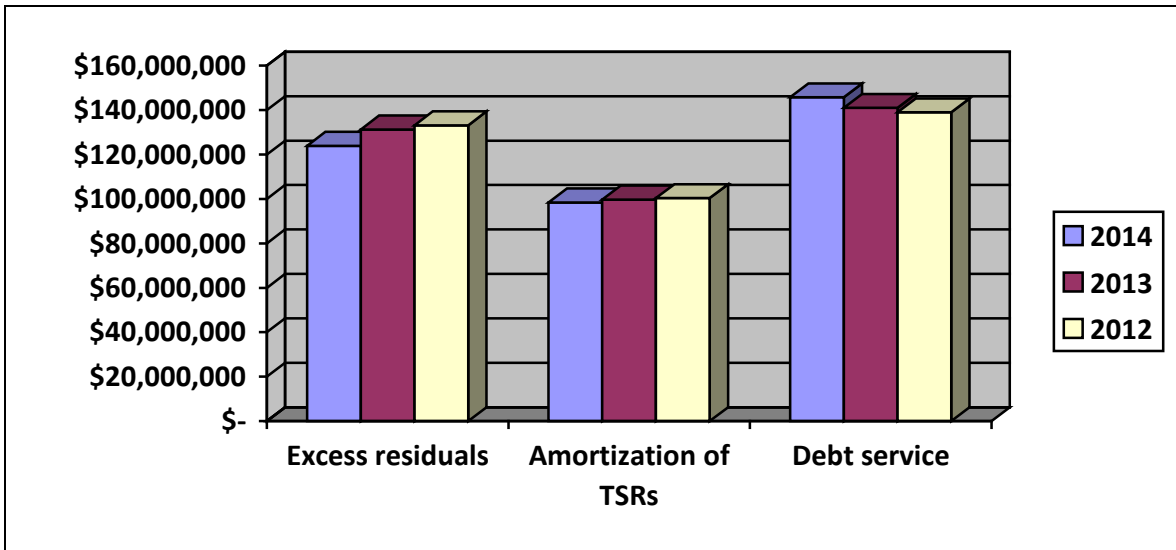
See the charts that follow.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Two Years Ended June 30, 2014

**Revenues – by Type (Governmental Fund)
Years Ended June 30, 2014, 2013 and 2012**



**Expenditures – by Type (Governmental Fund)
Year Ended June 30, 2014, 2013 and 2012**



STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Two Years Ended June 30, 2014

Outstanding Debt

In December 2010, the Authority issued \$1,503,460,000 Tobacco Settlement Revenue Bonds 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 fiscal year 2011. An additional amount of \$308,209 was paid in FY12. 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.

The Series 2010 Revenue Bonds received a rating of A from Standard & Poor's for maturities through 2021, and A- for maturities in 2023, 2024 and 2028. Fitch rated the entire series BBB+.

In exchange for the \$1.35 billion in bond proceeds, 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 FY14 were sufficient to pay the upcoming and current interest requirements on the debt. Residual revenues of \$124.41 million, \$131.18 million, and \$132.1 million were returned to the State during fiscal years 2014, 2013, and 2012, respectively (cash basis payments).

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 FY14 (cash received) of \$271.22 million was slightly higher than the anticipated amount of \$270.66 million, however on a cumulative basis, collections are down \$64.41 million from the original estimate. The tobacco settlement revenues received in FY13 (cash received) of \$273.50 million was less than the anticipated amount of \$281.66 million. The tobacco settlement revenues received in FY12 (cash received) of \$273.13 million was less than the anticipated amount of \$293.17 million. 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 John Sinsheimer, James R. Thompson Center, 100 W Randolph St, Chicago, IL 60601.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
For the Year Ended June 30, 2014

	Governmental Fund - RTSA	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents			
Assets account	\$ 192	\$ -	\$ 192
Operating sub-account	190,520	-	190,520
Attorney General sub-account	5,000,258	-	5,000,258
Debt service account	35,937,196	-	35,937,196
Debt service reserve account	148,603,101	-	148,603,101
Residual account	36	-	36
Total cash and cash equivalents	189,731,303	-	189,731,303
Receivables			
Tobacco settlement revenues (TSRs)	135,611,172	-	135,611,172
Total assets	325,342,475	-	325,342,475
Deferred Outflow of Resources			
Payment to State	904,992,115	-	904,992,115
Liabilities			
Current:			
Accrued interest payable	-	5,989,063	5,989,063
Due to Attorney General	5,000,258	-	5,000,258
Due to State - residual TSRs	58,636,879	-	58,636,879
Revenue bonds payable	-	76,820,000	76,820,000
Total current liabilities	63,637,137	82,809,063	146,446,200
Noncurrent:			
Revenue bonds payable, net			
of unamortized premium of \$5,253,802	-	1,238,108,802	1,238,108,802
Total liabilities	63,637,137	1,329,917,865	1,384,555,002
Deferred Inflow of Resources			
Deferred TSRs	135,611,172	(135,611,172)	-
Fund Balance/Net Position			
Fund balance - restricted for debt service	1,031,086,281	(1,031,086,281)	-
Net position - unrestricted deficit	-	(154,220,412)	(154,220,412)
Total fund balance/net position	<u>\$ 1,031,086,281</u>	<u>\$(1,185,306,693)</u>	<u>\$ (154,220,412)</u>

The accompanying notes to the financial statements are an integral part of this Statement.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
For the Year Ended June 30, 2013

	Governmental Fund - RTSA	Adjustments	Statement of Net Position
Assets			
Current:			
Cash and cash equivalents			
Assets account	\$ 128	\$ -	\$ 128
Operating sub-account	190,018	-	190,018
Attorney General sub-account	5,500,211	-	5,500,211
Debt service account	37,471,328	-	37,471,328
Debt service reserve account	104,254,049	-	104,254,049
Residual account	23	-	23
Total cash and cash equivalents	147,415,757	-	147,415,757
Investments - Debt service reserve account	44,087,512	-	44,087,512
Receivables			
Tobacco settlement revenues (TSRs)	136,748,087	-	136,748,087
Total assets	328,251,356	-	328,251,356
Deferred Outflow of Resources:			
Payment to State	1,003,423,556	-	1,003,423,556
Liabilities			
Current:			
Accrued interest payable	-	6,244,844	6,244,844
Due to Attorney General	5,500,211	-	5,500,211
Due to state - residual TSRs	59,128,469	-	59,128,469
Revenue bonds payable	-	70,860,000	70,860,000
Total current liabilities	64,628,680	77,104,844	141,733,524
Noncurrent:			
Revenue bonds payable, net of unamortized premium of \$5,631,321	-	1,315,306,321	1,315,306,321
Total liabilities	64,628,680	1,392,411,165	1,457,039,845
Deferred Inflow of Resources:			
Deferred TSRs	136,748,087	(136,748,087)	-
Fund Balance/Net Position			
Fund balance - restricted for debt service	1,130,298,145	(1,130,298,145)	-
Net position - unrestricted deficit	-	(125,364,933)	(125,364,933)
Total fund balance/net position	1,130,298,145	(1,255,663,078)	\$ (125,364,933)

The accompanying notes to the financial statements are an integral part of this statement.

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, 2014

Total fund balances - governmental fund	\$ 1,031,086,281
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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	135,611,172
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Some assets and liabilities 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 as assets or liabilities in governmental funds.

These amounts consist of:

Bonds payable	(1,309,675,000)
Accrued interest payable	(5,989,063)
Unamortized bond premium	<u>(5,253,802)</u>

Net position of governmental activities	<u><u>\$ (154,220,412)</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

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, 2013

Total fund balances - governmental fund	\$ 1,130,298,145
-----------------------------------------	------------------

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 in the funds	136,748,087
----------------------------------------------------------------------------------------------------------------------	-------------

Some assets and liabilities 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 as assets or liabilities in governmental funds.

These amounts consist of:

Bonds payable	(1,380,535,000)
Accrued interest payable	(6,244,844)
Unamortized bond premium	<u>(5,631,321)</u>

Net position of governmental activities	<u>\$ (125,364,933)</u>
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The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES**
For the Year Ended June 30, 2014

	Governmental Fund - RTSA	Adjustments	Statement of Activities
Expenditures/expenses			
Excess residual payments to state	\$ 123,917,311	\$ -	\$ 123,917,311
Amortization of deferred charges - TSRs	98,431,442	-	98,431,442
Professional fees	49,500	-	49,500
Attorney General	2,500,047	-	2,500,047
Debt service - principal retirement	70,860,000	(70,860,000)	-
Debt service - interest	74,938,131	(633,300)	74,304,931
Total expenditures/expenses	<u>370,696,431</u>	<u>(71,493,300)</u>	<u>299,203,131</u>
Program revenues			
Tobacco settlement revenues (TSRs)	<u>271,222,345</u>	<u>(1,136,915)</u>	<u>270,085,430</u>
Net program revenues (expenditures/expenses)	(99,474,086)	70,356,385	(29,117,701)
General revenues			
Investment income (loss)	<u>262,222</u>	<u>-</u>	<u>262,222</u>
Net change in fund balance/net position	(99,211,864)	70,356,385	(28,855,479)
Fund balance/net position July 1, 2013	<u>1,130,298,145</u>	<u>(1,255,663,078)</u>	<u>(125,364,933)</u>
Fund balance/net position June 30, 2014	<u>\$ 1,031,086,281</u>	<u>\$ (1,185,306,693)</u>	<u>\$ (154,220,412)</u>

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES**
For the Year Ended June 30, 2013

	Governmental Fund - RTSA	Adjustments	Statement of Activities
	<u> </u>	<u> </u>	<u> </u>
Expenditures/expenses			
Excess residual payments to state	\$ 131,266,931	\$ -	\$ 131,266,931
Amortization of deferred charges – TSRs	99,741,806	-	99,741,806
Professional fees	52,000	-	52,000
Attorney General - 2011 and 2012	5,000,211	-	5,000,211
Attorney General - 2013	2,500,000	-	2,500,000
Debt service - issue costs	63,550,000	(63,550,000)	-
Debt service - interest	77,480,131	(589,354)	76,890,777
Total expenditures/expenses	<u>379,591,079</u>	<u>(64,139,354)</u>	<u>315,451,725</u>
 Program revenues			
Tobacco settlement revenues (TSRs)	<u>273,496,175</u>	<u>184,758</u>	<u>273,680,933</u>
Net program revenues (expenditures/expenses)	(106,094,904)	64,324,112	(41,770,792)
 General revenues			
Investment income (loss)	<u>431,376</u>	<u>-</u>	<u>431,376</u>
 Net change in fund balance/net position	(105,663,528)	64,324,112	(41,339,416)
 Fund balance/net position July 1, 2012, as restated	<u>1,235,961,673</u>	<u>(1,319,987,190)</u>	<u>(84,025,517)</u>
 Fund balance/net position June 30, 2013	<u>\$ 1,130,298,145</u>	<u>\$ (1,255,663,078)</u>	<u>\$ (125,364,933)</u>

The accompanying notes to the financial statements are an integral part of this statement.

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, 2014

Net change in fund balances - total governmental fund \$ (99,211,864)

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 deferred. The adjustment is the difference between deferred amounts for FY13 and FY14 to reflect revenue on an earned basis (accrual basis) in the Statement of Activities.

(1,136,915)

The issuance of long-term debt provides current financial resources to 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

70,860,000

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

377,519

Increase in interest payable

255,781

Change in net position of governmental activities

\$ (28,855,479)

The accompanying notes to the financial statements are an integral part of this statement.

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, 2013

Net change in fund balances - total governmental fund	\$ (105,663,528)
-------------------------------------------------------	------------------

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.	184,758
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The issuance of long-term debt provides current financial resources to 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	63,550,000
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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	377,520
Increase in interest payable	211,834

Change in net position of governmental activities	<u>\$ (41,339,416)</u>
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The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2014

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.

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 of Illinois (State) to the Authority in exchange for a significant portion of the 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 \$1,503,460,000 bond issuance and the resulting \$1,350,000,000 payment to the State Treasurer occurred on December 8, 2010. An additional payment of \$308,209, representing unused bond issuance cost reserves, was paid to the State in December 2011.

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 of Illinois. These financial statements are included in the State's comprehensive annual financial report.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

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, 2013 or June 30, 2014.

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.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
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Note 1. Summary of Significant Accounting Policies (Continued)

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 60 days of the end of the fiscal year. Tobacco settlement revenues for the periods of January 1, 2013 through June 30, 2013 and January 1, 2014 through June 30, 2014 have been estimated and accrued, as of June 30, 2013 and June 30, 2014 respectively. These revenues will not be collected, however, within 60 days subsequent to year end, and accordingly have been deferred 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.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 65, *Items Previously Recorded as Assets and Liabilities* (GASB 65), which was adopted by the Authority for the year ended June 30, 2014. GASB 65 now establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. In accordance with GASB 65 the Authority now reports both deferred inflows of resources and deferred outflows of resources on its financial statements. In addition, the impact of implementing this statement resulted in a restatement of beginning Net Position for Governmental Activities, please see Note 6 for details of the impact of this restatement.

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

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RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
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For the Two Years Ended June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

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.

Investments

Investments are reported at fair value based on quoted market prices.

Deferred Inflows of Resources - TSRs

Governmental funds report deferred revenue 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 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 bond proceeds (\$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 (FY16) and every 5 years thereafter, throughout the period debt is outstanding.

Long-term Obligations

In the government-wide financial statements, long-term debt is reported as liabilities. 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.

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 issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
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Note 1. Summary of Significant Accounting Policies (Continued)

Fund Balance and Net Position

As of June 30, 2013, the governmental fund of the Authority reported \$1,130,298,145 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, 2014, the governmental fund of the Authority reported \$1,031,086,281 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 balance is available. As of June 30, 2013, the Authority has reported its net deficit of \$125,364,933 as unrestricted on the government-wide statement of net position. As of June 30, 2014, the Authority has reported its net deficit of \$154,220,412 as unrestricted on the government wide statement of net position.

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, 2013, \$131,187,043 of residual revenues was paid to the State. Of this amount, \$59,048,581 pertained to FY12. An additional amount of \$59,128,469 was recorded as a liability to the State as of year-end. During the year ended June 30, 2014, \$124,408,901 of residual revenues was paid to the State. Of this amount, \$59,128,469 pertained to FY13. An additional amount of \$58,636,879 was recorded as a liability to the State as of year-end.

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 and interest on 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 pension related obligations.

Note 2. Cash and Cash Equivalents, and Investments

The Authority maintains various cash equivalent accounts, established in accordance with the trust indenture for specific purposes. At June 30, 2013, all of the Authority's cash equivalents of

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Note 2. Cash and Cash Equivalents, and Investments (Continued)

\$147,415,757 were invested in a money market portfolio comprised of U.S. Treasury securities. Additionally, the Authority held a \$44,087,512 U.S. Treasury note. At June 30, 2014, all of the Authority's cash equivalents of \$189,731,303 were invested in a money market portfolio comprised of U.S. Treasury securities.

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; and
- 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,

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Note 2. Cash and Cash Equivalents, and Investments (Continued)

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;
- 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.

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Note 2. Cash and Cash Equivalents, and Investments (Continued)

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. The U.S. Treasury notes held during FY13 were rated AAA and Aaa by Standard & Poor's and Moody's, respectively.

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 57 days and 45 days during FY13 and FY14, respectively. The Authority's investments in U.S. Treasury notes had the following maturities:

<u>Maturity Date</u>	<u>Investments Held at 6/30/14</u>	<u>Investments Held at 6/30/13</u>
	<u>Note Amount</u>	<u>Note Amount</u>
11/15/2013	<u>N/A</u>	<u>\$44,087,512</u>
	<u>N/A</u>	<u>\$44,087,512</u>

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.

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Note 3. Receivables – Tobacco Settlement Revenues (TSRs) (Continued)

The Authority received \$273,496,175 in April 2013, under the MSA, pertaining to calendar year 2012. Of this amount, \$136,563,329 was recorded as a receivable in FY12 and pertains to the period January 1, 2012 to June 30, 2012. Likewise, the Authority has accrued \$136,748,087 in TSRs receivable for the period beginning January 1, 2013 and ending June 30, 2013. The amount accrued is considered earned but will not be received by the Authority until April 2014, and has been deferred in the governmental fund (unavailable).

The Authority received \$271,222,345 in April 2014, under the MSA, pertaining to calendar year 2013. Of this amount, \$136,748,087 was recorded as a receivable in FY13 and pertains to the period January 1, 2013 to June 30, 2013. Likewise, the Authority has accrued \$135,611,172 in TSRs receivable for the period beginning January 1, 2014 and ending June 30, 2014. The amount accrued is considered earned but will not be received by the Authority until April 2015, 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 for the year ended June 30, 2013 are as follows:

Deferred Charges – payment to State - \$1,003,423,556 – this asset represents the payments made to the State on December 8, 2010 and December 23, 2011 of \$1,350,000,000 and \$308,209, respectively, less accumulated amortization of \$346,884,653. The deferred charges will be amortized over the life of the Sales Agreement which corresponds with the final maturity of the related revenue bonds.

Due to State – residual TSRs - \$59,128,469 – this liability represents the estimated amount that will be paid to the State upon receipt of the April 2014 TSRs, that pertain to the period beginning January 1, 2013 through June 30, 2013. Residual TSRs are estimated to be 43.24% of TSRs receivable.

Excess Residual Payment to State - \$131,266,931 – this expenditure/expense includes the residual payments made to the State on May 2, 2013 of \$104,949,635 and June 18, 2013 of \$26,237,408, plus the accrued portion of the estimated residuals for the period beginning January 1, 2013 through June 30, 2013 of \$59,128,469, and less the prior year accrual of \$59,048,581.

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

Due to Attorney General - As reported on page 26, the “Attorney General sub-account”, reported as cash and cash equivalents (\$5,500,211), represents amounts funded into the Attorney General sub-account as required under the indenture, that have not yet been drawn by the Attorney General. It is expected that this amount will be drawn by the Attorney General in FY14. Expenditures/expenses of \$7,500,211 represent the annual amounts funded of \$2,500,000 under the trust indenture (see note 5) for fiscal years 2011, 2012, and 2013, plus accrued interest of \$211 and have been recorded in 2013 as an expense. Of the amounts funded since 2011, the Attorney General’s office has requested and drawn \$2,000,000, all in FY13.

Transactions and balances with the State of Illinois for the year ended June 30, 2014 are as follows:

Deferred outflow of resources – payment to State – \$904,992,115 - this balance represents the payment made to the State on December 8, 2010, and December 23, 2011 of \$1,350,000,000 and \$308,209, respectively, less accumulated amortization of \$445,316,094. 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 – \$58,636,879 - this liability represents the estimated amount that will be paid to the State upon receipt of the April 2015 TSRs that pertain to the period beginning January 1, 2014 through June 30, 2014. Residual TSRs are estimated to be 43.24% of TSRs receivable.

Excess Residual Payment to State - \$123,917,311 – this expenditure/expense includes the residual payments made to the State on May 29, 2014 of \$124,408,901, plus the accrued portion of the estimated residuals for the period beginning January 1, 2014 through June 30, 2014 of \$58,636,879, and less the prior year accrual of \$59,128,469.

Due to Attorney General - As reported on page 25, the “Attorney General sub-account”, reported as cash and cash equivalents (\$5,000,258), represents amounts funded into the Attorney General sub-account as required under the indenture, that have not yet been drawn by the Attorney General. It is expected that this amount will be drawn by the Attorney General in FY15. Expenditures/expenses of \$2,500,047 represent the annual amounts funded of \$2,500,000 under the trust indenture (see note 5) for fiscal year 2014, plus accrued interest of \$47 and have been recorded in 2014 as an expense. Of the amounts funded since 2011, the Attorney General’s office has requested and drawn \$2,000,000 and \$3,000,000 in FY13 and FY14, respectively.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
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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, 2013:

	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013	Due Within One Year
Revenue Bonds Payable	\$1,444,085,000	\$ -	\$63,550,000	\$ 1,380,535,000	\$70,860,000
Unamortized premium	6,008,841	-	377,520	5,631,321	-
	<u>\$1,450,093,841</u>	<u>\$ -</u>	<u>\$63,927,520</u>	<u>\$ 1,386,166,321</u>	<u>\$70,860,000</u>

The following is a summary of long-term obligation activity associated with governmental activities for the year ended June 30, 2014:

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Due Within One Year
Revenue Bonds Payable	\$ 1,380,535,000	\$ -	\$ 70,860,000	\$1,309,675,000	\$76,820,000
Unamortized premium	5,631,321	-	377,519	5,253,802	-
	<u>\$ 1,386,166,321</u>	<u>\$ -</u>	<u>\$ 71,237,519</u>	<u>\$1,314,928,802</u>	<u>\$76,820,000</u>

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

Revenue Bonds – On December 8, 2010, the Authority issued \$1,503,460,000 in Tobacco Settlement Revenue Bonds, series 2010. \$926,030,000 of the serial bonds is due in annual installments of \$59,375,000 to \$109,655,000 plus interest at variable rates ranging from 3.00% to 6.25% through June 1, 2024. \$216,915,999 term bonds at 5.5% interest are due on June 1, 2023 and \$360,515,000 term bonds at 6.00% are due on June 1, 2028.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2014

Note 5. Long-Term Obligations (Continued)

As of June 30, 2013, 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
2014	70,860,000	74,938,131	145,798,131
2015	76,820,000	71,868,756	148,688,756
2016	80,655,000	68,027,756	148,682,756
2017	84,700,000	64,183,744	148,883,744
2018	89,040,000	59,948,744	148,988,744
2019-2023	513,000,000	226,094,881	739,094,881
2024-2028	465,460,000	77,729,563	543,189,563
Total	<u>\$1,380,535,000</u>	<u>\$642,791,575</u>	<u>\$ 2,023,326,575</u>

As of June 30, 2014, 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
2015	76,820,000	71,868,756	148,688,756
2016	80,655,000	68,027,756	148,682,756
2017	84,700,000	64,183,744	148,883,744
2018	89,040,000	59,948,744	148,988,744
2019	93,620,000	55,496,744	149,116,744
2020-2024	524,325,000	198,788,100	723,113,100
2025-2028	360,515,000	49,539,600	410,054,600
Total	<u>\$1,309,675,000</u>	<u>\$567,853,444</u>	<u>\$ 1,877,528,444</u>

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RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
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Note 5. Long-Term Obligations (Continued)

Pledged Revenues

The Authority has pledged future tobacco settlement revenues (TSRs), net of specified operating expenditures, to repay the approximate \$1.5 billion in revenue bonds issued in December 2010. Proceeds from the bonds were used to pay issuance cost and to provide an approximate \$1.35 billion payment to the State of Illinois in exchange for rights to the State's future TSRs. 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 60% of net revenues. The total principal and interest remaining to be paid on the bonds is approximately \$1.88 billion as of June 30, 2014. Debt service paid for FY13 and total TSRs received were \$141 million and \$273 million, respectively. Debt service paid for FY14 and total TSRs received were \$146 million and \$271 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.

The Indenture establishes the following funds:

- (i) Tobacco Assets Account
- (ii) Pledged Revenues Account
- (iii) Operating Account
- (iv) Authority Operating Subaccount
- (v) State Attorney General Operating Subaccount
- (vi) Debt Service Account
- (vii) Debt Service Reserve Account
- (viii) Costs of Issuance Account
- (ix) Lump Sum Account
- (x) Residual Account
- (xi) Rebate Account

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NOTES TO THE FINANCIAL STATEMENTS
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Note 5. Long-Term Obligations (Continued)

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) To the Authority operating subaccount, 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 subaccount, 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 FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2014

Note 5. Long-Term Obligations (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;
- (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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RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2014

Note 6. Restatement for Implementation of New Accounting Standard

As shown in the following table, the financial statements of the Authority have been restated for the implementation of GASB Statement No. 65, *Items previously recorded as Assets and Liabilities*. The Statement of Net Position of the Authority included deferred charges within the Governmental Activities of the Authority in previous years for unamortized debt issuance costs. However, pursuant to GASB 65, debt issuance costs should now be expensed in the period incurred. Therefore, the Authority restated the Net Position of the Governmental Activities as follows:

	<u>Governmental Activities</u>
Net Position, June 30, 2012	\$ (74,711,868)
Implementation of GASB 65	<u>(9,313,649)</u>
Net Position, June 30, 2012, as restated	<u><u>\$ (84,025,517)</u></u>

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:
 - Analysis of Significant Account Balances
 - Analysis of Accounts Receivable

- Analysis of Operations (Unaudited):
 - Agency Functions and Planning Program (Unaudited)
 - Service Efforts and Accomplishments (Unaudited)

The accountant's report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, it is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived. The accountant's report also states the Analysis of Operations Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, they do not express an opinion or provide any assurance on it.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES
For the Two Years Ended June 30, 2014

Cash and Cash Equivalents, and Investments

Cash and cash equivalents of the Authority consist of cash in the bank and short-term cash investments. The Authority also holds investments in U.S. Treasury notes. The Authority's investments in U.S. Treasury notes were rated AAA and Aaa by Standard & Poor's and Moody's, respectively. See note 2 to the financial statements for the amount of each investment in U.S. Treasury notes and the maturity dates for those investments. The Authority's cash and cash equivalents and investments are held by a trustee, Bank of New York Mellon.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cash and cash equivalents			
Assets account	\$ 192	\$ 128	\$ 474
Operating sub-account	190,520	190,018	192,016
Attorney General sub-account	5,000,258	5,500,211	5,000,157
Debt service account	35,937,196	37,471,328	38,741,518
Debt service reserve account	148,603,101	104,254,049	56,812,738
Residual account	<u>36</u>	<u>23</u>	<u>-</u>
Total cash and cash equivalents	189,731,303	147,415,757	100,746,903
Investments - Debt service reserve account	<u>-</u>	<u>44,087,512</u>	<u>91,097,989</u>
	<u>\$ 189,731,303</u>	<u>\$ 191,503,269</u>	<u>\$ 191,844,892</u>

Investments in U.S. Treasury notes, totaling \$45.3 million and \$44.1 million, matured during FY13 and FY14, respectively. The proceeds were deposited into the Debt Service Reserve Account. According to the Tobacco Settlement Revenue Bonds, Series 2010 Supplement, the Debt Service Reserve Requirement is \$146,768,256. The Debt Service Reserve consists of all cash and investments, as well as any interest earned on the investments.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
ANALYSIS OF ACCOUNTS RECEIVABLE
For the Two Years Ended June 30, 2014

The Authority's accounts receivable consist solely of tobacco settlement revenues (TSRs). The TSRs are received each April 15th according to the Master Settlement Agreement (MSA). The annual payments are based on several factors, including the volume of domestic cigarette shipments during the previous calendar year. The TSRs receivable at June 30 are the amounts accrued for the period beginning January 1 and ending June 30 of each year.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Accounts Receivable			
Tobacco settlement revenues (TSRs)	\$ 135,611,172	\$ 136,748,087	\$ 136,563,329

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
ANALYSIS OF OPERATIONS (UNAUDITED)
For the Two Years Ended June 30, 2014

AGENCY FUNCTIONS AND PLANNING

FUNCTIONS

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

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 Authority has also appointed John Sinsheimer as Chief Financial Officer. The Authority's board meets annually to review the financial statements, developments in the tobacco bond market, and various other topics relevant to the operations of the Authority. Meeting minutes are taken and retained.

In December 2010, the Authority issued \$1,503,460,000 in Tobacco Settlement Revenue Bonds (Series 2010 Bonds) pursuant to a purchase and sale agreement between the Authority and the State. The Series 2010 Bonds received an "A" credit quality rating from Standard & Poor's at the time of issuance. Of the total \$1.51 billion in bond proceeds, \$1.35 billion was paid to the State in Fiscal Year 2011. The remaining bond proceeds were deposited into 4 accounts held by the bond trustee (Trustee) (The Bank of New York Mellon) and are generally restricted for the payment of debt issuance costs, interest, and principal.

In exchange for the \$1.35 billion in bond proceeds, the State sold to the Authority its rights to substantially all Tobacco Settlement Revenues (TSRs) received pursuant to the Master Settlement Agreement (MSA) entered into with participating tobacco product manufacturers. The TSRs have been pledged to pay principal and interest on the bonds and are received by the Trustee in April each year. The Trustee uses the TSRs received for the payment of fees, operating expenses, and debt service on the Series 2010 Bonds and the replenishment of the Debt Service Reserve Account. TSRs received in excess of a specified formula are defined as "residual revenues" and are paid back to the State. The residual revenues are then remitted to the State for deposit into the State Treasury. TSRs collected in Fiscal Years 2013 and 2014 exceeded amounts needed to pay current costs and debt service requirements on the Series 2010 Bonds. As a result, residual revenues of \$131.2 million and \$124.4 million were then remitted to the State during Fiscal Years 2013 and 2014, respectively.

The Trustee also maintains various cash equivalent accounts, established in accordance with the trust indenture, for specific purposes. At June 30, 2014, all of the Authority's cash equivalents were invested in a money market portfolio comprised of U.S. Treasury bills, bonds, notes, and repurchase agreements.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
ANALYSIS OF OPERATIONS (UNAUDITED)
For the Two Years Ended June 30, 2014

PLANNING

The Authority was designed as a single purpose entity to securitize the MSA payments. As a result, the Authority does not have formal written goals and objectives, but instead operates to fulfill its statutory responsibilities.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
SERVICE EFFORTS AND ACCOMPLISHMENTS (UNAUDITED)
For the Two Years Ended June 30, 2014

As authorized by the Railsplitter Tobacco Settlement Authority Act (Act) (30 ILCS 171), the Railsplitter Tobacco Settlement Authority (Authority) issued bonds totaling \$1.5 billion in December 2010. The bonds held “A” credit quality ratings from Standard & Poor’s as of both June 30, 2013 and June 30, 2014.