

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

For the Two Years Ended June 30, 2016

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**FINANCIAL AUDIT AND COMPLIANCE EXAMINATION**  
For the Two Years Ended June 30, 2016

**TABLE OF CONTENTS**

	<b><u>Schedule</u></b>	<b><u>Page(s)</u></b>
Agency Officials		1
Management Assertion Letter		2
Compliance Report:		
Summary		4
Independent Accountant’s Report on State Compliance and on Internal Control Over Compliance		5
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 <i>Government Auditing Standards</i>		8
Financial Statement Report:		
Summary		10
Independent Auditor’s Report		11
Management’s Discussion and Analysis (Unaudited)		15
Basic Financial Statements		
Statement of Net Position and Governmental Fund Balance Sheet		26
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position		28
Statement of Activities and Governmental Revenues, Expenditures and Changes in Fund Balances		30
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund to the Statement of Activities		32
Notes to the Financial Statements		34
Supplementary Information for State Compliance Purposes:		
Summary		49
Fiscal Schedules and Analysis		
Analysis of Significant Account Balances	1	50
Analysis of Accounts Receivable	2	51

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For the Two Years Ended June 30, 2016

**TABLE OF CONTENTS, continued**

	<b><u>Schedule</u></b>	<b><u>Page(s)</u></b>
Analysis of Operations (Unaudited)		
Agency Functions and Planning Program (Unaudited)		52
Service Efforts and Accomplishments (Unaudited)		54

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**AGENCY OFFICIALS**

Chairman of the Board (effective 1/1/2017)	Vacant
Chairman of the Board (11/6/2015 to 12/31/2016)	Tim Nuding
Chairman of the Board (12/19/2014 to 11/5/2015)	Vacant
Chairman of the Board (7/1/2014 to 12/18/2014)	Jerome Stermer
Board Member (effective 1/1/2017)*	Scott Harry
Board Member (1/11/2015 to 12/31/2016)	Tim Nuding
Board Member (12/19/2014 to 1/10/2015)	Ben Winick
Board Member (7/1/2014 to 12/18/2014)	Jerome Stermer
Board Member (effective 10/23/2015)	Vickie Chan
Board Member (7/1/2014 to 10/22/2015)	Rory Hoskins
Board Member (effective 10/23/2015)	Kevin Wright
Board Member (7/1/2014 to 10/22/2015)	Jennifer Woodard
Chief Financial Officer (effective 11/6/2015)	Kevin Wright
Chief Financial Officer (2/16/2015 to 11/5/2015)	Vacant
Chief Financial Officer (7/1/2014 to 2/15/2015)	John Sinsheimer
Secretary (effective 11/6/2015)	Vickie Chan
Secretary (8/18/2015 to 11/5/2015)	Vacant
Secretary (7/1/2014 to 8/17/2015)	Jessica Akey

\* Scott Harry became the Director of the Governor's Office of Management and Budget, effective January 1, 2017. By statute, he is also a Board Member of the Railsplitter Tobacco Settlement Authority. The Authority's Board meets on an annual basis and will meet in the fall of 2017 to elect a new Chairman of the Board, a position historically held by the Director of the Governor's Office of Management and Budget.

Authority's office is located at:

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

603 Stratton Office Building  
401 S. Spring St.  
Springfield, IL 62706



**RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY**  
c/o **THE GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET**

100 West Randolph St.  
Chicago, IL 60601  
(312)-814-0025  
Fax: (312)-814-5104

MANAGEMENT ASSERTION LETTER

Honorable Frank J. Mautino  
Auditor General  
Illes Park Plaza  
740 East Ash Street  
Springfield, IL 62703-3154

January 24, 2017

Dear Mr. Mautino:

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, 2016. Based on this evaluation, we assert that during the years ended June 30, 2015 and June 30, 2016, 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.

the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Yours truly,

Railsplitter Tobacco Settlement Authority

**SIGNED ORIGINAL ON FILE**

(Scott Harry, Board Member)

**SIGNED ORIGINAL ON FILE**

(Kevin Wright, Chief Fiscal Officer)

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**FINANCIAL AUDIT AND COMPLIANCE EXAMINATION**  
For the Two Years Ended June 30, 2016

**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	0
Prior recommendations implemented or not repeated	0	0

**EXIT CONFERENCE**

The Railsplitter Tobacco Settlement Authority waived an exit conference in correspondence dated January 17, 2017.

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OFFICE OF THE AUDITOR GENERAL  
FRANK J. MAUTINO

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

Honorable Frank J. Mautino  
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, 2016. 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. State 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, 2016.

### **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, the Board of Directors of the State of Illinois, Railsplitter Tobacco Settlement Authority, and the State of Illinois, Railsplitter Tobacco Settlement Authority's management, and is not intended to be and should not be used by anyone other than these specified parties.

**SIGNED ORIGINAL ON FILE**

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

Springfield, Illinois  
January 24, 2017

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OFFICE OF THE AUDITOR GENERAL  
FRANK J. MAUTINO

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

Honorable Frank J. Mautino  
Auditor General  
State of Illinois

and

Board of Directors  
Railsplitter Tobacco Settlement Authority

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, 2015, and June 30, 2016, 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 January 24, 2017.

**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.

**SIGNED ORIGINAL ON FILE**

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

Springfield, Illinois  
January 24, 2017

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**FINANCIAL AUDIT AND COMPLIANCE EXAMINATION**  
For the Two Years Ended June 30, 2016

**FINANCIAL STATEMENT REPORT**

**SUMMARY**

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

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

**EXIT CONFERENCE**

The Railsplitter Tobacco Settlement Authority waived an exit conference in correspondence dated January 17, 2017.

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OFFICE OF THE AUDITOR GENERAL  
FRANK J. MAUTINO

INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino  
Auditor General  
State of Illinois

and

Board of Directors  
Railsplitter Tobacco Settlement Authority

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and major fund of the State of Illinois, Railsplitter Tobacco Settlement Authority, as of and for the years ended June 30, 2015, and June 30, 2016, 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, 2015 and June 30, 2016, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15-25 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, 2015, and June 30, 2016 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 in 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, 2015, and June 30, 2016, 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, 2015, and June 30, 2016, 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, 2015, and June 30, 2016, 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, 2013, and June 30, 2014 (not presented herein), and have issued our report thereon dated December 31, 2014, 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, 2014, 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, 2014, financial statements. The accompanying supplementary information for the year ended June 30, 2014, in Schedules 1 and 2 has been subjected to the auditing procedures applied in the audit of the June 30, 2014, 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, 2014, 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 January 24, 2017 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, the Board of Directors of the State of Illinois, Railsplitter Tobacco Settlement Authority, and the State of Illinois, Railsplitter Tobacco Settlement Authority's management, and is not intended to be and should not be used by anyone other than these specified parties.

**SIGNED ORIGINAL ON FILE**

---

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

Springfield, Illinois  
January 24, 2017

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
For the Two Years Ended June 30, 2016

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.

## **FINANCIAL HIGHLIGHTS**

### **Net Position**

The Authority's total assets of governmental activities were \$369.89 million as of June 30, 2016. In addition, the Authority reported total cash and cash equivalents of \$232.12 million and tobacco settlement receivables of \$137.77 million as of June 30, 2016. The Authority reported deferred outflows of resources of \$707.20 million as of June 30, 2016. 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 \$318.86 million as of June 30, 2015. The Authority reported total cash and cash equivalents of \$186.35 million and tobacco settlement receivables of \$132.51 million as of June 30, 2015. The Authority reported deferred outflows of resources of \$809.54 million. 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 \$904.99 million.

As of June 30, 2016, the Authority reported liabilities of \$1.27 billion, principal of which was \$1.16 billion in revenue bonds payable (net). This resulted in a net position deficit of \$197.51 million at June 30, 2016. As of June 30, 2015, the Authority reported liabilities of \$1.30 billion, principal of which was \$1.24 billion in revenue bonds payable (net). This resulted in a net position deficit of \$175.80 million at June 30, 2015. As of June 30, 2014, the Authority reported liabilities of \$1.38 billion, principal of which was \$1.31 billion in revenue bonds payable (net). This resulted in a net position deficit of \$154.22 million at June 30, 2014.

The Authority does not conduct any business-type activities.

### **Revenues**

During Fiscal Year 2016, the governmental activities revenues totaled \$281.14 million. This consisted of \$280.80 million of recognized tobacco settlement revenues (TSRs), and \$0.34 million in investment income. During Fiscal Year 2015, the governmental activities revenues totaled \$261.95 million. This consisted of \$261.92 million of recognized TSRs, and \$0.03 million in net investment income. During Fiscal Year 2014, the governmental activities

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
For the Two Years Ended June 30, 2016

revenues totaled \$270.35 million. This consisted of \$270.09 million of recognized TSRs, and \$0.26 million in net investment income.

**Cost of Authority Program**

During Fiscal Year 2016, the governmental activities expenses totaled \$302.86 million. Of this amount, \$130.63 million was for residual tobacco settlement payments to the State, \$102.34 million was amortization of the tobacco settlement deferred charges, and \$67.33 million was interest expense. During Fiscal Year 2015, the governmental activities expenses totaled \$283.53 million. Of this amount, \$114.35 million was for residual tobacco settlement payments to the state, \$95.45 million was amortization of the tobacco settlement deferred charges, and \$71.17 million was interest expense. 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. The Authority funded the required cash amounts of \$2.5 million per year into the sub-account held by the Trustee for the benefit of the Attorney General as required by the Indenture.

**Major Fund – Railsplitter Tobacco Settlement Authority Governmental Fund**

For Fiscal Year 2016, the revenues reported for the governmental fund (\$275.88 million) varied from revenues recognized for governmental activities (\$281.14 million). The difference between the amount recorded in the governmental fund and the amount reported in the government-wide statement of activities pertains to the change in revenue that was a deferred inflow in the fund because it was not collected in the availability period (TSRs receivable Fiscal Year 2015 versus Fiscal Year 2016). At the fund level, expenditures totaled \$384.21 million. Included in this total is \$130.63 million for residual tobacco settlement payments to the State, \$102.34 million was amortization of the tobacco settlement deferred charges, \$148.68 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. These differences are explained in the reconciliation provided on page 32.

For Fiscal Year 2015, the revenues reported for the governmental fund (\$265.05 million) varied from revenues recognized for governmental activities (\$261.95 million). The difference between the amount recorded in the governmental fund and the amount reported in the government wide statement of activities pertains to the change in revenue that was a deferred inflow in the fund because it was not collected in the availability period (TSRs receivable Fiscal Year 2014 versus Fiscal Year 2015). At the fund level, expenditures totaled \$361.04 million. Included in this total is \$114.35 million for residual tobacco settlement payments to the State, \$95.45 million was amortization of the tobacco settlement deferred charges, \$148.69 million for interest expense and

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
For the Two Years Ended June 30, 2016

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 the governmental activities pertains to debt-related items. These differences are explained in the reconciliation provided on page 33.

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 a deferred inflow in the fund because it was not collected in the availability period (TSRs receivable Fiscal Year 2013 versus Fiscal Year 2014). At the fund level, expenditures totaled \$370.70 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, \$145.80 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.

#### **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, 2016

**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, 2016, 2015, and 2014**

	<u>Governmental Activities</u>	<u>Governmental Activities</u>	<u>Governmental Activities</u>
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 369,888,099	\$ 318,860,836	\$ 325,342,475
Total assets	<u>369,888,099</u>	<u>318,860,836</u>	<u>325,342,475</u>
Deferred outflow of resources	707,202,388	809,537,579	904,992,115
Total deferred outflows	<u>707,202,388</u>	<u>809,537,579</u>	<u>904,992,115</u>
Current liabilities	202,605,025	147,119,993	146,446,200
Noncurrent liabilities	1,071,998,764	1,157,076,283	1,238,108,802
Total liabilities	<u>1,274,603,789</u>	<u>1,304,196,276</u>	<u>1,384,555,002</u>
Net Position:			
Unrestricted	<u>(197,513,302)</u>	<u>(175,797,861)</u>	<u>(154,220,412)</u>
Total net position	<u>\$ (197,513,302)</u>	<u>\$ (175,797,861)</u>	<u>\$ (154,220,412)</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 \$197.51 million and \$175.80 million as of June 30, 2016 and 2015, respectively. In addition, liabilities exceeded assets and deferred outflows by \$154.22 million as of June 30, 2014.

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, 2016

- 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 2015 to 2016 of \$21.72 million was a result of several factors. Total assets plus deferred outflows of resources decreased by \$51.31 million. The decrease was primarily due to the amortization of the payment to the State of \$102.34 million, offset by an increase in cash and cash equivalents of \$45.77 million. Cash and cash equivalents increased compared to the prior year due to the timing of payment of the residual TSRs to the State. The increase in cash of \$45.77 million is offset by an increase in the liability for residual TSRs of \$49.70 million. Total liabilities decreased by \$29.59 million, primarily due to the retirement of revenue bonds of \$81.03 million (net of amortization) offset by increases in the residual TSRs payable of \$49.70 million and \$2.56 million in unsold assets that were not remitted to the State until after the end of the fiscal year.

The decrease in net position from 2014 to 2015 of \$21.58 million was a result of several factors. Total assets and deferred outflows of resources decreased by \$101.94 million. The decrease was primarily due to the amortization of the payment to the State of \$95.45 million. Total liabilities decreased by \$80.36 million, primarily due to the bond principal retirement of \$76.82 million in 2015.

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
For the Two Years Ended June 30, 2016

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

**Condensed Statement of Activities**  
**Year Ended June 30, 2016, 2015, and 2014**

	<u>Governmental Activities</u>	<u>Governmental Activities</u>	<u>Governmental Activities</u>
	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Revenues</b>			
Program revenues			
TSRs	\$ 280,796,906	\$ 261,917,115	\$ 270,085,430
General Revenues			
Investment income	344,840	31,395	262,222
<b>Total Revenue</b>	<u>281,141,746</u>	<u>261,948,510</u>	<u>270,347,652</u>
<b>Expenses</b>			
Excess residual payment to State	130,633,799	114,349,732	123,917,311
Amortization to State – TSRs	102,335,191	95,454,535	98,431,442
Professional fees	56,800	50,500	49,500
Travel fees	230	-	-
Attorney General	2,501,265	2,500,038	2,500,047
Debt service - interest	67,329,902	71,171,154	74,304,831
<b>Total expenses</b>	<u>302,857,187</u>	<u>283,525,959</u>	<u>299,203,131</u>
<b>Change in net position</b>	(21,715,441)	(21,577,449)	(28,855,479)
<b>Net position – beginning</b>	<u>(175,797,861)</u>	<u>(154,220,412)</u>	<u>(125,364,933)</u>
<b>Net position - ending</b>	<u>\$ (197,513,302)</u>	<u>\$ (175,797,861)</u>	<u>\$(154,220,412)</u>

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
For the Two Years Ended June 30, 2016

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

**Revenues:**

- 1) Changing Patterns in TSRs – 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 TSRs – 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, 2016, revenues from governmental activities totaled \$281.14 million compared with \$261.95 million in the prior year, an increase of \$19.19 million (7.3%). This increase is due to an increase in TSRs of \$18.88 million and an increase in investment income of \$313 thousand.

Total expenses for the year ended June 30, 2016 were \$302.86 million compared to \$283.53 million in the previous year. The \$19.33 million increase (6.8%) is mostly attributable to the increase in excess residual payments to the State of \$16.28 million. Excess residuals expense in Fiscal Year 2016 exceeded Fiscal Year 2015 due to an increase in TSRs. Also, the amortization of the payment to the State increased \$6.9 million over the prior year. Amortization is also a function of the TSRs recorded each year. These increases were offset by lower interest expense of \$3.84 million compared to the prior year.

For the fiscal year ended June 30, 2015, revenues from governmental activities totaled \$261.95 million compared with \$270.35 million in the prior year, a decrease of \$8.40 million (3.1%).

Total expenses for the year ended June 30, 2015 were \$283.53 million compared to \$299.20 million in the previous year. The \$15.67 million decrease (5.2%) is mostly attributable to a decrease in excess residual payments to the State of \$9.57 million. Excess residuals expense in Fiscal Year 2014 exceeded Fiscal Year 2015 due to a decline in TSRs and an increase in debt service costs.

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
For the Two Years Ended June 30, 2016

Additional decreases in expenses were due to lower interest expense (\$3.13 million) and lower amortization of the amount paid to the State (\$2.98 million). Amortization is a function of the TSRs recorded each year.

## **FINANCIAL ANALYSIS OF THE AUTHORITY'S FUND**

### **Governmental Fund**

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

At June 30, 2016, the governmental fund reported restricted fund balance of \$826.76 million, compared with \$935.09 million as of June 30, 2015. The \$108.33 million decrease is mainly due to the amortization of the deferred outflow of resources.

At June 30, 2015, the governmental fund reported restricted fund balance of \$935.09 million, compared with \$1.03 billion as of June 30, 2014. The \$94.91 million decrease is mainly due to the amortization of the deferred outflows of resources.

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.

Total revenues for the governmental fund for Fiscal Year 2016 and Fiscal Year 2015 were \$275.88 million and \$265.05 million, respectively, an increase of \$10.83 million. The Fiscal Year 2016 investment income exceeded Fiscal Year 2015 amounts by \$313 thousand, and Fiscal Year 2016 tobacco settlement revenues exceeded Fiscal Year 2015 by \$10.52 million.

Total revenues for the governmental fund for Fiscal Year 2015 and Fiscal Year 2014 were \$265.05 million and \$271.48 million, respectively, a decrease of \$6.43 million. The Fiscal Year 2014 investment income exceeded Fiscal Year 2015 amounts by \$231 thousand and Fiscal Year 2014 tobacco settlement revenues exceeded Fiscal Year 2015 by \$6.20 million.

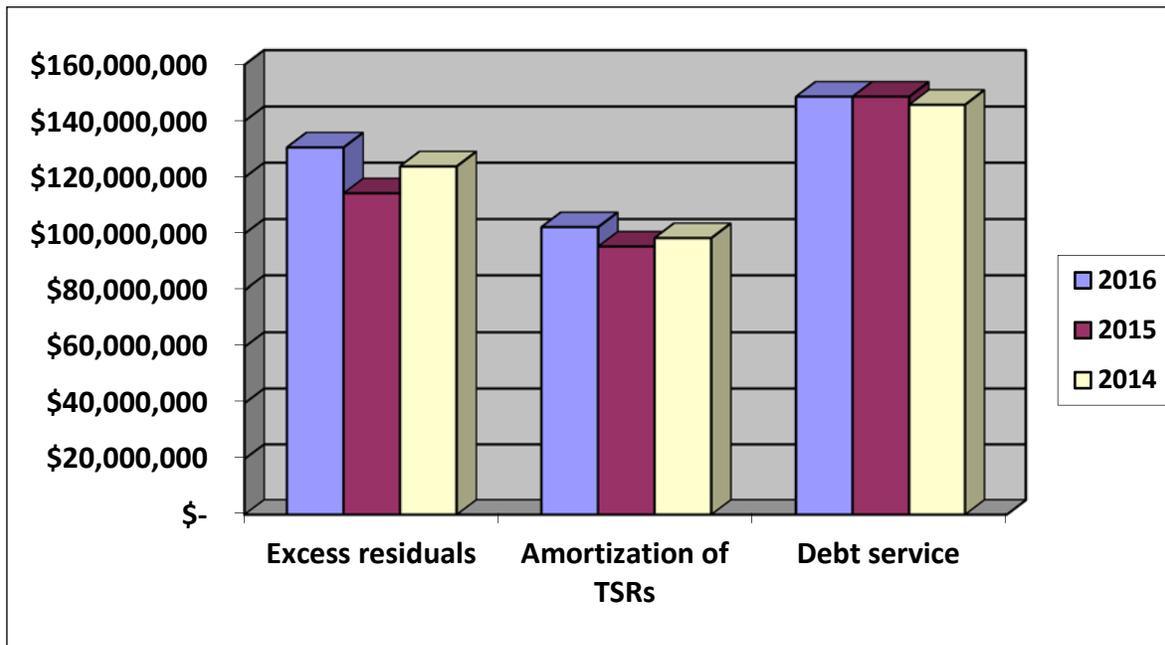
Total expenditures for the governmental fund for the years ended June 30, 2016 and 2015, were \$384.21 million and \$361.04 million, respectively. The \$23.17 million increase is due to increased residual payments to the State (\$16.28 million), and a higher amortization of the deferred outflows of resources (\$6.88 million). There was also a larger principal payment in 2016 (\$3.84 million), offset by lower interest expenditure on the bonds (\$3.84 million).

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
For the Two Years Ended June 30, 2016

Total expenditures for the governmental fund for the years ended June 30, 2015 and 2014, were \$361.04 million and \$370.70 million, respectively. The \$9.66 million decrease is due to reduced residual payments to the State (\$9.57 million), and a lower amortization of the deferred outflows of resources (\$2.98 million). These amounts were offset by a larger principal payment in 2015 (\$5.96 million) less lower interest expenditures on the bonds (\$3.07 million).

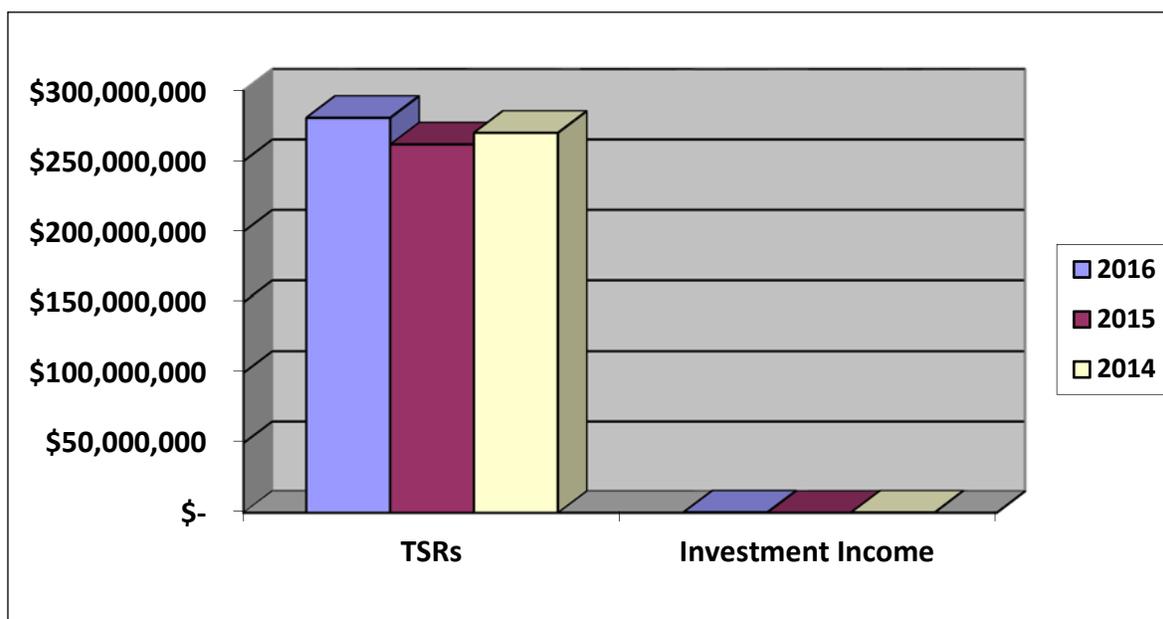
See the charts that follow.

**Major Expenditures – by Type (Governmental Fund)**  
Years Ended June 30, 2016, 2015 and 2014



STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
For the Two Years Ended June 30, 2016

**Revenues – by Type (Governmental Fund)**  
**Years Ended June 30, 2016, 2015 and 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 Fiscal Year 2012. The remaining bond proceeds were deposited in four 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 2024 and A- for maturities in 2028. Fitch withdrew ratings on all U.S. tobacco settlement asset-backed securities on June 16, 2016.

In exchange for the \$1.35 billion in bond proceeds, the State sold to the Authority its rights to substantially all 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 Fiscal Year 2016 were sufficient to pay the upcoming and current interest requirements on the debt. Residual revenues of \$128.36 million were determined by the Trustee to be owed to the State for the calendar year 2015 TSR collections. As of June 30, 2016, \$80.93 million of this amount was paid and the

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
For the Two Years Ended June 30, 2016

remaining \$47.43 million is recorded as a liability. Residual revenues of \$115.69 million and \$124.41 million were returned to the State during Fiscal Years 2015 and 2014, 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 TSRs received in Fiscal Year 2016 (cash received) of \$275.54 million was higher than the anticipated amount of \$250.12 million; however on a cumulative basis, collections are down \$34.13 million from the original estimate. The TSRs received in Fiscal Year 2015 (cash received) of \$265.11 million was slightly higher than the anticipated amount of \$260.16 million; however on a cumulative basis, collections are down \$59.55 million from the original estimate. The TSRs received in Fiscal Year 2014 (cash received) of \$271.22 million was slightly higher 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 Kelly Hutchinson, 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, 2016

	Governmental Fund - RTSA	Adjustments	Statement of Net Position
<b>Assets</b>			
Cash and cash equivalents			
Assets account	\$ 51,041,603	\$ -	\$ 51,041,603
Operating sub-account	203,136	-	203,136
Attorney General sub-account	3,001,562	-	3,001,562
Debt service account	31,086,683	-	31,086,683
Debt service reserve account	146,786,301	-	146,786,301
Residual account	36	-	36
Total cash and cash equivalents	232,119,321	-	232,119,321
Receivables			
Tobacco settlement revenues (TSRs)	137,768,778	-	137,768,778
<b>Total assets</b>	<b>369,888,099</b>	<b>-</b>	<b>369,888,099</b>
<b>Deferred Outflow of Resources</b>			
Payment to State	707,202,388	-	707,202,388
<b>Liabilities</b>			
<b>Current:</b>			
Accrued interest payable	-	5,348,645	5,348,645
Due to Attorney General	3,001,562	-	3,001,562
Due to State – residual TSRs	106,999,285	-	106,999,285
Due to state – unsold assets	2,555,533	-	2,555,533
Revenue bonds payable	-	84,700,000	84,700,000
Total current liabilities	112,556,380	90,048,645	202,605,025
<b>Noncurrent:</b>			
Revenue bonds payable, net			
of unamortized premium of \$4,498,764	-	1,071,998,764	1,071,998,764
<b>Total liabilities</b>	<b>112,556,380</b>	<b>1,162,047,409</b>	<b>1,274,603,789</b>
<b>Deferred Inflow of Resources</b>			
Deferred TSRs	137,768,778	(137,768,778)	-
<b>Fund Balance/Net Position</b>			
Fund balance - restricted for debt service	826,765,329	(826,765,329)	-
Net position - unrestricted deficit	-	(197,513,302)	(197,513,302)
Total fund balance/net position	<u>\$ 826,765,329</u>	<u>\$(1,024,278,631)</u>	<u>\$ (197,513,302)</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, 2015

	Governmental Fund - RTSA	Adjustments	Statement of Net Position
<b>Assets</b>			
<b>Current:</b>			
Cash and cash equivalents			
Assets account	\$ 103	\$ -	\$ 103
Operating sub-account	200,022	-	200,022
Attorney General sub-account	3,500,296	-	3,500,296
Debt service account	35,882,556	-	35,882,556
Debt service reserve account	146,768,394	-	146,768,394
Residual account	36	-	36
Total cash and cash equivalents	186,351,407	-	186,351,407
Receivables			
Tobacco settlement revenues (TSRs)	132,509,429	-	132,509,429
<b>Total assets</b>	318,860,836	-	318,860,836
<b>Deferred Outflow of Resources:</b>			
Payment to State	809,537,579	-	809,537,579
<b>Liabilities</b>			
<b>Current:</b>			
Accrued interest payable	-	5,668,980	5,668,980
Due to Attorney General	3,500,296	-	3,500,296
Due to state - residual TSRs	57,295,717	-	57,295,717
Revenue bonds payable	-	80,655,000	80,655,000
Total current liabilities	60,796,013	86,323,980	147,119,993
<b>Noncurrent:</b>			
Revenue bonds payable, net			
of unamortized premium of \$4,876,283	-	1,157,076,283	1,157,076,283
<b>Total liabilities</b>	60,796,013	1,243,400,263	1,304,196,276
<b>Deferred Inflow of Resources:</b>			
Deferred TSRs	132,509,429	(132,509,429)	-
<b>Fund Balance/Net Position</b>			
Fund balance - restricted for debt service	935,092,973	(935,092,973)	-
Net position - unrestricted deficit	-	(175,797,861)	(175,797,861)
Total fund balance/net position	935,092,973	(1,110,890,834)	\$ (175,797,861)

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, 2016

Total fund balances - governmental fund	\$	826,765,329
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
Revenues in the Statement of Activities that do not provide current financial resources are deferred inflows in the funds		137,768,778
<p>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:</p>		
Bonds payable		(1,152,200,000)
Accrued interest payable		(5,348,645)
Unamortized bond premium		(4,498,764)
		(9,809,610)
Net position of governmental activities	\$	(197,513,302)

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, 2015

Total fund balances - governmental fund	\$ 935,092,973
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	132,509,429
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	(1,232,855,000)
Accrued interest payable	(5,668,980)
Unamortized bond premium	<u>(4,876,283)</u>
Net position of governmental activities	<u>\$ (175,797,861)</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, 2016

	Governmental Fund - RTSA	Adjustments	Statement of Activities
<b>Expenditures/expenses:</b>			
Excess residual payments to state	\$ 130,633,799	\$ -	\$ 130,633,799
Amortization of deferred charges - TSRs	102,335,191	-	102,335,191
Professional fees	56,800	-	56,800
Travel	230	-	230
Attorney General	2,501,265	-	2,501,265
Debt service - principal retirement	80,655,000	(80,655,000)	-
Debt service - interest	68,027,756	(697,854)	67,329,902
Total expenditures/expenses	384,210,041	(81,352,854)	302,857,187
<b>Program revenues:</b>			
Tobacco settlement revenues (TSRs)	275,537,557	5,259,349	280,796,906
Net program revenues (expenditures/expenses)	(108,672,484)	86,612,203	(22,060,281)
<b>General revenues:</b>			
Investment income	344,840	-	344,840
<b>Net change in fund balance/net position</b>	(108,327,644)	86,612,203	(21,715,441)
Fund balance/net position July 1, 2015	935,092,973	(1,110,890,834)	(175,797,861)
Fund balance/net position June 30, 2016	<u>\$ 826,765,329</u>	<u>\$ (1,024,278,631)</u>	<u>\$ (197,513,302)</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, 2015

	Governmental Fund - RTSA	Adjustments	Statement of Activities
<b>Expenditures/expenses:</b>			
Excess residual payments to state	\$ 114,349,732	\$ -	\$ 114,349,732
Amortization of deferred charges – TSRs	95,454,535	-	95,454,535
Professional fees	50,500	-	50,500
Attorney General	2,500,038	-	2,500,038
Debt service - issue costs	76,820,000	(76,820,000)	-
Debt service - interest	71,868,756	(697,602)	71,171,154
Total expenditures/expenses	<u>361,043,561</u>	<u>(77,517,602)</u>	<u>283,525,959</u>
<b>Program revenues:</b>			
Tobacco settlement revenues (TSRs)	<u>265,018,858</u>	<u>(3,101,743)</u>	<u>261,917,115</u>
Net program revenues (expenditures/expenses)	(96,024,703)	74,415,859	(21,608,844)
<b>General revenues:</b>			
Investment income	<u>31,395</u>	<u>-</u>	<u>31,395</u>
<b>Net change in fund balance/net position</b>	(95,993,308)	74,415,859	(21,577,449)
Fund balance/net position July 1, 2014	<u>1,031,086,281</u>	<u>(1,185,306,693)</u>	<u>(154,220,412)</u>
Fund balance/net position June 30, 2015	<u>\$ 935,092,973</u>	<u>\$ (1,110,890,834)</u>	<u>\$ (175,797,861)</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, 2016

Net change in fund balances - total governmental fund \$ (108,327,644)

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 FY15 and FY16 to reflect revenue on an earned basis (accrual basis) in the Statement of Activities.

5,259,349

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

80,655,000

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

377,520

Increase in interest payable

320,334

Change in net position of governmental activities

\$ (21,715,441)

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, 2015

Net change in fund balances - total governmental fund	\$ (95,993,308)
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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.	(3,101,743)
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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	76,820,000
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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	377,519
Increase in interest payable	320,083
	377,519

Change in net position of governmental activities	\$ (21,577,449)
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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, 2016

**Note 1. Summary of Significant Accounting Policies**

The Railsplitter Tobacco Settlement Authority (Authority) was created by the Railsplitter Tobacco Settlement Authority Act (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 on December 23, 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, which may be obtained from the Office of the Comptroller's website ([www.illinoiscomptroller.gov](http://www.illinoiscomptroller.gov)) or by writing to the Office of the Comptroller, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704-1871.

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Two Years Ended June 30, 2016

**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, 2015, or June 30, 2016.

**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**  
For the Two Years Ended June 30, 2016

**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, 2015, through June 30, 2015, and January 1, 2016, through June 30, 2016, have been estimated and accrued, as of June 30, 2015, and June 30, 2016, respectively. These revenues will not be collected, however, within 60 days subsequent to year end, and accordingly have been reported as deferred inflows of resources in the governmental fund.

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

**Use of Estimates**

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

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

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Two Years Ended June 30, 2016

**Note 1. Summary of Significant Accounting Policies (Continued)**

**Cash and Cash Equivalents**

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

**Deferred Inflows of Resources - TSRs**

Governmental funds report deferred 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 five years of collection data is available and every five years thereafter, throughout the period debt is outstanding. The Authority, during Fiscal Year 2016, determined that no change to the estimate was necessary.

**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.

**Fund Balance and Net Position**

As of June 30, 2015, the governmental fund of the Authority reported \$935,092,973 of fund balance that is restricted for the retirement of debt principal and interest, or restricted for

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Two Years Ended June 30, 2016

**Note 1. Summary of Significant Accounting Policies (Continued)**

various debt reserve requirements. As of June 30, 2016, the governmental fund of the Authority reported \$826,765,329 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, 2015, the Authority has reported its net deficit of \$175,797,861 as unrestricted on the government-wide statement of net position. As of June 30, 2016, the Authority has reported its net deficit of \$197,513,302 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, 2015, \$115,690,893 of residual revenues was paid to the State. Of this amount, \$58,636,879 pertained to Fiscal Year 2014. An additional amount of \$57,295,717 was recorded as a liability to the State as of year-end. During the year ended June 30, 2016, \$80,930,231 of residual revenues was paid to the State. Of this amount, \$57,295,717 pertained to Fiscal Year 2015. An additional amount of \$106,999,285 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, travel, and Attorney General expenses. The Authority has no employees and is not liable for any pension-related obligations.

**Note 2. Cash and Cash Equivalents**

The Authority maintains various cash equivalent accounts, established in accordance with the trust indenture for specific purposes. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All of the Authority's cash

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Two Years Ended June 30, 2016

**Note 2. Cash and Cash Equivalents (Continued)**

equivalents of \$232,119,321 and \$186,351,407 as of June 30, 2016, and June 30, 2015, respectively, were invested in a money market fund comprised of U.S. Treasury securities, valued using quoted market prices (Level 1 inputs).

**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

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Two Years Ended June 30, 2016

**Note 2. Cash and Cash Equivalents (Continued)**

rated at the time of purchase rated “A-1” and “F1” by Standard & Poor’s and Fitch, respectively, or if not rated by both of them, so rated by one of them and in the equivalent category by another nationally recognized rating agency and which mature not later than 180 days from the date of purchase, (ii) such purchases do not exceed 10% of the corporation’s outstanding obligations and (iii) no more than one-third of the Authority’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.

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Two Years Ended June 30, 2016

**Note 2. Cash and Cash Equivalents (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 held during Fiscal Year 2016 were rated AAAm-G and Aaa-mf by Standard & Poor's and Moody's, respectively. The money market investments held during Fiscal Year 2015 were rated AAAm and Aaa-mf 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 58 days and 44 days during Fiscal Year 2015 and Fiscal Year 2016, respectively.

**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 15<sup>th</sup> in perpetuity and are based on several factors, including the volume of domestic cigarette shipments during the previous calendar year.

The Authority received \$265,018,858 in April 2015, under the MSA, pertaining to calendar year 2014. Of this amount, \$135,611,172 was recorded as a receivable in Fiscal Year 2014 and

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Two Years Ended June 30, 2016

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

pertains to the period January 1, 2014, to June 30, 2014. Likewise, the Authority has accrued \$132,509,429 in TSRs receivable for the period beginning January 1, 2015, and ending June 30, 2015. The amount accrued is considered earned but will not be received by the Authority until April 2016, and has been reported as a deferred inflow of resources in the governmental fund.

The Authority received \$278,191,269 in April 2016, under the MSA, pertaining to calendar year 2015. Of this amount, \$132,509,429 was recorded as a receivable in Fiscal Year 2015 and pertains to the period January 1, 2015, to June 30, 2015. Likewise, the Authority has accrued \$137,768,778 in TSRs receivable for the period beginning January 1, 2016, and ending June 30, 2016. The amount accrued is considered earned but will not be received by the Authority until April 2017, 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, 2015, are as follows:

*Deferred Charges – payment to State* - \$809,537,579 – 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 \$540,770,630. This 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* - \$57,295,717 – This liability represents the estimated amount that will be paid to the State upon receipt of the April 2016 TSRs that pertain to the period beginning January 1, 2015, through June 30, 2015. Residual TSRs are estimated to be 43.24% of TSRs receivable.

*Excess Residual Payment to State* - \$114,349,732 – This expenditure/expense includes the residual payment made to the State in May 2015 of \$115,690,893, plus the accrued portion of the estimated residuals for the period beginning January 1, 2015, through June 30, 2015, of \$57,295,717, and less the prior year accrual of \$58,636,879.

*Due to Attorney General* - As reported on page 27, the “Attorney General sub-account,” reported as cash and cash equivalents (\$3,500,296), represents amounts funded into the Attorney General sub-account as required under the indenture that has not yet been drawn by the Attorney General. It is expected that a portion of this amount will be drawn by the Attorney General in Fiscal Year

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Two Years Ended June 30, 2016

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

2016. Expenditures/expenses of \$2,500,038 represent the annual amounts funded of \$2,500,000 under the trust indenture (see Note 5) for Fiscal Year 2015, plus accrued interest of \$38 and have been recorded in 2015 as an expenditure/expense. The Attorney General’s Office has requested and drawn down \$4,000,000 in Fiscal Year 2015.

Transactions and balances with the State of Illinois for the year ended June 30, 2016, are as follows:

*Deferred outflow of resources – payment to State* – \$707,202,388 - This balance 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 \$643,105,820. 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* – \$106,999,285 - This liability represents (a) the estimated amount that will be paid to the State upon receipt of the April 2017 TSRs that pertain to the period beginning January 1, 2016 through June 30, 2016 of \$59,569,805 and (b) \$47,429,480 due to the State for calendar year 2015 TSR’s not remitted by June 30, 2016. Residual TSRs are estimated to be 43.24% of TSRs receivable.

*Excess Residual Payment to State* - \$130,633,799 – This expenditure/expense includes the residual payments made to the State in May 2016 of \$80,930,231, the \$47,429,480 unpaid residual amount pertaining to calendar year 2015 TSRs not remitted by June 30, 2016, plus the accrued portion of the estimated residuals for the period beginning January 1, 2016 through June 30, 2016 of \$59,569,805, and less the prior year accrual of \$57,295,717.

*Due to Attorney General* - As reported on page 26, the “Attorney General sub-account,” reported as cash and cash equivalents (\$3,001,562), 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 Fiscal Year 2017. Expenditures/expenses of \$2,501,265 represent the annual amounts funded of \$2,500,000 under the trust indenture (see note 5) for Fiscal Year 2016, plus accrued interest of \$1,265 and have been recorded in Fiscal Year 2016 as an expenditure/expense. The Attorney General’s Office has requested and drawn down \$3,000,000 in Fiscal Year 2016.

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Two Years Ended June 30, 2016

**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, 2015:

	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015	Due Within One Year
Revenue Bonds Payable	\$1,309,675,000	\$ -	\$76,820,000	\$1,232,855,000	\$80,655,000
Unamortized premium	5,253,802	-	377,519	4,876,283	-
	<u>\$1,314,928,802</u>	<u>\$ -</u>	<u>\$77,197,519</u>	<u>\$1,237,731,283</u>	<u>\$80,655,000</u>

The following is a summary of long-term obligation activity associated with governmental activities for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Due Within One Year
Revenue Bonds Payable	\$ 1,232,855,000	\$ -	\$ 80,655,000	\$ 1,152,200,000	\$84,700,000
Unamortized premium	4,876,283	-	377,519	4,498,764	-
	<u>\$ 1,237,731,283</u>	<u>\$ -</u>	<u>\$ 81,032,519</u>	<u>\$ 1,156,698,764</u>	<u>\$84,700,000</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, 2016

**Note 5. Long-Term Obligations (Continued)**

As of June 30, 2015, 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
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	98,565,000	50,781,625	149,346,625
2021-2025	529,215,000	169,637,375	698,852,375
2026-2028	257,060,000	27,908,700	284,968,700
<b>Total</b>	<u>\$1,232,855,000</u>	<u>\$495,984,688</u>	<u>\$ 1,728,839,688</u>

As of June 30, 2016, 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
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	98,565,000	50,781,625	149,346,625
2021	103,900,000	45,606,963	149,506,963
2022-2026	527,695,000	139,454,013	667,149,013
2027-2028	154,680,000	12,485,100	167,165,100
<b>Total</b>	<u>\$1,152,200,000</u>	<u>\$427,956,933</u>	<u>\$ 1,580,156,933</u>

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Two Years Ended June 30, 2016

**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 costs 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 \$1.58 billion as of June 30, 2016. Debt service paid for Fiscal Year 2015 and total TSRs received were \$148.69 million and \$265.02 million, respectively. Debt service paid for Fiscal Year 2016 and total TSRs received were \$148.68 million and \$278.19 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

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Two Years Ended June 30, 2016

**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) (a) 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, 2016

**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.

**Note 6. Subsequent Events**

The Authority is not aware of any additional facts, decisions, or conditions that might be expected to have a significant effect on the Authority's financial position during these and future fiscal years.

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**FINANCIAL AUDIT AND COMPLIANCE EXAMINATION**  
For the Two Years Ended June 30, 2016

**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, 2016

**Cash and Cash Equivalents**

Cash and cash equivalents of the Authority consist of cash in the bank and short-term cash investments. The Authority's cash and cash equivalents are held by a trustee, Bank of New York Mellon.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Cash and cash equivalents			
Assets account	\$ 51,041,603	\$ 103	\$ 192
Operating sub-account	203,136	200,022	190,520
Attorney General sub-account	3,001,562	3,500,296	5,000,258
Debt service account	31,086,683	35,882,556	35,937,196
Debt service reserve account	146,786,301	146,768,394	148,603,101
Residual account	<u>36</u>	<u>36</u>	<u>36</u>
Total cash and cash equivalents	<u>\$ 232,119,321</u>	<u>\$ 186,351,407</u>	<u>\$ 189,731,303</u>

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**ANALYSIS OF ACCOUNTS RECEIVABLE**  
For the Two Years Ended June 30, 2016

The Authority’s accounts receivable consist solely of tobacco settlement revenues (TSRs). The TSRs are received each April 15<sup>th</sup> 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.

	2016	2015	2014
Accounts Receivable			
Tobacco settlement revenues (TSRs)	\$ 137,768,778	\$ 132,509,429	\$ 135,611,172

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**ANALYSIS OF OPERATIONS (UNAUDITED)**  
For the Two Years Ended June 30, 2016

**AGENCY FUNCTIONS AND PLANNING**

**FUNCTIONS**

The Railsplitter Tobacco Settlement Authority (Authority) was created by the Railsplitter Tobacco Settlement Authority 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 Kevin Wright 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 four 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 2015 and 2016 exceeded amounts needed to pay current costs and debt service requirements on the Series 2010 bonds. As a result, residual revenues of \$115.69 million and \$80.93 million were then remitted to the State during Fiscal Years 2015 and 2016, respectively.

The Trustee also maintains various cash equivalent accounts, established in accordance with the trust indenture, for specific purposes. At June 30, 2016, all of the Authority's cash equivalents were invested in a money market portfolio comprised of U.S. Treasury securities.

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**ANALYSIS OF OPERATIONS (UNAUDITED)**  
For the Two Years Ended June 30, 2016

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, 2016

As authorized by the Railsplitter Tobacco Settlement Authority Act (30 ILCS 171), the Railsplitter Tobacco Settlement Authority (Authority) issued bonds totaling \$1.5 billion in December 2010. The bonds hold “A” credit quality ratings from Standard & Poor’s as of June 30, 2015, and June 30, 2016, for maturities through 2024 and a rating of “A-” for maturities through 2028. Fitch Ratings rated the entire series BBB+ as of June 30, 2015. In June 2016, Fitch Ratings pulled its ratings on all tobacco securitization bonds.