STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY

FINANCIAL AUDIT

For the Two Years Ended June 30, 2024

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
FINANCIAL AUDIT
For the Two Years Ended June 30, 2024

TABLE OF CONTENTS

Other Reports Issued Under a Separate Cover

The Railsplitter Tobacco Settlement Authority's *State Compliance Examination* for the year ended June 30, 2024, will be issued under a separate cover.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
FINANCIAL AUDIT
For the Two Years Ended June 30, 2024

AUTHORITY OFFICIALS

Board Member	Elizabeth Weber
Board Member	William O'Connell
Chief Financial Officer	Paul Chatalas
Secretary	Alexander Smith

AUTHORITY OFFICER

Chairman of the Board	Alexis Sturm

GOVERNING BOARD MEMBERS

Board Member	Elizabeth Weber
Board Member	William O'Connell

AUTHORITY OFFICES

The Authority's primary administrative offices are located at:

State of Illinois Building 555 W. Monroe Street, Suite 1500 S-GOMB Chicago, Illinois 60661	603 Stratton Office Building 401 South Spring St. Springfield, Illinois 62706

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
FINANCIAL AUDIT
For the Two Years Ended June 30, 2024

FINANCIAL STATEMENT REPORT

SUMMARY

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

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

EXIT CONFERENCE

The Authority waived an exit conference in a correspondence from Alexander Smith, Secretary of the Authority, on March 24, 2025.

SPRINGFIELD OFFICE:
400 WEST MONROE
SUITE 306 • 62704
PHONE: 217/782-6046 • FAX: 217/785-8222
TTY: 888/261-2887
FRAUD HOTLINE: 1-855-217-1895

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

OFFICE OF THE AUDITOR GENERAL
FRANK J. MAUTINO

INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Governing Board
State of Illinois, *Railsplitter Tobacco Settlement Authority*

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and major fund of the Railsplitter Tobacco Settlement Authority (Authority), as of and for the years ended June 30, 2024, and June 30, 2023, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Authority, as of June 30, 2024, and June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and major fund of the State of Illinois that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of Illinois, as of June 30, 2024, or June 30, 2023, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards,* we:

- exercise professional judgement and maintain professional skepticism throughout the audit.

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2025, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

COURTNEY DZIERWA, CPA, CISA, CIA
Director of Financial and Compliance Audits

Springfield, Illinois
April 1, 2025

(UNAUDITED)

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

The Authority was legally established on July 1, 2010.

FINANCIAL HIGHLIGHTS

Net Position

The Authority's total assets of governmental activities were $138.4 million as of June 30, 2024. The Authority reported total cash and cash equivalents of $4.6 million, and tobacco settlement receivables of $133.7 million.

The Authority's total assets of governmental activities were $305.8 million as of June 30, 2023. The Authority reported total cash and cash equivalents of $156.2 million, and tobacco settlement receivables of $149.6 million.

During FY 2024, the Authority reported liabilities of $136.2 million. This resulted in a net position of $2.1 million as of June 30, 2024. During FY 2023, the Authority reported liabilities of $561 million, the majority of which was $491.9 million in revenue bonds payable (net). This resulted in a net position deficit of $255.2 million as of June 30, 2023.

The Authority does not conduct any business-type activities.

Revenues

During FY 2024, the governmental activities revenues totaled $597.8 million. This consisted of $249.1 million of recognized tobacco settlement revenues, $3.9 million in investment income and $344.8 million of Transfers in from other funds. During FY 2023, the governmental activities revenues totaled $317.1 million. This consisted of $310.8 million of recognized tobacco settlement revenues, and $6.3 million in investment income.

Cost of Authority Program

During FY 2024, the governmental activities expenses totaled $340.5 million. Of this amount, $331.5 million is the Tobacco Settlement Revenues distributed to the State, $2.7 million is interest expense, and $3.6 million as the loss on defeasance of the 2017 Revenue Bonds. 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.

During FY 2023, the governmental activities expenses totaled $190.5 million. Of this amount, $169 million was for residual tobacco settlements to the State, and $18.9 million was interest expense. The Authority funded the required cash amounts of $2.5 million per year into the sub-account held by the Trustee for the benefit of the Attorney General as required by the Indenture.

Major Fund – Railsplitter Tobacco Settlement Authority Governmental Fund

For FY 2024, the revenues reported for the governmental fund ($613.7 million) varied from revenues recognized for governmental activities ($597.8 million). The difference between the amount recorded in the governmental fund and the amount reported in the government-wide Statement of Activities pertains to the change in revenue that was a deferred inflow in the fund because it was not collected in the availability period (TSRs receivable FY 2024 vs. FY 2023). At the fund level, expenditures totaled $834.3 million. $331.5 million was for residual tobacco settlement payments to the State, and $500.1 million is related to the amount deposited with the Escrow Agent to defease all remaining outstanding revenue bonds including outstanding interest. An additional $2.5 million for the Attorney General expenses as discussed above. The principal difference between expenditures in the governmental fund and expenses in governmental activities pertains to debt related items. These differences are explained in the reconciliation provided on page 22.

For FY 2023, the revenues reported for the governmental fund ($305.5 million) varied from revenues recognized for governmental activities ($317.1 million). The difference between the amount recorded in the governmental fund and the amount reported in the government-wide Statement of Activities pertains to the change in revenue that was a deferred inflow in the fund because it was not collected in the availability period (TSRs receivable FY 2023 vs. FY 2022). At the fund level, expenditures totaled $311.9 million. Included in this total is $169 million for residual tobacco settlement payments to the State, $140.3 million was for bond principal and interest expenditures, and $2.5 million for the Attorney General expenses as discussed above. The principal difference between expenditures in the governmental fund and expenses in governmental activities pertain to debt related items. These differences are explained in the reconciliation provided on page 23.

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.

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, 2024, 2023, and 2022

	Governmental Activities 2024	Governmental Activities 2023	Governmental Activities 2022
Current and other assets	$ 138,358,630	$ 305,756,735	$ 295,522,989
Total assets	138,358,630	305,756,735	295,522,989
Current liabilities	136,232,648	178,797,859	176,737,966
Noncurrent liabilities	-	382,164,654	500,626,872
Total liabilities	136,232,648	560,962,513	677,364,838
Net position (deficit): Unrestricted	$ 2,125,982	$ (255,205,778)	$ (381,841,849)

Net position can be a useful indicator of a government's financial condition. As shown above, assets exceeded liabilities by 2.1 million as of June 30, 2024, while liabilities exceeded assets and deferred outflows of resources by $255.2 and $381.8 million as of June 30, 2023, and 2022, respectively.

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

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

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 increase in net position from 2023 to 2024 of $257.3 million was a result of several factors. Total assets plus deferred outflows of resources decreased by $167.4 million. The Debt Service account and the Debt Service Reserve account had combined balances of $152.4 million as of June 30, 2023. Those balances were spent as part of the defeasance of all outstanding Series 2017 revenue bonds. An additional $15.9 million decrease was seen in tobacco settlement receivables. The decrease in assets was exceeded by a $424.7 million decrease in liabilities. The defeasance of outstanding revenue bonds mentioned above accounted for a decrease of $491.9 million. Because the Authority no longer has long-term debt, accrued interest payable decreased by $1.9 million, while an increase was seen in due to State – residual TSRs of $69.1 million as the hold back for current debt service requirements is no longer necessary.

The increase in net position from 2022 to 2023 of $126.6 million was a result of several factors. Total assets plus deferred outflows of resources increased by $10.2 million. The increase was due to an increase in tobacco settlement receivables of $11.7 million. This was partially offset by a decrease in cash of $1.4 million (1%).Total liabilities decreased by $116.4 million, primarily due to the principal retirement of revenue bonds of $112.3 million, partially offset by a $5 million increase in residual TSRs owed to the State.

(UNAUDITED)

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

Condensed Statement of Activities
As of June 30, 2024, 2023, and 2022

	Governmental Activities 2024	Governmental Activities 2023	Governmental Activities 2022
Revenues			
Program revenues			
Tobacco settlement revenues (TSRs)	$ 249,106,472	$ 310,845,207	$ 632,350,354
General revenue			
Investment income	3,946,979	6,290,873	426,421
Transfers In	344,770,995	-	-
Total revenue	597,824,446	317,136,080	632,776,775
Expenses			
Excess residual payments to State	331,516,128	168,968,958	491,330,634
Amortization of payment to State - TSRs	-	-	209,630,465
Professional fees	189,504	150,519	100,800
Attorney General	2,500,000	2,500,000	2,500,000
Loss on Defeasance of revenue bonds	3,602,366	-	-
Interest and issuance costs	2,684,688	18,880,532	24,374,137
Total Expenses	340,492,686	190,500,009	727,936,036
Change in net position	257,331,760	126,636,071	(95,159,261)
Net position (deficit) - beginning	(255,205,778)	(381,841,849)	(286,682,588)
Net position (deficit) - ending	$ 2,125,982	$ (255,205,778)	$ (381,841,849)

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

Revenues:

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

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

Expenses:

3) Debt Service – In September 2023 the Authority defeased the entire outstanding $449.1 million principal of the Tobacco Settlement Revenue Bonds, Series 2017. As a result, FY 2023 included a full year of interest while FY 2024 includes only a partial year.

4) Interest Rates – The interest rate on the Series 2017 refund bonds is fixed at 5% over the life of the bonds.

5) Changing Patterns in Tobacco Settlement Revenues – Changes in TSRs will cause a corresponding change in the excess residual payments to the State.

For the fiscal year ended June 30, 2024, revenues from governmental activities totaled $597.8 million compared with $317.1 million in the prior year, an increase of $280.7 million (88.5%). The increase is primarily attributable to a transfer in from the State of Illinois of $344.8 million which was used to defease the outstanding revenue bonds. This was partially offset by a decrease in tobacco settlement revenues of $61.7 million and a decrease in investment income of $2.3 million.

For the fiscal year ended June 30, 2023, revenues from governmental activities totaled $317.1 million compared with $632.8 million in the prior year, a decrease of $315.6 million (49.9%). The decrease is primarily attributable to a one-time settlement of tobacco settlement litigation during FY 2022 which resulted in receipt of $546.3 million by the Authority in FY 2022. This revenue was recognized in FY 2022 as it related to previous fiscal years. Excluding the one-time settlement from the prior year, ongoing tobacco settlement revenues increased by $224.8 million in the current year. Investment income increased by $5.9 million.

Total expenses for the year ended June 30, 2024 were $340.5 million compared to $190.5 million in the previous year. The $150 million increase (78.7%) is attributable to the increase in excess residual payments to the State of $346.4 million and amortization of deferred tobacco settlement revenues to the State of $162.5 million, and a loss on defeasance of revenue bonds of $3.6 million. Partially offsetting the increases was a decrease in interest expense of $16.2 million.

Total expenses for the year ended June 30, 2023 were $190.5 million compared to $727.9 million in the previous year. The $537.4 million decrease (73.8%) is primarily attributable to the decrease in excess residual payments to the State of $322.4 million, and the FY 2022 final amortization of deferred tobacco settlement payments to the State of $209.6 million. Interest expense decreased by $5.5 million from the prior year due to a decrease in outstanding debt.

FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS

Governmental Funds

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

At June 30, 2024, the governmental fund reported an unassigned fund balance deficit of $131.6 million, compared with a restricted fund balance of $89 million as of June 30, 2023. The $220.6 million decrease was due to an increase in excess residual payments to State of $162.5 million, increased debt service – principal of $336.8 million due to the defeasance of the outstanding Tobacco Settlement Revenue Bonds, Series 2017, and a decrease in Investment Income of $2.3 million. These changes were partially offset by a $344.8 million transfer in for the revenue bond defeasance and an increase of debt service interest of $23 million. As there is a fund balance deficit, it is reported as unassigned.

At June 30, 2023, the governmental fund reported restricted fund balance of $89 million, compared with $95.5 million as of June 30, 2022. The $6.5 million decrease was due to tobacco settlement revenues of $299.2 million and interest income of $6.3 million not adequately covering total expenditures of $311.9 million. Fund balance is presented as restricted because the Trust Indenture pertaining to the Authority's revenue bonds strictly limits how all resources in the fund may be used.

Total revenues for the governmental fund for 2024 and 2023 were $613.7 million and $305.5 million, respectively, an increase of $308.2 million (100.9%). The increase was driven by a $344.8 million transfer in from the State of Illinois which was used for the defeasance of the outstanding revenue bonds, while decreases were seen in tobacco settlement revenues of $34.2 million and investment income of $2.3 million.

Total revenues for the governmental fund for 2023 and 2022 were $305.5 million and $636.3 million, respectively, a decrease of $330.8 million (52%). The 2023 tobacco settlement revenues decreased from 2022 amounts by $336.7 million. The 2023 investment income increased from 2022 amounts by $5.9 million.

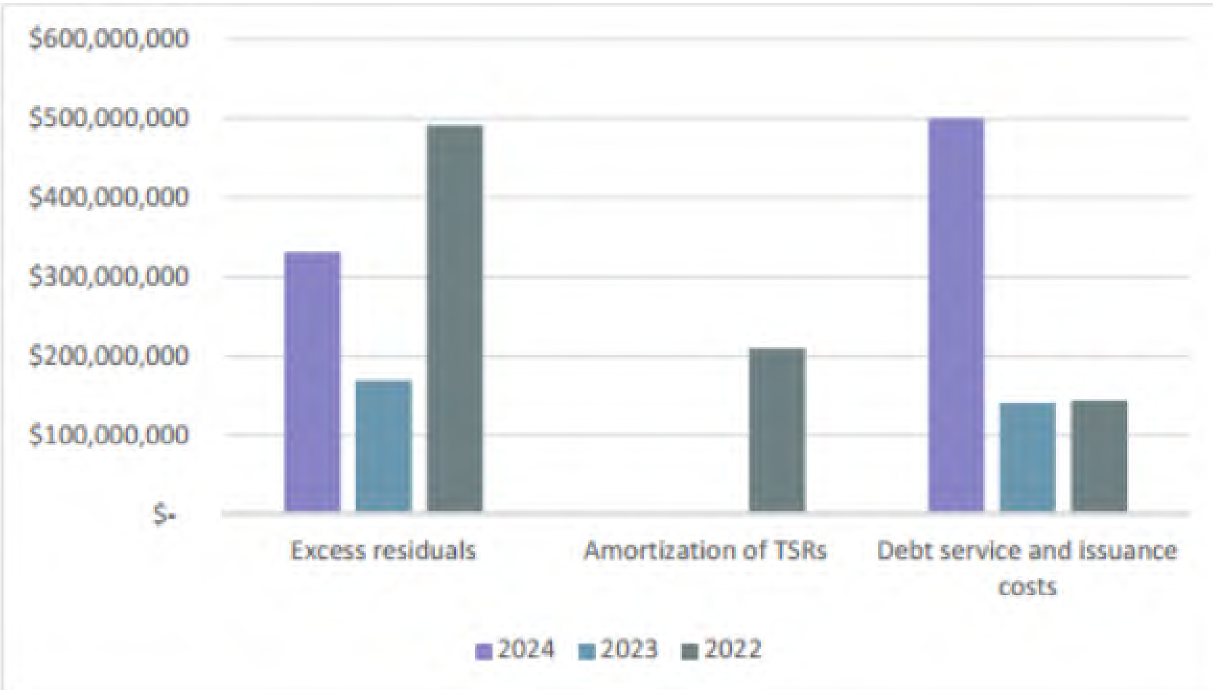
Total expenditures for the governmental fund for the years ended June 30, 2024 and 2023, were $834.3 million and $311.9 million, respectively. The $522.3 million increase was either directly or indirectly the result of the defeasance of the outstanding revenue bonds. Debt service - principal increased by $336.8 million and debt service - interest increased by $23 million. With no TSR hold-back required to meet current debt service requirements, excess residual payments to State increased by 162.5 million.

Total expenditures for the governmental fund for the years ended June 30, 2023 and 2022, were $311.9 million and $846.8 million, respectively. The $534.8 million decrease is due to a decrease in residual payments to the State of $322.4 million, no amortization of payments to the State in the current year while the prior year was $209.6 million and a lower interest expenditure on the bonds by $5.5 million, partially offset by a larger principal payment in 2023 by $2.6 million.

See the charts that follow.

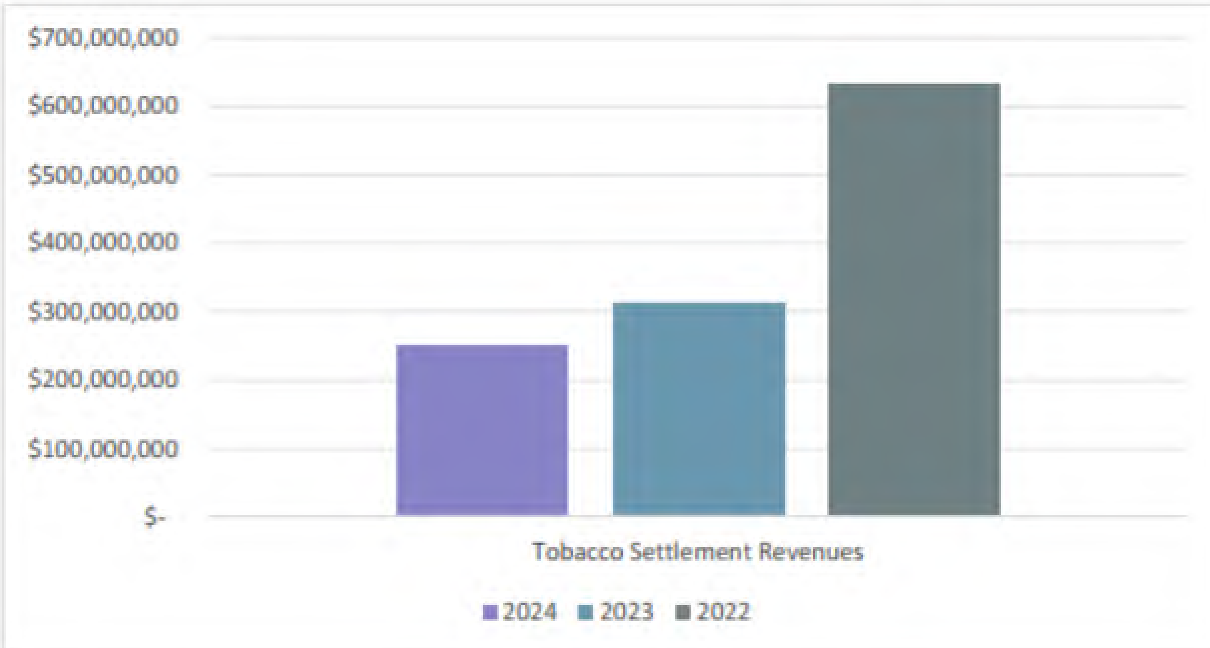
(UNAUDITED)

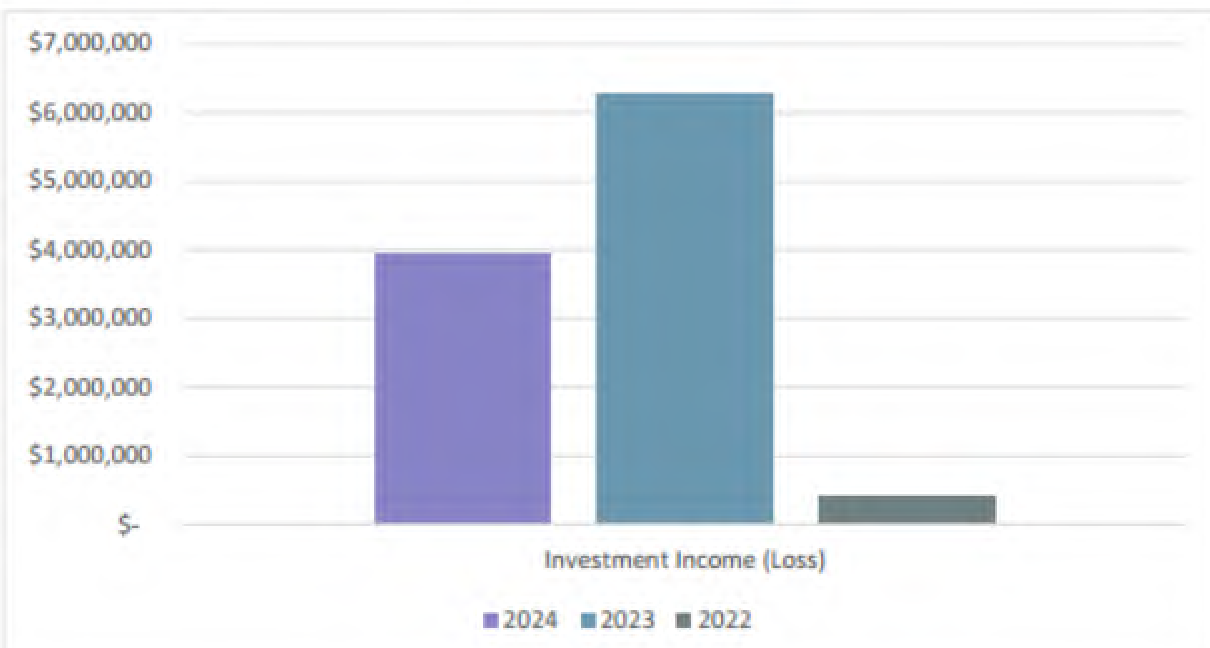
Major Expenditures – by Type (Governmental Fund)
Years Ended June 30, 2024, 2023, and 2022



(UNAUDITED)

Revenues – by Type (Governmental Fund)
Years Ended June 30, 2024, 2023, and 2022





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 State of Illinois (State). Of the total $1.51 billion in bond proceeds, $1.35 billion was paid to the State of Illinois in FY 2011. An additional amount of $308,209 was paid in FY 2012. The remaining bond proceeds were deposited in 4 restricted accounts held by the bond trustee and are generally restricted for the payment of debt issuance costs, interest and principal.

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

In exchange for the $1.35 billion in bond proceeds/excess funds, the State sold to the Authority its rights to substantially all Tobacco Settlement Revenues (TSRs), made pursuant to the Master Settlement Agreement entered into with participating tobacco product manufacturers. These TSRs have been pledged to pay principal and interest on the bonds. TSRs received that are in excess of a specified formula are defined as "Residual Revenues" and are paid back to the State. TSRs collected in FY 2023 were sufficient to pay the upcoming and current interest requirements on the debt. Residual revenues of $163.9 million, were determined by the Trustee to be owed to the State for the calendar years 2022 TSR collections and were paid to the State during the fiscal year. Additionally, the Authority has estimated an additional $64.7 million in residual revenues owed to the State for the period January 1, 2023 through June 30, 2023.

As of June 30, 2023, the Authority has $449.1 million of outstanding debt and $42.8 million of unamortized premiums. Additional information as well as the debt service requirements associated with this issue are outlined in Note 5 of these Financial Statements.

Economic Factors and a Look to the Future

The tobacco settlement revenue in FY 2024 (cash received) of $267.5 million was higher than the anticipated amount of $193.2 million. On a cumulative basis, collections are $790.5 million higher than the original estimate. The amount of TSRs received each year can fluctuate greatly and are difficult to predict.

The tobacco settlement revenues received in FY 2023 (cash received) of $299.3 million was higher than the anticipated amount of $200.4 million. On a cumulative basis, collections are $716.2 million higher than the original estimate. The amount of TSRs received each year can fluctuate greatly and are difficult to predict.

Potential Cash Defeasance of Outstanding 2017 Bonds

Pursuant to Public Act 103-0006, the Illinois General Assembly ("IGA") appropriated $455 million to the Governor's Office of Management and Budget for payment to the Trustee to be used in the defeasance of the outstanding Tobacco Settlement Revenue Bonds, Series 2017. See Public Act 103-0006, Article 71, §46. On April 28, 2023, the members of the Board of the Railsplitter Tobacco Settlement Authority held a special meeting to consider several agenda items, including: "Approval of a Resolution of the Railsplitter Tobacco Settlement Authority Authorizing Procurement of an Escrow Agent to Assist with a Potential Defeasance of Outstanding Railsplitter Bonds" and "Approval of a Resolution of the Railsplitter Tobacco Settlement Authority Authorizing Procurement of a Verification Agent to Assist with a Potential Defeasance of Outstanding Railsplitter Bonds" each of which were approved unanimously by the Board of Railsplitter Tobacco Settlement Authority. During the April 28th meeting, the Board also discussed other matters related to the potential defeasance of outstanding Railsplitter bonds, with plans to defease the outstanding bonds in fiscal year 2024.

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 Paul Chatalas, 555 West Monroe Street, Chicago, Illinois 60661.

Railsplitter Tobacco Settlement Authority
(A Component Unit of the State of Illinois)

Statement of Net Position and Governmental Fund Balance Sheet
June 30, 2024

	Governmental Fund - RTSA	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents			
General account	$ 1,704,285	$ -	$ 1,704,285
Operating sub-account	420,985	-	420,985
Attorney General sub-account	2,500,712	-	2,500,712
Total cash and cash equivalents	4,625,982	-	4,625,982
Receivables			
Tobacco settlement revenues (TSRs)	133,732,648	-	133,732,648
Total assets	138,358,630	-	138,358,630
Liabilities			
Current:			
Due to Attorney General	2,500,000	-	2,500,000
Due to State - residual TSRs	133,732,648	-	133,732,648
Total current liabilities	136,232,648	-	136,232,648
Total liabilities	136,232,648	-	136,232,648
Deferred Inflow of Resources			
Deferred TSRs	133,732,648	(133,732,648)	-
Fund Balance/Net Position			
Fund balance - unassigned	(131,606,666)	131,606,666	-
Net position - unrestricted	-	2,125,982	2,125,982
Total fund balance/net position (deficit)	$ (131,606,666)	$ 133,732,648	$ 2,125,982

See Notes to Financial Statements.

Railsplitter Tobacco Settlement Authority
(A Component Unit of the State of Illinois)

Statement of Net Position and Governmental Fund Balance Sheet
June 30, 2023

	Governmental Fund - RTSA	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents			
Assets account	$ 903,430	$ -	$ 903,430
Operating sub-account	353,242	-	353,242
Attorney General sub-account	2,502,328	-	2,502,328
Debt service account	11,359,899	-	11,359,899
Debt service reserve account	141,024,705	-	141,024,705
Residual account	21,659	-	21,659
Total cash and cash equivalents	156,165,263	-	156,165,263
Receivables			
Tobacco settlement revenues (TSRs)	149,591,472	-	149,591,472
Total assets	305,756,735	-	305,756,735
Liabilities			
Current:			
Accrued interest payable	-	1,871,042	1,871,042
Due to Attorney General	2,500,000	-	2,500,000
Due to State - residual TSRs	64,681,817	-	64,681,817
Revenue bonds payable	-	109,745,000	109,745,000
Total current liabilities	67,181,817	111,616,042	178,797,859
Noncurrent:			
Revenue bonds payable, net of unamortized premium of $42,859,654	-	382,164,654	382,164,654
Total liabilities	67,181,817	493,780,696	560,962,513
Deferred Inflow of Resources			
Deferred TSRs	149,591,472	(149,591,472)	-
Fund Balance/Net Position			
Fund balance - restricted for debt service	88,983,446	(88,983,446)	-
Net position - unrestricted deficit	-	(255,205,778)	(255,205,778)
Total fund balance/net position (deficit)	$ 88,983,446	$ (344,189,224)	$ (255,205,778)

See Notes to Financial Statements.

Railsplitter Tobacco Settlement Authority
(A Component Unit of the State of Illinois)

Reconciliation of the Governmental Fund Balance Sheet
to the Statement of Net Position
June 30, 2024

Total fund balances-governmental fund	$ (131,606,666)
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.	133,732,648
Net position (deficit) of governmental activities	$ 2,125,982

See Notes to Financial Statements.

Railsplitter Tobacco Settlement Authority
(A Component Unit of the State of Illinois)

Reconciliation of the Governmental Fund Balance Sheet
to the Statement of Net Position
June 30, 2023

Total fund balances-governmental fund	$	88,983,446
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.		149,591,472
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		(449,050,000)
Accrued interest payable		(1,871,042)
Unamortized bond premium		(42,859,654)
Net position (deficit) of governmental activities	$	(255,205,778)

See Notes to Financial Statements.

Railsplitter Tobacco Settlement Authority
(A Component Unit of the State of Illinois)

Statement of Activities and Governmental Revenues,
Expenditures and Changes in Fund Balance
Year Ended June 30, 2024

	Governmental Fund - RTSA	Adjustments	Statement of Activities
Expenditures/expenses			
Excess residual payments to State	$ 331,516,128		$ 331,516,128
Professional fees	189,504		189,504
Attorney General	2,500,000		2,500,000
Loss on defeasance of revenue bonds		3,602,366	3,602,366
Debt service - principal retirement	449,050,000	(449,050,000)	-
Debt service - interest	51,017,750	(48,333,062)	2,684,688
Total expenditures/expenses	834,273,382	(493,780,696)	340,492,686
Program revenues			
Tobacco settlement revenues (TSRs)	264,965,296	(15,858,824)	249,106,472
Net program revenues (expenditures/expenses)	(569,308,086)	477,921,872	(91,386,214)
General revenues			
Investment income	3,946,979	-	3,946,979
Transfers In	344,770,995	-	344,770,995
Total general revenues	348,717,973	-	348,717,973
Change in fund balance/net assets	(220,590,112)	477,921,872	257,331,760
Net change in fund balance/net position	(220,590,112)	477,921,872	257,331,760
Fund balance/net position (deficit) July 1, 2023	88,983,446	(344,189,224)	(255,205,778)
Fund balance/net position (deficit) June 30, 2024	$ (131,606,666)	$ 133,732,648	$ 2,125,982

See Notes to Financial Statements.

Railsplitter Tobacco Settlement Authority
(A Component Unit of the State of Illinois)

Statement of Activities and Governmental Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2023

	Governmental Fund - RTSA	Adjustments	Statement of Activities
Expenditures/expenses			
Excess residual payments to State	$ 168,968,958	$ -	$ 168,968,958
Amortization of payment to State - TSRs	-	-	-
Professional fees	150,519	-	150,519
Attorney General	2,500,000	-	2,500,000
Debt service - principal retirement	112,260,000	(112,260,000)	-
Debt service - interest	28,065,500	(9,184,968)	18,880,532
Total expenditures/expenses	311,944,977	(121,444,968)	190,500,009
Program revenues			
Tobacco settlement revenues (TSRs)	299,182,944	11,662,263	310,845,207
Net program revenues (expenditures/expenses)	(12,762,033)	133,107,231	120,345,198
General revenues			
Investment income	6,290,873	-	6,290,873
Return of excess receipts in escrow - series 2017	-	-	-
Transfer to Attorney General	-	-	-
Change in fund balance/net assets	(6,471,160)	133,107,231	126,636,071
Net change in fund balance/net position	(6,471,160)	133,107,231	126,636,071
Fund balance/net position (deficit) July 1, 2022	95,454,606	(477,296,455)	(381,841,849)
Fund balance/net position (deficit) June 30, 2023	$ 88,983,446	$ (344,189,224)	$ (255,205,778)

See Notes to Financial Statements.

Railsplitter Tobacco Settlement Authority
(A Component Unit of the State of Illinois)

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund to the Statement of Activities
Year Ended June 30, 2024

Net change in fund balances-total governmental fund	$ (220,590,112)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. In the fund financial statements, revenues are recorded when earned, subject to availability. Under this basis of accounting, earned amounts not received by August 31 of each year are removed from revenue and reported as deferred inflows. The adjustment is the difference between deferred inflows for FY 2023 and FY 2024 to reflect revenue on an earned basis (accrual basis) in the Statement of Activities.	(15,858,824)
The issuance and refunding of long-term debt provides (uses) current financial resources in governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. These transactions, however, have no effect on net position.	
Debt retirement - principal	449,050,000
Debt retirement - bond premium	44,718,576
Loss on defeasance of revenue bonds	(3,602,366)
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:	
Decrease in interest payable	1,871,042
Amortization of revenue bond premium	1,743,444
Change in net position of governmental activities	$ 257,331,760

See Notes to Financial Statements.

Railsplitter Tobacco Settlement Authority
(A Component Unit of the State of Illinois)

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund to the Statement of Activities
Year Ended June 30, 2023

Net change in fund balances-total governmental fund	$ (6,471,160)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. In the fund financial statements, revenues are recorded when earned, subject to availability. Under this basis of accounting, earned amounts not received by August 31 of each year are removed from revenue and reported as deferred inflows. The adjustment is the difference between deferred inflows for FY 2022 and FY 2023 to reflect revenue on an earned basis (accrual basis) in the Statement of Activities.	11,662,263
The issuance and refunding of long-term debt provides (uses) current financial resources in governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. These transactions, however, have no effect on net position.	
Debt retirement	112,260,000
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:	
Decrease in interest payable	9,184,968
Change in net position of governmental activities	$ 126,636,071

See Notes to Financial Statements.

Note 1. Summary of Significant Accounting Policies

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

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

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

Reporting Entity

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

Government-wide and Fund Financial Statements

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

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

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds and other debt that are attributable to the acquisition, construction, or improvement of those assets, if any. The Authority does not report any capital assets as of June 30, 2024 or June 30, 2023.

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

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

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

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

Measurement Focus and Basis of Accounting and Financial Statement Presentation

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

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered 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 available if they are collected within 2 months of the end of the fiscal year (availability period). Tobacco settlement revenues for the period of January 1, 2024 through June 30, 2024, and January 1, 2023, through June 30, 2023, have been estimated and accrued as of June 30, 2024, and June 30, 2023, respectively. These revenues will not be collected, however, within the availability period, and accordingly have been reported as deferred inflows of resources in the governmental fund.

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

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.

Cash and Cash Equivalents

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

Deferred Inflows of Resources –TSRs

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

Long-term Obligations

In the government-wide financial statements, long-term debt is reported as a liability. Bond premiums are reported net of bonds payable and amortized over the life of the bonds using the straight-line method. Bond issuance costs are expensed when incurred. Gains or losses on debt refundings are deferred and amortized over the remaining life of the old or new debt, whichever is shorter. During fiscal year 2024, the Authority defeased all outstanding revenue bonds. As a result of the defeasance, no long-term obligations are reported on the Statement of Net Position.

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.

Fund Balance and Net Position

As of June 30, 2024, the governmental fund of the Authority reported a deficit fund balance of $131.6 million that is unassigned. In the government-wide Statement of Net Position, the Authority has reported its net position of $2.1 million as unrestricted.

As of June 30, 2023, the governmental fund of the Authority reported $88,983,446 of fund balance that is restricted for the retirement of debt principal and interest, or restricted for various debt reserve requirements. The Authority considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which both unrestricted and restricted fund balances are available. In the government-wide Statement of Net Position, the Authority has reported its net position of $255,205,778 as unrestricted.

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, 2024, $265 million of residual revenues were paid to the State (cash basis amount). Of this, $64.7 million pertained to FY 2023, and $200.3 million pertained to FY 2024. An additional amount of $133.7 million was recorded as a liability to the State as of year-end for FY 2024 estimated balances. During the year ended June 30, 2023, $163.9 million of residual revenues were paid to the State (cash basis amount). Of this, $59.6 million pertained to FY 2022, and $104.3 million pertained to FY 2023. An additional amount of $64.7 million was recorded as a liability to the State as of year-end for FY 2023 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, loss on defeasance of debt, professional fees for audit and rating services and Attorney General expenses. The Authority has no employees and is not liable for any post-employment related employee obligations.

Note 2. Cash and Cash Equivalents

The Authority maintains various cash equivalent accounts, established in accordance with the Depositary Agreement and 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 $4.6 million at June 30, 2024, and $156.2 million at June 30, 2023, were invested in a money market fund comprised of U.S. Treasury securities, valued using quoted market prices (Level 1 inputs).

Authorized Deposits and Investments

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

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

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

- Direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States of America and which are entitled to the full faith and credit thereof;
- Bonds, notes, debentures, or other obligations or securities issued by a federal government agency that is rated “AAA” (or equivalent) by Standard & Poor’s and Fitch, or if not rated by both of them, so rated by one of them and in the equivalent category by another nationally recognized rating agency;
- Prime commercial paper of a corporation incorporated under the laws of any state of the United States of America with assets exceeding $500,000,000 if (i) such obligations are rated at the time of purchase rated “A-1” and “F1” by Standard & Poor’s and Fitch, respectively, or if not rated by both of them, so rated by one of them and in the equivalent category by another nationally recognized rating agency and which mature not later than 180 days from the date of purchase, (ii) such purchases do not exceed 10% of the corporation’s outstanding obligations and (iii) no more than one-third of the public agency’s funds may be invested in short-term obligations of corporations;
- Bankers’ acceptances issued by a domestic bank or a federally chartered domestic office of a foreign bank which are eligible for purchase by the Federal Reserve System, rated “A-1” and “F1” by Standard & Poor’s and Fitch, respectively or, if not rated by either of them, rated in the equivalent category by another nationally recognized rating agency;
- Demand deposits, including interest bearing money market accounts, time deposits, trust funds, trust accounts, overnight bank deposits and interest-bearing deposits of depository institutions, including the Trustee or any of its affiliates, rated in the equivalent category by another nationally recognized rating agency or which are fully FDIC-insured;
- Shares in diversified open-end, no load investment funds, provided such funds are registered under the Investment Company Act of 1940, which is a money market mutual fund, which has been rated “AAAm” and “AAAm-G” or the equivalent by Standard & Poor’s and Fitch, or if not rated by either of them, rated in the equivalent category by another nationally recognized rating agency, and such fund is limited to obligations described above and to agreements to repurchase such obligations, including those for which the

Trustee or an affiliate performs services for a fee, whether as a custodian, transfer agent, investment advisor or otherwise;

- Federally insured or collateralized certificates of deposit issued by banks (which may include the Trustee) which are state chartered banks, federally chartered banks or foreign banks with domestic offices. Collateralized certificates of deposit shall be collateralized by obligations described in the first and second paragraphs above, which such obligations at all times have a market value (exclusive of accrued interest) at least equal to a minimum of one hundred and two percent (102%) of such bank deposits so secured, including interest;
- Repurchase agreements relating to securities of the type specified in the first and second paragraph above; provided that such securities in an amount at least equal to a market value at all times of at least one hundred and two percent (102%) of the amount of the agreements shall be delivered as security for such agreements to the account of the Trustee to be held therein during the term of the agreements; and
- Any other obligations conforming to the requirements of the Public Funds Investment Act, so long as such obligations are rated at least in the two highest rating categories of each of Standard & Poor's and Fitch, or if not rated by both of them, so rated by one of them and in the equivalent category by another nationally recognized rating agency.

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

Credit Risk, including Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of the investments that are in the possession of an outside party. The Authority's investments are all held by the Trustee, BNY Mellon, in the name of the Authority. The money market investments were rated Aaa by Moody's, as of June 30, 2024. The money market investments were rated AAAm-G and Aaa by Standard & Poor's and Moody's, respectively, as of June 30, 2023.

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 33 days and 35 days during FY 2024 and FY 2023, 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 $267.5 million in April 2024, under the MSA, pertaining to calendar year 2023. Of this amount, $149.6 million was recorded as a receivable in FY 2023 and pertains to the period January 1, 2023 to June 30, 2023. Likewise, the Authority has accrued $133.7 million in TSRs receivable for the period beginning January 1, 2024 and ending June 30, 2024. The amount accrued is considered earned but will not be received by the Authority until April 2025, and has been reported as a deferred inflow of resources in the governmental fund.

The Authority received $299,335,745 in April 2023, under the MSA, pertaining to calendar year 2022. Of this amount, $137,929,209 was recorded as a receivable in FY 2022 and pertains to the period January 1, 2022 to June 30, 2022. Likewise, the Authority has accrued $149,591,472 in TSRs receivable for the period beginning January 1, 2023 and ending June 30, 2023. The amount accrued is considered earned but will not be received by the Authority until April 2024, and has been reported as a deferred inflow of resources in the governmental fund.

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

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

Due to State – residual TSRs – For FY 2024, this liability represents the estimated amount that will be paid to the State upon receipt of the April 2025 TSRs that pertain to the period beginning January 1, 2024 through June 30, 2024 of $133.7 million. For FY 2023, this liability represents the estimated amount that will be paid to the State upon receipt of the April 2024 TSRs that pertain to the period beginning January 1, 2023 through June 30, 2023 of $64,681,817. Residual TSRs are estimated to be 43.239% of TSRs receivable.

Due to Attorney General – For FY 2024, as reported on page 18, the "Attorney General Sub-Account", reported as cash and cash equivalents of $2.5 million, represents amounts funded into the Attorney General Sub-Account as required under the Indenture, that have not yet been drawn by the Attorney General, as well as investment income earned in the sub-account which is not available to the Attorney General. It is expected that a portion of this amount will be drawn by the Attorney General in FY 2025. For FY 2023, as reported on page 19, the "Attorney General sub-account", reported as cash and cash equivalents of $2,502,328, represents amounts funded into the Attorney General sub-account as required under the Indenture, that have not yet been drawn by the Attorney General, as well as investment income earned in the sub-account which is not available to the Attorney General. It is expected that a portion of this amount will be drawn by the Attorney General in FY 2024. 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. Defeased Long-Term Obligations

The following is a summary of long-term obligation activity associated with governmental activities for the year ended June 30, 2024:

	Balance, July 1, 2023	Additions	Retirements	Balance, June 30, 2024	Due Within One Year
Revenue bond payable	$ 449,050,000	$ -	$ 449,050,000	$ -	
Unamortized premium	42,859,654	-	42,859,654	-	-
	$ 491,909,654	$ -	$ 491,909,654	$ -	$ -

The following is a summary of long-term obligation activity associated with governmental activities for the year ended June 30, 2023:

	Balance, July 1, 2022	Additions	Retirements	Balance, June 30, 2023	Due Within One Year
Revenue bond payable	$ 561,310,000	$ -	$ 112,260,000	$ 449,050,000	$ 109,745,000
Unamortized premium	51,576,872	-	8,717,218	42,859,654	-
	$ 612,886,872	$ -	$ 120,977,218	$ 491,909,654	$ 109,745,000

As of September 12, 2023, the Authority has effectively defeased $491,909,654 of outstanding revenue bond obligations and related unamortized premiums through the establishment of an irrevocable trust holding a portfolio of U.S. Treasury securities. The Authority used $344.8 million, appropriated by the Illinois General Assembly pursuant to Public Act 103-0006 for the defeasance, along with $155.3 million from the Authority, to fund a defeasance escrow account held by an escrow agent who will manage the defeased bonds.

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

Revenue Bonds – Series 2010

On December 8, 2010, the Authority issued $1,503,460,000 in Tobacco Settlement Revenue Bonds, Series 2010. As noted below, $682.4 million of the outstanding bonds were refunded during FY 2018. The last payment for Series 2010 was made on June 1, 2021.

Revenue Bonds – Series 2017

On December 27, 2017, the Authority issued $670,965,000 in Tobacco Settlement Revenue Bonds, series 2017 at a premium of $90,804,355, to currently refund $104.9 million and advance refund $577.4 million of the 2010 series revenue bonds. The net proceeds of $757.0 million (after payment of $4.8 million in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded 2010 series revenue bonds. As of June 1, 2021 all 2010 series revenue bonds have been called for redemption. There are no outstanding 2010 series revenue bonds.

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

As of June 30, 2023, debt service requirements to maturity on the outstanding debt, including interest, are as follows:

	Governmental Activities		
Year Ending	Revenue Bonds		
June 30,	Principal	Interest	Total
2024	109,745,000	22,452,500	132,197,500
2025	107,305,000	16,965,250	124,270,250
2026	105,370,000	11,600,000	116,970,000
2027	103,360,000	6,331,500	109,691,500
2028	23,270,000	1,163,500	24,433,500
Total	$ 449,050,000	$ 58,512,750	$ 507,562,750

Pledged Revenues

The Authority has pledged future tobacco settlement revenues (TSRs), net of specified operating expenditures, to retire the remaining revenue bonds and interest. The bonds are payable solely from TSRs and are payable through 2028. Annual principal and interest on the bonds are expected to require on average, less than 70% of net revenues. The total principal and interest remaining to be paid on the bonds is approximately $507.6 million as of June 30, 2023. Debt service expenditures for FY 2023 and total TSR revenues received were $140.3 million and $299.2 million, respectively.

Trust Indenture/Depositary 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

With the defeasance of the Series 2017 bonds, the Indenture terminated and the funds necessary to pay the principal and interest on the bonds are held in an escrow account.

On September 12, 2023, the Authority executed a depositary agreement with The Bank of New York Mellon Trust Company, N.A. as Depositary to collect the Tobacco Assets.

The depositary agreement establishes the Tobacco Assets Account with the following sub-accounts:
- (i) General Account
- (ii) Railsplitter Operating Account
- (iii) Attorney General Operating Account
- (iv) Residual Account

Application of Tobacco Assets and Pledged Revenues

All Tobacco Assets received by the Depositary are required to be deposited in the General Account. On an annual basis, the Authority will determine the amount of operating expenses required for the Authority's operations and will provide the Depositary with the Annual Railsplitter Expense Amount. The Depositary will transfer the amounts on hand in the General Account as follows:

(1) To the Railsplitter Operating Account until the amount of funds deposited into the Railsplitter Operating Account equals the Annual Railsplitter Expense Amount;

(2) To the Attorney General Operating Account until the amount of finds deposited into the Attorney General Operating Account in said Settlement Year equals the Annual AG Expense Amount;

(3) To the Residual Account, all Tobacco Assets remaining after making the deposits set forth in (1) and (2) above.

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

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

(1) (a) to the Authority Operating Sub-Account, the amount required to pay (i) Trustee fees and expenses (including reasonable attorney's fees, if applicable) reasonably expected to be due during the next fiscal year and (ii) an amount specified by the Officer's certificate for operating expenses of the Authority (provided that such amounts paid pursuant to this clause (a) shall not exceed the operating cap and operating expenses shall not include any termination payments or loss amounts on related contracts) and (b) to the State Attorney General Operating Sub-account, the amount required to be deposited therein to fund such 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 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 $137,519,000 as of June 30, 2023;

(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.

SPRINGFIELD OFFICE:
400 WEST MONROE
SUITE 306 • 62704
PHONE: 217/782-6046 • FAX: 217/785-8222
TTY: 888/261-2887
FRAUD HOTLINE: 1-855-217-1895

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

OFFICE OF THE AUDITOR GENERAL
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

Governing Board
State of Illinois, *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 (Authority), as of and for the years ended June 30, 2024, and June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and we have issued our report thereon dated April 1, 2025.

Report on Internal Control Over Financial Reporting

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

In planning and performing our audit of the financial statements, we considered the Authority's internal control as a basis for designing 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

COURTNEY DZIERWA, CPA, CISA, CIA
Director of Financial and Compliance Audits

Springfield, Illinois
April 1, 2025