



STATE OF ILLINOIS  
**OFFICE OF THE  
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY**

Financial Audit and Compliance Examination  
 For the Two Years Ended June 30, 2018

Release Date: March 7, 2019

FINDINGS THIS AUDIT: 1	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	No Repeat Findings			
Category 2:	1	0	1				
Category 3:	0	0	0				
<b>TOTAL</b>	<b>1</b>	<b>0</b>	<b>1</b>				
FINDINGS LAST AUDIT: 0							

**SYNOPSIS**

- (18-01) The Railsplitter Tobacco Settlement Authority did not ensure its financial reports were accurate and prepared in conformity with U.S. generally accepted accounting principles (GAAP).

**Category 1:** Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).

**Category 2:** Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.

**Category 3:** Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Expenditures and Activity Measures are summarized on next page.}

**RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY**  
**FINANCIAL AUDIT AND COMPLIANCE EXAMINATION**  
**For the Two Years Ended June 30, 2018**

Statement of Revenues, Expenditures and Changes in Fund Balances	FY 2018	FY 2017	FY 2016
<b>PROGRAM REVENUES</b>			
Tobacco settlement revenues (TSRs).....	\$ 306,472,413	\$ 250,341,122	\$ 275,537,557
Total Program Revenues.....	<u>306,472,413</u>	<u>250,341,122</u>	<u>275,537,557</u>
<b>EXPENDITURES</b>			
Excess residual payments to State.....	180,182,697	95,684,569	130,633,799
Amortization of deferred charges - TSRs.....	121,920,916	86,644,350	102,335,191
Professional fees.....	99,600	55,100	56,800
Travel.....	-	556	230
Attorney General.....	2,500,000	2,498,438	2,501,265
Debt service - principal retirement.....	89,040,000	84,700,000	80,655,000
Debt service - interest.....	54,239,796	64,183,744	68,027,756
Debt issuance costs.....	4,796,174	-	-
Total Expenditures.....	<u>452,779,183</u>	<u>333,766,757</u>	<u>384,210,041</u>
<b>GENERAL REVENUES.....</b>	<u>2,399,061</u>	<u>974,297</u>	<u>344,840</u>
<b>Changes in Fund Balance.....</b>	<u>\$ (143,907,709)</u>	<u>\$ (82,451,338)</u>	<u>\$ (108,327,644)</u>
<b>Balance Sheet</b>			
	<b>FY 2018</b>	<b>FY 2017</b>	<b>FY 2016</b>
<b>ASSETS</b>			
Cash and cash equivalents.....	\$ 169,399,821	\$ 230,378,420	\$ 232,119,321
Receivables (TSRs).....	153,236,207	125,170,562	137,768,778
Total Assets.....	<u>322,636,028</u>	<u>355,548,982</u>	<u>369,888,099</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>			
Payment to State.....	<u>505,078,592</u>	<u>620,558,037</u>	<u>707,202,388</u>
<b>LIABILITIES</b>			
Due to Attorney General.....	3,000,000	2,500,000	3,001,562
Due to State - residual TSRs.....	66,257,763	104,122,466	106,999,285
Due to State - unsold assets.....	-	-	2,555,533
Total Liabilities.....	<u>69,257,763</u>	<u>106,622,466</u>	<u>112,556,380</u>
<b>DEFERRED INFLOW OF RESOURCES</b>			
Deferred TSRs.....	<u>153,236,207</u>	<u>125,170,562</u>	<u>137,768,778</u>
<b>TOTAL FUND BALANCE</b>	<u>\$ 605,220,650</u>	<u>\$ 744,313,991</u>	<u>\$ 826,765,329</u>

<b>BOARD CHAIRPERSON</b>
<b>During Audit Period:</b> Tim Nuding (through 12/31/16); Vacant (1/17/ to 6/12/17); Scott Harry (6/13/17 to 1/14/18); Vacant (through 6/30/18)
<b>Currently:</b> Vacant

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**INACCURATE FINANCIAL STATEMENT  
PREPARATION**

The Railsplitter Tobacco Settlement Authority (Authority) did not ensure its financial reports were accurate and prepared in conformity with U.S. generally accepted accounting principles (GAAP).

We noted the Authority did not perform a sufficient review of all accounts and amounts recorded within its financial statements and related footnotes. As a result, we noted the following errors during our testing:

**Fiscal Year Ended June 30, 2018**

**Debt service installments  
understated**

- The Authority incorrectly reported in its long-term obligations footnote the range of outstanding annual installments for the Authority's Series 2010 revenue bonds as \$66,325,000 to \$78,360,000. Authority records indicate the remaining annual installments for these bonds range from \$93,620,000 to \$103,900,000.

**Debt service expenditures overstated**

- The Authority overstated debt service expenditures for the fiscal year by \$4.8 million in its long-term obligations footnote. The Authority reported debt service expenditures for Fiscal Year 2018 totaling \$148.1 million, where actual debt service for the fiscal year totaled \$143.3 million.

**Debt issuance expenditures  
incorrectly reported**

- The Authority incorrectly reported debt issuance expenditures, totaling \$4,796,174, as part of their debt service expenditures in its Statement of Activities and Governmental Revenues, Expenditures, and Changes in Fund Balance.

**Fiscal Year Ended June 30, 2017**

**Receivables reported incorrectly**

- The Authority incorrectly reported in its receivables footnote tobacco settlement revenues receivable, totaling \$251.0 million, gross of unsold assets, instead of netting the receivables against unsold assets, totaling \$0.7 million. Correctly presented, the tobacco settlement revenues receivable for the year ended June 30, 2017, were \$250.3 million.

All of these noted errors were corrected by Authority management in its final financial statements (Finding 1, pages 11-12).

We recommended the Authority implement procedures to ensure financial statements are reviewed for potential errors and misstatements and agree to underlying accounting records.

**Authority accepts recommendation**

The Authority accepted our recommendation and noted the errors were subsequently corrected.

**AUDITOR'S OPINIONS**

The auditors stated the financial statements of the Authority as of and for the years ended June 30, 2017, and June 30, 2018, are fairly stated in all material respects.

**ACCOUNTANT'S OPINION**

The accountants conducted a compliance examination of the Authority for the two years ended June 30, 2018, as required by the Illinois State Auditing Act. The accountants stated the Authority complied, in all material respects, with the requirements described in the report.

This financial audit and compliance examination was conducted by the Office of the Auditor General's staff.

**SIGNED ORIGINAL ON FILE**

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JANE CLARK  
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

**SIGNED ORIGINAL ON FILE**

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FRANK J. MAUTINO  
Auditor General

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