

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

For the Two Years Ended June 30, 2018

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
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For the Two Years Ended June 30, 2018

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

AGENCY OFFICIALS

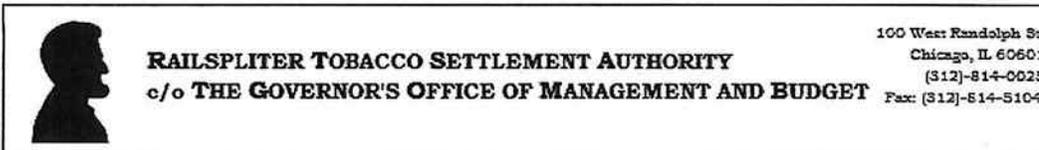
Chairman of the Board (1/14/19 – Present)	Vacant
Chairman of the Board (12/7/18 – 1/13/19)	Hans Zigmund
Chairman of the Board (1/15/18 – 12/6/18)	Vacant
Chairman of the Board (6/13/17 – 1/14/18)	Scott Harry
Chairman of the Board (1/1/17 – 6/12/17)	Vacant
Chairman of the Board (7/1/16 – 12/31/16)	Tim Nuding
Board Member (1/14/19 – Present)*	Alexis Sturm
Board Member (1/15/18 – 1/13/19)	Hans Zigmund
Board Member (1/1/17 – 1/14/18)	Scott Harry
Board Member (7/1/16 – 12/31/16)	Tim Nuding
Board Member (11/28/17 – Present)	Elizabeth Weber
Board Member (6/14/17 – 11/27/17)	Jenai Booker
Board Member (7/1/16 – 6/13/17)	Vickie Chan
Board Member (11/28/17 – Present)	William O’Connell
Board Member (11/16/17 – 11/27/18)	Vacant
Board Member (6/13/17 – 11/15/17)	Kelly Hutchinson
Board Member (4/25/17 – 6/12/17)	Vacant
Board Member (7/1/16 – 4/24/17)	Kevin Wright
Chief Financial Officer (6/13/17 – Present)	Kelly Hutchinson
Chief Financial Officer (4/25/17 – 6/12/17)	Vacant
Chief Financial Officer (7/1/16 – 4/24/17)	Kevin Wright
Secretary (12/7/18 – Present)	Charles Salmans
Secretary (6/1/18 – 12/6/18)	Vacant
Secretary (6/14/17 – 5/31/18)	Jenai Booker
Secretary (7/1/16 – 6/13/17)	Vickie Chan

* Alexis Sturm became the Director of the Governor’s Office of Management and Budget, effective January 14, 2019. By statute, she is also a Board Member of the Railsplitter Tobacco Settlement Authority. The Authority’s Board will elect a new Chairman of the Board, a position historically held by the Director of the Governor’s Office of Management and Budget, at its next meeting.

The Authority’s offices are located at:

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

603 Stratton Office Building
401 South Spring Street
Springfield, Illinois 62706



MANAGEMENT ASSERTION LETTER

Honorable Frank J. Mautino
Auditor General
State of Illinois
Iles Park Plaza
740 East Ash Street
Springfield, Illinois 62703

February 15, 2019

Auditor General 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 State of Illinois, Railsplitter Tobacco Settlement 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 State of Illinois, Railsplitter Tobacco Settlement Authority's compliance with the following assertions during the two-year period ended June 30, 2018. Based on this evaluation, we assert that during the years ended June 30, 2017, and June 30, 2018, the State of Illinois, Railsplitter Tobacco Settlement Authority has materially complied with the assertions below.

- A. The State of Illinois, Railsplitter Tobacco Settlement 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 State of Illinois, Railsplitter Tobacco Settlement 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 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.

Yours truly,

Railsplitter Tobacco Settlement Authority

SIGNED ORIGINAL ON FILE

Alexis Sturm, Board Member

SIGNED ORIGINAL ON FILE

Kelly Hutchinson, Chief Financial Officer

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

COMPLIANCE REPORT

SUMMARY

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and 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>Prior</u>
Findings	Report	Report
Findings	1	0
Repeated Findings	0	0
Prior Recommendations Implemented or Not Repeated	0	0

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
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FINDINGS (*GOVERNMENT AUDITING STANDARDS*)

2018-001	11	Inaccurate Financial Statement Preparation	Significant Deficiency
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FINDINGS (STATE COMPLIANCE)

In addition, the following findings which are reported as current findings relating to *Government Auditing Standards* also meet the reporting requirements for State Compliance.

2018-001	11	Inaccurate Financial Statement Preparation	Significant Deficiency and Noncompliance
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STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2018

EXIT CONFERENCE

The Authority waived an exit conference in a correspondence from Kelly Hutchinson, Chief Financial Officer, on January 29, 2019. The response to the recommendation was provided by Kelly Hutchinson, Chief Financial Officer, in a correspondence dated January 29, 2019.

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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, 2018. 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 of the State 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 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 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

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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 (the Audit Guide). Those standards, the Act, and the Audit Guide require that we plan and perform the examination to obtain reasonable assurance about whether the State of Illinois, Railsplitter Tobacco Settlement Authority complied, in all material respects, with the specified requirements listed above. An examination involves performing procedures to obtain evidence about whether the State of Illinois, Railsplitter Tobacco Settlement Authority complied with the specified requirements listed above. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance, whether due to fraud or error.

We believe that the evidence we obtained is sufficient and appropriate to provide 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, 2018. However, the results of our procedures disclosed instances of noncompliance with the requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as item 2018-001.

The State of Illinois, Railsplitter Tobacco Settlement Authority's response to the finding identified in our examination is described in the accompanying schedule of findings. The State of Illinois, Railsplitter Tobacco Settlement Authority's response was not subjected to the procedures applied in the compliance examination and, accordingly, we express no opinion on the response.

The purpose of this report on compliance is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the Audit Guide issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

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, we did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings as item 2018-001, that we consider to be a significant deficiency.

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

The State of Illinois, Railsplitter Tobacco Settlement Authority's response to the internal control finding identified in our examination is described in the accompanying Schedule of Findings. The State of Illinois, Railsplitter Tobacco Settlement Authority's response was not subjected to the procedures applied in the compliance examination and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Audit Guide, issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

JANE CLARK, CPA
Director of Financial and Compliance Audits

Springfield, Illinois
February 15, 2019

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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, 2017, and June 30, 2018, 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 February 15, 2019.

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 opinions 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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as item 2018-001, that we consider to be a significant deficiency.

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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.

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JANE CLARK, CPA
Director of Financial and Compliance Audits

Springfield, Illinois
February 15, 2019

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2018

2018-001. **FINDING** (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

- 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.
- 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.
- The Authority incorrectly reported debt issuance expenditures, totaling \$4,796,174, as a 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

- 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.

In accordance with generally accepted accounting principles (GAAP), all of the Authority's assets, liabilities, and expenditures should be properly reported in the Authority's financial statements and related footnotes. In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Authority to

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2018

2018-001. **FINDING** (Inaccurate Financial Statement Preparation) - Continued

establish and maintain a system, or systems, of internal fiscal controls to provide assurance revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over the State's resources. Effective internal controls should include procedures to accurately record financial transactions, accurately prepare financial statements, and perform thorough reviews of prepared financial statements to detect reporting errors and misstatements.

Authority personnel indicated the errors noted above were due to oversight.

Failure to ensure all transactions and disclosures are recorded and reported accurately could result in a material misstatement of the Authority's financial statements and reduces the overall reliability of Statewide financial reporting. (Finding Code No. 2018-001)

RECOMMENDATION

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

AUTHORITY RESPONSE

The Authority accepts the Auditors' finding and recommendations. The errors noted for the FY 2018 Financial Statements were present in the preliminary draft requested by the Auditors on October 12th, 2018. The errors were corrected before submission to the Authority Board. The FY 2018 Financial Statements were not final until approved by the Rail-splitter board on December 7, 2018. Subsequently, the Authority sent the approved, corrected FY 2018 Financial Statements to the Auditors. The Authority will implement additional staff oversight of preparation of the Authority's financial statements and audit process by its outside accountants.

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

FINANCIAL STATEMENT REPORT

SUMMARY

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

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

SUMMARY OF FINDING

The auditors identified matters involving the Authority's internal control over financial reporting that they consider to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Findings on pages 11 and 12 of this report as item 2018-001 (Inaccurate Financial Statement Preparation).

EXIT CONFERENCE

The Authority waived an exit conference in a correspondence from Kelly Hutchinson, Chief Financial Officer, on January 29, 2019. The response to the recommendation was provided by Kelly Hutchinson, Chief Financial Officer, in a correspondence dated January 29, 2019.

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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, 2017, and June 30, 2018, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to

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design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund for the State of Illinois, Railsplitter Tobacco Settlement Authority, as of June 30, 2017, and June 30, 2018, 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 17-27 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, 2017, and June 30, 2018, was conducted for the purpose of forming an opinion 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, 2017, and June 30, 2018, 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, 2017, and June 30, 2018, 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, 2017, and June 30, 2018, 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, 2015, and June 30, 2016 (not presented herein), and have issued our report thereon dated January 24, 2017, which contained an unmodified opinion on the respective financial statements of the governmental activities and the major fund. The accompanying supplementary information for the year ended June 30, 2016, 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, 2016, statements. The accompanying supplementary information for the year ended June 30, 2016, in Schedules 1 and 2 has been subjected to the auditing procedures applied in the audit of the June 30, 2016, 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, 2016, 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 February 15, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of State of Illinois, Railsplitter Tobacco Settlement Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Railsplitter Tobacco Settlement Authority's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

JANE CLARK, CPA
Director of Financial and Compliance Audits

Springfield, Illinois
February 15, 2019

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Two Years Ended June 30, 2018

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 \$322.6 million as of June 30, 2018. In addition, the Authority reported total cash and cash equivalents of \$169.4 million, and tobacco settlement receivables of \$153.2 million as of June 30, 2018. The Authority reported deferred outflows of resources of \$562.9 million as of June 30, 2018. Deferred outflows of resources includes the unamortized balance of the payments to the State upon issuance of the bonds (\$505.1 million) and the unamortized balance of the deferred refunding amount from issuance of the 2017 refunding bonds (\$57.9 million). The Authority's total assets of governmental activities were \$355.55 million as of June 30, 2017. The Authority reported total cash and cash equivalents of \$230.38 million, and tobacco settlement receivables of \$125.17 million as of June 30, 2017. The Authority reported deferred outflows of resources of \$620.56 million. 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 \$369.89 million as of June 30, 2016. 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.

As of June 30, 2018, the Authority reported liabilities of \$1.128 billion, principal of which was \$1.055 billion in revenue bonds payable (net). This resulted in a net position deficit of \$242.4 million at June 30, 2018. As of June 30, 2017, the Authority reported liabilities of \$1.18 billion, principal of which was \$1.07 billion in revenue bonds payable (net). This resulted in a net position deficit of \$207.13 million at June 30, 2017. 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.

The Authority does not conduct any business-type activities.

Revenues

During Fiscal Year 2018, the governmental activities revenues totaled \$336.9 million. This consisted of \$334.5 million of recognized tobacco settlement revenues (TSRs), and \$2.4 million in investment income. During Fiscal Year 2017, the governmental activities revenues totaled \$238.72 million. This consisted of \$237.74 million of recognized TSRs, and \$0.97 million in net

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investment income. During Fiscal Year 2016, the governmental activities revenues totaled \$281.14 million. This consisted of \$280.80 million of recognized TSRs, and \$0.34 million in net investment income.

Cost of Authority Program

During Fiscal Year 2018, the governmental activities expenses totaled \$372.2 million. Of this amount, \$180.2 million was for residual tobacco settlement payments to the State, \$121.9 million was amortization of the tobacco settlement deferred charges, and \$67.5 million was interest expense and debt issuance costs. During Fiscal Year 2017, the governmental activities expenses totaled \$248.34 million. Of this amount, \$95.68 million was for residual tobacco settlement payments to the State, \$86.64 million was amortization of the tobacco settlement deferred charges, and \$63.45 million was interest expense. 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. 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 2018, the revenues reported for the governmental fund (\$308.9 million) varied from revenues recognized for governmental activities (\$336.9 million). The difference between the amount recorded in the governmental fund and the amount reported in the government-wide statement of activities pertains to the change in revenue that was a deferred inflow in the fund because it was not collected in the availability period (TSRs receivable Fiscal Year 2018 versus Fiscal Year 2017). At the fund level, expenditures totaled \$452.8 million. Included in this total is \$180.2 million for residual tobacco settlement payments to the State, \$121.9 million was amortization of the tobacco settlement deferred charges, \$148.1 million was for bond principal, interest and debt issuance expenditures, and \$2.5 million for the Attorney General expenses as discussed above. The principal difference between expenditures in the governmental fund and expenses in governmental activities pertains to debt-related items. These differences are explained in the reconciliation provided on page 30.

For Fiscal Year 2017, the revenues reported for the governmental fund (\$251.32 million) varied from revenues recognized for governmental activities (\$238.72 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 2017 versus Fiscal Year 2016). At the fund level, expenditures totaled \$333.77 million. Included in this total is \$95.68 million for residual tobacco settlement payments to the State, \$86.64 million was amortization of the tobacco settlement deferred charges, \$148.88 million for interest expense and principal retirement, and \$2.50 million for the Attorney General expenses as discussed above. The

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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 31.

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 2016 versus Fiscal Year 2015). 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.

USING THIS ANNUAL REPORT

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

Government-Wide Financial Statements

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

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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, 2018, 2017, and 2016**

	<u>Governmental Activities</u> <u>2018</u>	<u>Governmental Activities</u> <u>2017</u>	<u>Governmental Activities</u> <u>2016</u>
Current and other assets	\$ 322,636,028	\$ 355,548,982	\$ 369,888,099
Total assets	<u>322,636,028</u>	<u>355,548,982</u>	<u>369,888,099</u>
Deferred outflow of resources	562,941,726	620,558,037	707,202,388
Total deferred outflows	<u>562,941,726</u>	<u>620,558,037</u>	<u>707,202,388</u>
Current liabilities	166,954,822	200,658,195	202,605,025
Noncurrent liabilities	961,058,800	982,581,245	1,071,998,764
Total liabilities	<u>1,128,013,622</u>	<u>1,183,239,440</u>	<u>1,274,603,789</u>
Net Position:			
Unrestricted	<u>(242,435,868)</u>	<u>(207,132,421)</u>	<u>(197,513,302)</u>
Total net position	<u>\$ (242,435,868)</u>	<u>\$ (207,132,421)</u>	<u>\$ (197,513,302)</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 \$242.4 million and \$207.1 million as of June 30, 2018, and 2017, respectively. In addition, liabilities exceeded assets and deferred outflows by \$197.51 million as of June 30, 2016.

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

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RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
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- 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 2017 to 2018 of \$35.3 million was a result of several factors. Total assets plus deferred outflows of resources decreased by \$90.5 million. The decrease was primarily due to the amortization of the payment to the State of \$121.9 million, offset by a new deferred amount resulting from the issuance of the 2017 series bonds to partially refund the 2010 series bonds. The refunding resulted in a loss, which is reported as a deferred outflow of resources, and the unamortized balance at June 30, 2018 was \$57.9 million. Additionally, tobacco settlement receivables increased by \$28.1 million (22.4%), and cash decreased by \$61.0 million (26.5%). The decrease in cash was primarily due to a Fiscal Year 2017 residual payment owed to the State, which was paid in December of 2017 (\$50 million) and a decrease in the amount required to be held in the Debt Service Reserve Account (\$6.4 million). Total liabilities decreased by \$55.2 million, primarily due to 1) the principal retirement of revenue bonds of \$89.0 million, 2) a \$37.9 million decrease in residual TSRs owed to the State, and 3) the refunding of debt which lowered the principal by approximately \$11.4 million and increased the premium by approximately \$88.3 million before amortization.

The decrease in net position from 2016 to 2017 of \$9.62 million was a result of several factors. Total assets plus deferred outflows of resources decreased by \$100.98 million. The decrease was primarily due to the amortization of the payment to the State of \$86.64 million. Additionally, tobacco settlement receivables decreased by \$12.6 million (9.1%). Total liabilities decreased by \$91.36 million, primarily due to the retirement of revenue bonds of \$85.08 million (net of amortization).

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

Condensed Statement of Activities
Year Ended June 30, 2018, 2017, and 2016

	Governmental Activities	Governmental Activities	Governmental Activities
	2018	2017	2016
Revenues			
Program revenues			
Tobacco settlement revenues	\$ 334,538,059	\$ 237,742,905	\$ 280,796,906
General revenue			
Investment income	2,399,061	974,297	344,840
Total revenue	336,937,120	238,717,202	281,141,746
Expenses			
Excess residual payments to State	180,182,697	95,684,569	130,633,799
Amortization of payment to State - TSRs	121,920,916	86,644,350	102,335,191
Professional fees	99,600	55,100	56,800
Travel expenses	-	556	230
Attorney General	2,500,000	2,498,438	2,501,265
Interest and issuance costs	67,537,354	63,453,308	67,329,902
Total expenses	372,240,567	248,336,321	302,857,187
Change in net position	(35,303,447)	(9,619,119)	(21,715,441)
Net position - beginning	(207,132,421)	(197,513,302)	(175,797,861)
Net position - ending	<u>\$(242,435,868)</u>	<u>\$(207,132,421)</u>	<u>\$(197,513,302)</u>

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

Revenues:

- 1) Changing Patterns in Tobacco Settlement Revenues – TSRs may experience significant changes periodically and are less predictable than many governmental revenues and often distort year-to-year comparisons.

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- 2) Market Impacts on Investment Income – Market conditions may cause investment income to fluctuate.

Expenses:

- 1) Interest Rates – The Series 2010 revenue bonds were issued at fixed rates that vary over the life of the debt. Prior to the refunding in December 2017, the interest rates for the various maturities ranged from 3.00% to 6.25%. Following the refunding, the interest rates for the various maturities for both the remaining original debt and the newly issued refunding bonds then ranged from 5.00% to 5.25%. These variations will be evident 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, 2018, revenues from governmental activities totaled \$336.9 million compared with \$238.7 million in the prior year, an increase of \$98.2 million (41.1%). This increase is due to an increase in tobacco settlement revenues of \$96.8 million and an increase in investment income of \$1.4 million.

Total expenses for the year ended June 30, 2018, were \$372.2 million compared to \$248.3 million in the previous year. The \$123.9 million increase (49.9%) is mostly attributable to the increase in excess residual payments to the State of \$84.5 million. Excess residuals expense in Fiscal Year 2018 was greater than Fiscal Year 2017 due to the large increase in tobacco settlement revenues. Also, the amortization of the payment to the State increased \$35.3 million over the prior year. Amortization is also a function of the TSRs recorded each year. Interest and issuance costs expense also increased by \$4.1 million compared to the prior year due to refunding related debt issuance costs.

For the fiscal year ended June 30, 2017, revenues from governmental activities totaled \$238.72 million compared with \$281.14 million in the prior year, a decrease of \$42.42 million (15.1%). The decrease is due to a decrease in tobacco settlement revenues of \$43.05 million offset by an increase in investment income of \$629 thousand.

Total expenses for the year ended June 30, 2017, were \$248.34 million compared to \$302.86 million in the previous year. The \$54.52 million decrease (18.0%) is mostly attributable to a decrease in excess residual payments to the State of \$34.95 million. Excess residuals expense in Fiscal Year 2017 was less than Fiscal Year 2016 due to a decrease in tobacco settlement revenues. Also, the amortization of the payment to the State decreased \$15.69 million over the prior year. Amortization is also a function of the TSRs recorded each year. Interest expense also decreased by \$3.88 million compared to the prior year.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
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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 external constraints limit how these funds may be used.

At June 30, 2018, the governmental fund reported restricted fund balance of \$605.2 million, compared with \$744.3 million as of June 30, 2017. The \$139.1 million decrease is mainly due to the amortization of the deferred outflow of resources (\$121.9 million).

At June 30, 2017, the governmental fund reported restricted fund balance of \$744.31 million, compared with \$826.76 million as of June 30, 2016. The \$82.45 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 2018 and Fiscal Year 2017 were \$308.9 million and \$251.3 million, respectively, an increase of \$57.6 million. The Fiscal Year 2018 investment income exceeded Fiscal Year 2017 amounts by \$1.4 million, and Fiscal Year 2018 tobacco settlement revenues exceeded Fiscal Year 2017 amounts by \$56.1 million.

Total revenues for the governmental fund for Fiscal Year 2017 and Fiscal Year 2016 were \$251.32 million and \$275.88 million, respectively, a decrease of \$24.57 million. The Fiscal Year 2017 investment income exceeded Fiscal Year 2016 amounts by \$629 thousand and Fiscal Year 2017 tobacco settlement revenues were less than Fiscal Year 2016 by \$25.20 million.

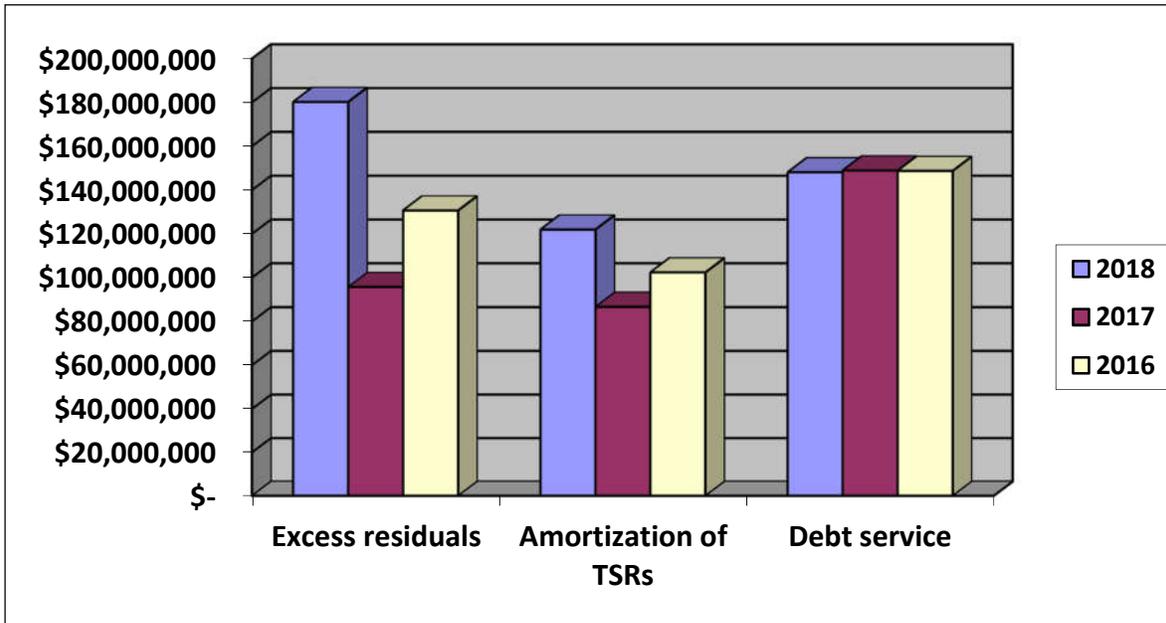
Total expenditures for the governmental fund for the years ended June 30, 2018, and 2017, were \$452.8 million and \$333.8 million, respectively. The \$119.0 million increase is due to the increased residual payments to the State (\$84.5 million), and a higher amortization of the deferred outflows of resources (\$35.3 million). There was also a larger principal payment in Fiscal Year 2018 (\$4.3 million), offset by lower interest and issuance cost expenditures on the bonds (\$5.1 million).

Total expenditures for the governmental fund for the years ended June 30, 2017, and 2016, were \$333.77 million and \$384.21 million, respectively. The \$50.44 million decrease is due to decreased residual payments to the State (\$34.95 million), and a lower amortization of the deferred outflows of resources (\$15.69 million). There was a larger principal payment in Fiscal Year 2017 (\$4.05 million), offset by lower interest expenditures on the bonds (\$3.84 million).

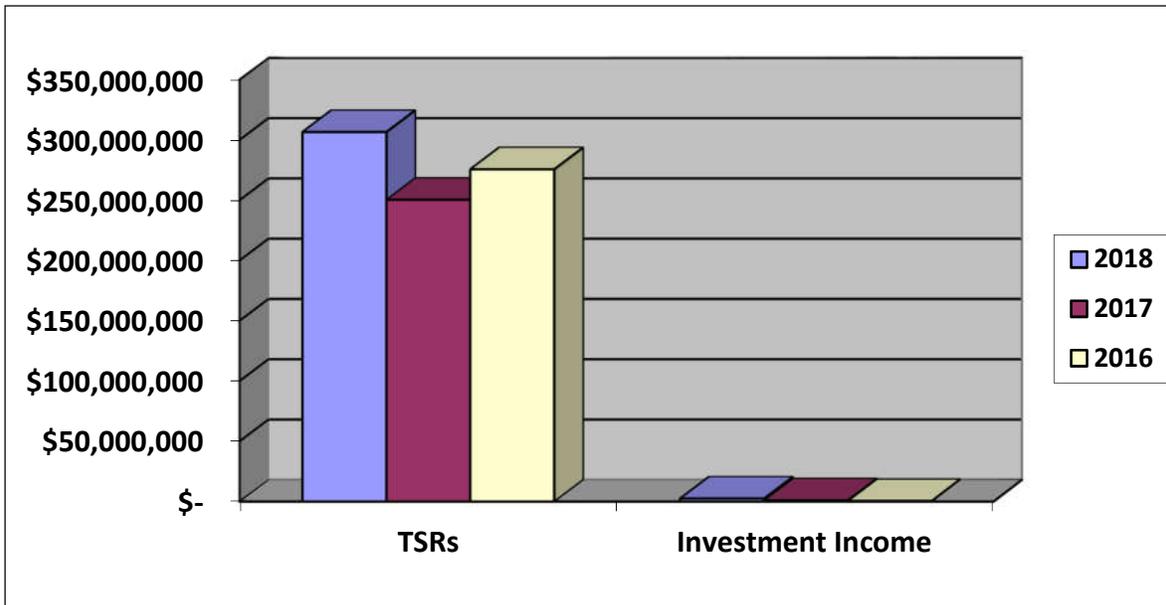
STATE OF ILLINOIS
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See the charts that follow.

**Major Expenditures – by Type (Governmental Fund)
Years Ended June 30, 2018, 2017, and 2016**



**Revenues – by Type (Governmental Fund)
Years Ended June 30, 2018, 2017, and 2016**



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Outstanding Debt

In December 2010, the Authority issued \$1,503,460,000 Tobacco Settlement Revenue Bonds (Series 2010) pursuant to a purchase and sale agreement between the Authority and the State of Illinois (State). Of the total \$1.51 billion in bond proceeds, \$1.35 billion was paid to the State 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.

In December 2017, the Authority issued \$670,965,000 Tobacco Settlement Revenue Bonds (Series 2017) to currently refund \$105.0 million and advance refund \$577.4 million of the Series 2010 bonds. The Series 2017 Refunding bonds were issued at a premium of \$90.8 million. The proceeds from the bonds were used to refund a portion of the outstanding 2010 Series bonds and pay issuance costs. As a result of the Series 2017 issuance, \$757.0 million was deposited in an escrow account. Excess funds in the Reserve account (\$6.4 million) and excess funds in the issuance account (\$18 thousand) were paid to the State.

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 \$1.36 billion in bond proceeds/excess funds, the State sold to the Authority its rights to substantially all tobacco settlement revenues (TSRs), made pursuant to the Master Settlement Agreement entered into with participating tobacco product manufacturers. These TSRs have been pledged to pay principal and interest on the bonds. TSRs received that are in excess of a specified formula are defined as "Residual Revenues" and are paid back to the State. TSRs collected in Fiscal Year 2018 were sufficient to pay the upcoming and current interest requirements on the debt. Residual revenues of \$168.1 million were determined by the Trustee to be owed to the State for the calendar year 2017 TSR collections and were paid to the State during the fiscal year. Additionally, the Authority has estimated an additional \$66.3 million in residual revenues owed to the State for the period January 1, 2018, through June 30, 2018. Residual revenues of \$101.13 million were determined by the Trustee to be owed to the State for the calendar year 2016 TSR collections. Of this amount, \$51.13 million was paid to the State during the year. Additionally, the Authority has estimated an additional \$54.12 million in residual revenues owed to the State for the period January 1, 2017, through June 30, 2017, resulting in a total recorded liability to the State of \$104.12 million.

Additional information as well as the debt service requirements associated with this issue are outlined in Note 5 of these Financial Statements.

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RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
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Economic Factors and a Look to the Future

The tobacco settlement revenues received in Fiscal Year 2018 (cash received) of \$306.6 million was higher than the anticipated amount of \$242.1 million; however, on a cumulative basis, collections are \$40 million higher than the original estimate. The tobacco settlement revenues received in Fiscal Year 2017 (cash received) of \$250.34 million was higher than the anticipated amount of \$240.53 million; however on a cumulative basis, collections are down \$24.33 million from the original estimate. The tobacco settlement revenues received in Fiscal Year 2016 (cash received) of \$275.54 million was higher than the anticipated amount of \$250.12 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 West Randolph Street, Suite 15-100, Chicago, Illinois 60601.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
For the Year Ended June 30, 2018

	Governmental Fund – RTSA	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents			
Assets account	\$ 211,347	\$ -	\$ 211,347
Operating sub-account	212,997	-	212,997
Attorney General sub-account	3,003,192	-	3,003,192
Debt service account	25,310,615	-	25,310,615
Debt service reserve account	140,652,472	-	140,652,472
Residual account	9,198	-	9,198
Total cash and cash equivalents	<u>169,399,821</u>	-	<u>169,399,821</u>
Receivables			
Tobacco settlement revenues (TSRs)	<u>153,236,207</u>	-	<u>153,236,207</u>
Total assets	<u>322,636,028</u>	-	<u>322,636,028</u>
Deferred Outflow of Resources			
Payment to State	505,078,592	-	505,078,592
Deferred refunding amount	-	<u>57,863,134</u>	<u>57,863,134</u>
Total deferred outflows	<u>505,078,592</u>	<u>57,863,134</u>	<u>562,941,726</u>
Liabilities			
Current:			
Accrued interest payable	-	4,077,059	4,077,059
Due to Attorney General	3,000,000	-	3,000,000
Due to State – residual TSRs	66,257,763	-	66,257,763
Revenue bonds payable	-	<u>93,620,000</u>	<u>93,620,000</u>
Total current liabilities	69,257,763	97,697,059	166,954,822
Noncurrent:			
Revenue bonds payable, net			
of unamortized premium of \$87,628,800	-	<u>961,058,800</u>	<u>961,058,800</u>
Total liabilities	<u>69,257,763</u>	<u>1,058,755,859</u>	<u>1,128,013,622</u>
Deferred Inflow of Resources			
Deferred TSRs	<u>153,236,207</u>	<u>(153,236,207)</u>	-
Fund Balance/Net Position			
Fund balance - restricted for debt service	605,220,650	(605,220,650)	-
Net position - unrestricted deficit	-	<u>(242,435,868)</u>	<u>(242,435,868)</u>
Total fund balance/net position	<u>\$ 605,220,650</u>	<u>\$ (847,656,518)</u>	<u>\$ (242,435,868)</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, 2017

	Governmental Fund – RTSA	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents			
Assets account	\$ 50,122,424	\$ -	\$ 50,122,424
Operating sub-account	207,543	-	207,543
Attorney General sub-account	2,502,135	-	2,502,135
Debt service account	30,457,817	-	30,457,817
Debt service reserve account	147,086,739	-	147,086,739
Residual account	1,762	-	1,762
Total cash and cash equivalents	<u>230,378,420</u>	-	<u>230,378,420</u>
Receivables			
Tobacco settlement revenues (TSRs)	<u>125,170,562</u>	-	<u>125,170,562</u>
Total assets	<u>355,548,982</u>	-	<u>355,548,982</u>
Deferred Outflow of Resources			
Payment to State	<u>620,558,037</u>	-	<u>620,558,037</u>
Liabilities			
Current:			
Accrued interest payable	-	4,995,729	4,995,729
Due to Attorney General	2,500,000	-	2,500,000
Due to State – residual TSRs	104,122,466	-	104,122,466
Revenue bonds payable	-	<u>89,040,000</u>	<u>89,040,000</u>
Total current liabilities	106,622,466	94,035,729	200,658,195
Noncurrent:			
Revenue bonds payable, net			
of unamortized premium of \$4,121,245	-	<u>982,581,245</u>	<u>982,581,245</u>
Total liabilities	<u>106,622,466</u>	<u>1,076,616,974</u>	<u>1,183,239,440</u>
Deferred Inflow of Resources			
Deferred TSRs	<u>125,170,562</u>	<u>(125,170,562)</u>	-
Fund Balance/Net Position			
Fund balance - restricted for debt service	744,313,991	(744,313,991)	-
Net position - unrestricted deficit	-	<u>(207,132,421)</u>	<u>(207,132,421)</u>
Total fund balance/net position	<u>\$ 744,313,991</u>	<u>\$ (951,446,412)</u>	<u>\$ (207,132,421)</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 GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION**
For the Year Ended June 30, 2018

Total fund balances - governmental fund	\$	605,220,650
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Revenues in the Statement of Activities that do not provide current financial resources are deferred inflows in the funds.		153,236,207
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Some balances reported in the Statement of Net Position do not provide current financial resources or require the use of current financial resources and, therefore, are not reported in governmental funds.

These amounts consist of:

Bonds payable		(967,050,000)
Deferred refunding amount		57,863,134
Accrued interest payable		(4,077,059)
Unamortized bond premium		(87,628,800)
		(87,628,800)

Net position of governmental activities	\$	(242,435,868)
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The accompanying notes to the financial statements are an integral part of this Statement.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION**
For the Year Ended June 30, 2017

Total fund balances - governmental fund	\$ 744,313,991
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Amounts reported for governmental activities in the
Statement of Net Position are different because:

Revenues in the Statement of Activities that do not provide current financial resources are deferred inflows in the funds.	125,170,562
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Some assets and liabilities reported in the Statement of Net
Position do not provide current financial resources or require
the use of current financial resources and, therefore, are not
reported as assets or liabilities in governmental funds.

These amounts consist of:

Bonds payable	(1,067,500,000)
Accrued interest payable	(4,995,729)
Unamortized bond premium	<u>(4,121,245)</u>

Net position of governmental activities	<u>\$ (207,132,421)</u>
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The accompanying notes to the financial statements are an integral part of this Statement.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES**
For the Year Ended June 30, 2018

	<u>Governmental Fund - RTSA</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/expenses:			
Excess residual payments to State	\$ 180,182,697	\$ -	\$ 180,182,697
Amortization of payment to State - TSRs	121,920,916	-	121,920,916
Professional fees	99,600	-	99,600
Attorney General	2,500,000	-	2,500,000
Debt service - principal retirement	89,040,000	(89,040,000)	-
Debt service - interest	54,239,796	8,501,384	62,741,180
Debt issuance costs	4,796,174	-	4,796,174
Total expenditures/expenses	<u>452,779,183</u>	<u>(80,538,616)</u>	<u>372,240,567</u>
Program revenues:			
Tobacco settlement revenues (TSRs)	<u>306,472,413</u>	<u>28,065,646</u>	<u>334,538,059</u>
Net program revenues (expenditures/expenses)	(146,306,770)	108,604,262	(37,702,508)
General revenues:			
Investment income	<u>2,399,061</u>	<u>-</u>	<u>2,399,061</u>
Change in fund balance/net assets	<u>(143,907,709)</u>	<u>108,604,262</u>	<u>(35,303,447)</u>
Other financing sources (uses):			
Refunding bond issuance	670,965,000	(670,965,000)	-
Premium on refunding bonds	90,804,335	(90,804,355)	-
Payment to escrow agent	(756,954,987)	756,954,987	-
Total other financing sources (uses)	<u>4,814,368</u>	<u>(4,814,368)</u>	<u>-</u>
Net change in fund balance/net position	(139,093,341)	103,789,894	(35,303,447)
Fund balance/net position July 1, 2017	<u>744,313,991</u>	<u>(951,446,412)</u>	<u>(207,132,421)</u>
Fund balance/net position June 30, 2018	<u>\$ 605,220,650</u>	<u>\$ (847,656,518)</u>	<u>\$ (242,435,868)</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, 2017

	Governmental Fund - RTSA	Adjustments	Statement of Activities
Expenditures/expenses:			
Excess residual payments to State	\$ 95,684,569	\$ -	\$ 95,684,569
Amortization of payment to State - TSRs	86,644,350	-	86,644,350
Professional fees	55,100	-	55,100
Travel	556	-	556
Attorney General	2,498,438	-	2,498,438
Debt service - principal retirement	84,700,000	(84,700,000)	-
Debt service - interest	64,183,744	(730,436)	63,453,308
Total expenditures/expenses	<u>333,766,757</u>	<u>(85,430,436)</u>	<u>248,336,321</u>
Program revenues:			
Tobacco settlement revenues (TSRs)	<u>250,341,122</u>	<u>(12,598,217)</u>	<u>237,742,905</u>
Net program revenues (expenditures/expenses)	(83,425,635)	72,832,219	(10,593,416)
General revenues:			
Investment income	<u>974,297</u>	<u>-</u>	<u>974,297</u>
Net change in fund balance/net position	(82,451,338)	72,832,219	(9,619,119)
Fund balance/net position July 1, 2016	<u>826,765,329</u>	<u>(1,024,278,631)</u>	<u>(197,513,302)</u>
Fund balance/net position June 30, 2017	<u>\$ 744,313,991</u>	<u>\$ (951,446,412)</u>	<u>\$ (207,132,421)</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, 2018

Net change in fund balances - total governmental fund \$ (139,093,341)

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

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

In the fund financial statements, revenues are recorded when earned, subject to availability. Under this basis of accounting, earned amounts not received by August 31 of each year are removed from revenue and reported as deferred inflows. The adjustment is the difference between deferred inflows for Fiscal Year 2017 and Fiscal Year 2018 to reflect revenue on an earned basis (accrual basis) in the Statement of Activities.

28,065,646

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

Refunding bond proceeds	(670,965,000)
Refunding bond premium	(90,804,355)
Payment to escrow agent	756,954,987
Debt retirement	89,040,000

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:

Accrued interest paid to escrow agent from refunding bond proceeds	(4,282,054)
Amortization of bond premium	4,781,394
Amortization of deferred refunding amount	(9,919,394)
Decrease in interest payable	918,670
	918,670

Change in net position of governmental activities \$ (35,303,447)

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, 2017

Net change in fund balances - total governmental fund	\$ (82,451,338)
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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.

<p>In the fund financial statements, revenues are recorded when earned, subject to availability. Under this basis of accounting, earned amounts not received by August 31 of each year are removed from revenue and reported as deferred inflows. The adjustment is the difference between deferred inflows for Fiscal Year 2016 and Fiscal Year 2017 to reflect revenue on an earned basis (accrual basis) in the Statement of Activities.</p>	(12,598,217)
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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	84,700,000
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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
Decrease in interest payable	352,917
	377,519

Change in net position of governmental activities	\$ (9,619,119)
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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 BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2018

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 Series 2010 revenue bond proceeds (\$1.35 billion) and a residual certificate. The residual certificate represents the State's ownership in excess TSRs to be received by the Authority during the term of the sales agreement. Residual TSRs are defined as all pledged revenues that are in excess of amounts needed to pay annual debt service and fund the various accounts established under the Trust Indenture (see Note 5). The Sales Agreement continues until the Authority's liabilities (including the bonds) have been met or otherwise discharged. The \$1,503,460,000 bond issuance and the resulting \$1,350,000,000 payment to the State Treasurer occurred on December 8, 2010. An additional payment of \$308,209, representing unused bond issuance cost reserves, was paid to the State in December 2011.

In December 2017, the Authority issued Series 2017 revenue bonds to partially refund the Series 2010 revenue bonds (see Note 5). As a result of the refunding, additional excess funds held in the Reserve Account and Issuance Account (\$6.4 million) were paid to the 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 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) or by writing to the Office of the Comptroller, Financial Reporting

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

Department, 325 West Adams Street, Springfield, Illinois 62704-1871.

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, 2017, or June 30, 2018.

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 BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2018

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, 2017, through June 30, 2017, and January 1, 2018, through June 30, 2018, have been estimated and accrued as of June 30, 2017, and June 30, 2018, 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.

Cash and Cash Equivalents

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

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

Deferred Inflows of Resources – TSRs

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

Deferred Outflows of Resources – Payment to the State

In accordance with GASB Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, bond proceed amounts paid to the State under the Sales Agreement have been reported as deferred outflows of resources and will be recognized as an expense ratably over the life of the agreement. For this purpose, the Authority has used an amortization rate of 36.445% of recognized TSRs. The rate used represents the ratio of the 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 2017 and Fiscal Year 2018, reviewed the rate used and determined that no change to the estimate was necessary.

Long-term Obligations

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

In the fund financial statements, governmental funds recognize bond premiums as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are also reported as other financing sources. 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, 2017, the governmental fund of the Authority reported \$744,313,991 of fund balance that is restricted for the retirement of debt principal and interest, or restricted for various debt reserve requirements. As of June 30, 2018, the governmental fund of the Authority reported \$605,220,650 of fund balance that is restricted for the retirement of debt principal and interest, or restricted for various debt reserve requirements. The Authority considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which both unrestricted and restricted fund balances are available. As of June 30, 2017, the Authority has reported its net deficit of \$207,132,421 as unrestricted on the government-wide Statement of Net

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

Position. As of June 30, 2018, the Authority has reported its net deficit of \$242,435,868 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, 2017, \$98,561,388 of residual revenues were paid to the State. The majority of this amount, \$98 million pertained to Fiscal Year 2016. An additional amount of \$104,122,466 was recorded as a liability to the State as of year-end. During the year ended June 30, 2018, \$218.0 million of residual revenues were paid to the State (cash basis amount). Of this, \$104.1 million pertained to Fiscal Year 2017 and \$113.9 million pertained to Fiscal Year 2018. An additional amount of \$66.3 million was recorded as a liability to the State as of year-end for Fiscal Year 2018 estimated balances.

Expenditures/Expenses

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

Note 2. Cash and Cash Equivalents, and Investments

The Authority maintains various cash equivalent accounts, established in accordance with the Trust Indenture for specific purposes. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All of the Authority's cash equivalents of \$169,399,821 and \$230,378,420 as of June 30, 2018, and June 30, 2017, 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:

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2018

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

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

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

- Direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States of America and which are entitled to the full faith and credit thereof;
- Bonds, notes, debentures, or other obligations or securities issued by a federal government agency that is rated “AAA” (or equivalent) by Standard & Poor’s and Fitch, or if not rated by both of them, so rated by one of them and in the equivalent category by another nationally recognized rating agency;
- Prime commercial paper of a corporation incorporated under the laws of any state of the United States of America with assets exceeding \$500,000,000 if (i) such obligations are rated at the time of purchase rated “A-1” and “F1” by Standard & Poor’s and Fitch, 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;

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2018

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

- 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.

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 2018 were rated AAAM and Aaa-mf by Standard & Poor’s and Moody’s, respectively. The money market

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2018

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

investments held during Fiscal Year 2017 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 53 days and 46 days during Fiscal Year 2017 and Fiscal Year 2018, 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 15th in perpetuity and are based on several factors, including the volume of domestic cigarette shipments during the previous calendar year.

The Authority received \$250,341,122 in April 2017, under the MSA, pertaining to calendar year 2016. Of this amount, \$137,768,778 was recorded as a receivable in Fiscal Year 2016 and pertains to the period January 1, 2016, to June 30, 2016. Likewise, the Authority has accrued \$125,170,562 in TSRs receivable for the period beginning January 1, 2017, and ending June 30, 2017. The amount accrued is considered earned but will not be received by the Authority until April 2018, and has been reported as a deferred inflow of resources in the governmental fund.

The Authority received \$306,472,413 in April 2018, under the MSA, pertaining to calendar year 2017. Of this amount, \$125,170,561 was recorded as a receivable in Fiscal Year 2017 and pertains to the period January 1, 2017, to June 30, 2017. Likewise, the Authority has accrued \$153,236,207 in TSRs receivable for the period beginning January 1, 2018, and ending June 30, 2018. The amount accrued is considered earned but will not be received by the Authority until April 2019, and has been reported as a deferred inflow of resources in the governmental fund.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2018

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, 2017, are as follows:

Deferred Outflow of Resources – payment to State – \$620,558,037 – 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 \$729,750,171. 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 – \$104,122,466 – This liability represents (a) the estimated amount that will be paid to the State upon receipt of the April 2018 TSRs that pertain to the period beginning January 1, 2017, through June 30, 2017, of \$54,122,466, and (b) \$50,000,000 due to the State for calendar year 2016 TSRs not remitted by June 30, 2017. Residual TSRs are estimated to be 43.24% of TSRs receivable.

Excess Residual Payment to State – \$95,684,569 – This expenditure/expense includes the residual payment made to the State in May 2017 of \$51,131,909, the \$50,000,000 unpaid residual amount pertaining to calendar year 2016 TSRs not remitted by June 30, 2017, plus the accrued portion of the estimated residuals for the period beginning January 1, 2017, through June 30, 2017, of \$54,122,466, and less the prior year accrual of \$59,569,805.

Due to Attorney General – As reported on page 29, the “Attorney General Sub-account,” reported as cash and cash equivalents (\$2,502,135), 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 a portion of this amount will be drawn by the Attorney General in Fiscal Year 2018. Expenditures/expenses of \$2,498,438 represent current year draws by the Attorney General of \$3,000,000 less the change from the year in the amount due to the Attorney General at year-end of \$501,562.

Transactions and balances with the State of Illinois for the year ended June 30, 2018, are as follows:

Deferred outflow of resources – payment to State – \$505,078,592 – This balance represents the payments of bond proceeds and excess issuance/reserve funds made to the State of approximately \$1.4 billion, less accumulated amortization of \$851.7 million. The balance is being amortized over the life of the Sales Agreement which corresponds with the final maturity of the related revenue bonds.

Due to State – residual TSRs – \$66,257,763 – This liability represents the estimated amount that will be paid to the State upon receipt of the April 2019 TSRs that pertain to the period beginning

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2018

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

January 1, 2018, through June 30, 2018, of \$66,257,763. Residual TSRs are estimated to be 43.239% of TSRs receivable.

Excess Residual Payment to State – \$180,182,697 – This expenditure/expense includes the residual payments made to the State in Fiscal Year 2018 of \$218,047,400, plus the accrued portion of the estimated residuals for the period beginning January 1, 2018, through June 30, 2018, of \$66,257,763, and less the prior year accrual of \$104,122,466.

Due to Attorney General – As reported on page 28, the “Attorney General Sub-account,” reported as cash and cash equivalents (\$3,003,192), 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 a portion of this amount will be drawn by the Attorney General in Fiscal Year 2019. Expenditures/expenses of \$2,500,000 represent the annual amount required to be provided to the Attorney General’s Office under the Trust Indenture

Note 5. Long-Term Obligations

The following is a summary of long-term obligation activity associated with governmental activities for the year ended June 30, 2017:

	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017	Due Within One Year
Revenue Bonds Payable	\$ 1,152,200,000	\$ -	\$ 84,700,000	\$ 1,067,500,000	\$ 89,040,000
Unamortized premium	4,498,764	-	377,519	4,121,245	-
	<u>\$ 1,156,698,764</u>	<u>\$ -</u>	<u>\$ 85,077,519</u>	<u>\$ 1,071,621,245</u>	<u>\$ 89,040,000</u>

The following is a summary of long-term obligation activity associated with governmental activities for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Refundings and Retirements	Balance June 30, 2018	Due Within One Year
Revenue Bonds Payable	\$ 1,067,500,000	\$ 670,965,000	\$ 771,415,000	\$ 967,050,000	\$ 93,620,000
Unamortized premium	4,121,245	90,804,355	7,296,800	87,628,800	-
	<u>\$ 1,071,621,245</u>	<u>\$ 761,769,355</u>	<u>\$ 778,711,800</u>	<u>\$ 1,054,678,800</u>	<u>\$ 93,620,000</u>

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2018

Note 5. Long-Term Obligations (Continued)

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

Revenue Bonds – Series 2010

On December 8, 2010, the Authority issued \$1,503,460,000 in Tobacco Settlement Revenue Bonds, Series 2010. As noted below, \$682.4 million of the outstanding bonds were refunded during Fiscal Year 2018. The remaining serial bonds are due in annual installments of \$93,620,000 to \$103,900,000 plus interest at rates ranging from 5.00% to 5.25% through June 1, 2021.

Revenue Bonds – Series 2017

On December 27, 2017, the Authority issued \$670,965,000 in Tobacco Settlement Revenue Bonds, Series 2017 at a premium of \$90,804,355, to currently refund \$105.0 million and advance refund \$577.4 million of the 2010 Series revenue bonds. The net proceeds of \$757.0 million (after payment of \$4.8 million in underwriting fees and other issuance costs) were used to purchase U.S. governmental securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2010 Series revenue bonds. As a result, a portion of the 2010 Series bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Position. Although the advance refunding resulted in the recognition of an accounting loss of \$67.8 million (deferred outflow of resources), the Authority in effect reduced its aggregate debt service payments by over \$70.8 million over the next 10 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$61.7 million. Of the total refunded debt, \$577.4 million remains outstanding at June 30, 2018.

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

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2018

Note 5. Long-Term Obligations (Continued)

As of June 30, 2017, 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
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	109,655,000	40,120,288	149,775,288
2023-2027	519,315,000	108,614,525	627,929,525
2028	<u>53,405,000</u>	<u>3,204,300</u>	<u>56,609,300</u>
Total	<u>\$ 1,067,500,000</u>	<u>\$ 363,773,189</u>	<u>\$ 1,431,273,189</u>

As of June 30, 2018, 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
2019	\$ 93,620,000	\$ 48,924,706	\$ 142,544,706
2020	98,565,000	44,209,588	142,774,588
2021	103,900,000	39,034,925	142,934,925
2022	109,655,000	33,548,250	143,203,250
2023	112,260,000	28,065,500	140,325,500
2024-2028	<u>449,050,000</u>	<u>58,512,750</u>	<u>507,562,750</u>
Total	<u>\$ 967,050,000</u>	<u>\$ 252,295,719</u>	<u>\$ 1,219,345,719</u>

Pledged Revenues

The Authority has pledged future tobacco settlement revenues (TSRs), net of specified operating expenditures, to retire the remaining revenue bonds and interest. The bonds are payable solely

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2018

Note 5. Long-Term Obligations (Continued)

from TSRs and are payable through 2028. Annual principal and interest on the bonds are expected to require on average, less than 70% of net revenues. The total principal and interest remaining to be paid on the bonds is approximately \$1.2 billion as of June 30, 2018. Debt service expenditures for Fiscal Year 2017 and total TSRs received were \$148.88 million and \$250.34 million, respectively. Debt service expenditures for Fiscal Year 2018 and total TSRs received were \$143.3 million and \$306.5 million, respectively.

Trust Indenture Agreement

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

The Indenture establishes the following funds:

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

Application of Tobacco Assets and Pledged Revenues

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

No later than five business days following each deposit of pledged revenues to the Pledged Revenues Account (but in no event later than the next distribution date), the Trustee will withdraw pledged revenues on deposit in the Pledged Revenues Account and transfer such amounts as

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2018

Note 5. Long-Term Obligations (Continued)

follows and in the following order of priority; provided, however, that investment earnings on amounts in the funds and accounts (other than the Debt Service Reserve Account, investment earnings on which shall be retained therein until the amounts on deposit therein are at least equal to the debt service reserve requirement, and on the fifth business day preceding each distribution date amounts on deposit in the Debt Service Reserve Account in excess of the debt service requirement may, at the direction of the Authority, be deposited directly to the Debt Service Account) will be deposited directly to the Debt Service Account; and provided, further, that upon the occurrence of a payment default, pledged revenues shall be transferred as set forth in clauses (1), (2), and (4) below and then all remaining pledged revenues will be applied to make extraordinary prepayments:

- (1) (a) To the Authority Operating Sub-Account, the amount required to pay (i) Trustee fees and expenses (including reasonable attorney's fees, if applicable) reasonably expected to be due during the next fiscal year, and (ii) an amount specified by the Officer's certificate for operating expenses of the Authority (provided that such amounts paid pursuant to this clause (a) shall not exceed the operating cap and operating expenses shall not include any termination payments or loss amounts on related contracts) and (b) to the State Attorney General Operating Sub-Account, the amount required to be deposited therein to fund such sub-account 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;
- (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

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Two Years Ended June 30, 2018

Note 5. Long-Term Obligations (Continued)

- succeeding distribution date to the extent not counted for purposes of clause (2) or (3) above) to equal interest (including interest at the stated rate on the principal of outstanding bonds and on overdue interest, if any) due on the second succeeding distribution date;
- (5) To replenish the Debt Service Reserve Account until the amount on deposit therein equals the debt service reserve requirement of \$140,461,875;
 - (6) In the amounts and to the funds and accounts established by Series Supplement for Junior Payments; and,
 - (7) To the Residual Account, the remaining pledged revenues.

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, 2018

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)

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 auditor's 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, 2018

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, the Bank of New York Mellon.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cash and cash equivalents			
Assets account	\$ 211,347	\$ 50,122,424	\$ 51,041,603
Operating sub-account	212,997	207,543	203,136
Attorney General sub-account	3,003,192	2,502,135	3,001,562
Debt service account	25,310,615	30,457,817	31,086,683
Debt service reserve account	140,652,472	147,086,739	146,786,301
Residual account	9,198	1,762	36
Total cash and cash equivalents	<u>\$ 169,399,821</u>	<u>\$ 230,378,420</u>	<u>\$ 232,119,321</u>

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
ANALYSIS OF ACCOUNTS RECEIVABLE
For the Two Years Ended June 30, 2018

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

	2018	2017	2016
Accounts Receivable			
Tobacco settlement revenues (TSRs) \$	153,236,207	\$ 125,170,562	\$ 137,768,778

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
AGENCY FUNCTIONS AND PLANNING PROGRAM
(UNAUDITED)
For the Two Years Ended June 30, 2018

FUNCTIONS

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

The Authority is governed by a three member board consisting of the State's Budget Director and two other members appointed by the Governor. The Authority has also appointed Kelly Hutchinson 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. 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 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 Year 2017 and Fiscal Year 2018 exceeded amounts needed to pay current costs and debt service requirements on the bonds. As a result, residual revenues of \$51.13 million and \$168.1 million were then remitted to the State during Fiscal Year 2017 and Fiscal Year 2018, respectively.

In December 2017, the Authority issued \$670,965,000 Tobacco Settlement Revenue Bonds (Series 2017 Bonds) to currently refund \$105.0 million and advance refund \$577.4 million of the Series 2010 Bonds and to pay the issuance costs. The Series 2017 Refunding bonds were issued at a premium of \$90.8 million. As a result of the Series 2017 issuance, \$757.0 million was deposited in an escrow account. Excess funds in the reserve account (\$6.4 million) and excess funds in the issuance account (\$18 thousand) were paid to the State during Fiscal Year 2018.

The Trustee also maintains various cash equivalent accounts, established in accordance with the trust indenture, for specific purposes. At June 30, 2018, 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
AGENCY FUNCTIONS AND PLANNING PROGRAM
(UNAUDITED)
For the Two Years Ended June 30, 2018

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.