

# **TOBACCO SETTLEMENT FINANCING CORPORATION**

A COMPONENT UNIT OF THE  
STATE OF LOUISIANA

FINANCIAL AUDIT SERVICES

**Financial Statement Audit for the  
Year Ended June 30, 2024  
Issued February 12, 2025**

**LOUISIANA LEGISLATIVE AUDITOR  
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**FIRST ASSISTANT LEGISLATIVE AUDITOR**  
BETH Q. DAVIS, CPA

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February 6, 2025

Independent Auditor's Report

**TOBACCO SETTLEMENT FINANCING CORPORATION**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

**Report on the Audit of the Financial Statements**

***Opinions***

We have audited the financial statements of the debt service fund and governmental activities of the Tobacco Settlement Financing Corporation (Corporation), a blended component unit of the state of Louisiana, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Corporation's basic 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 debt service fund of the Corporation as of June 30, 2024, 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 (*Government Auditing Standards*). 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 Corporation, and to meet our other 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.



***Substantial Doubt About the Corporation's Ability to Continue as a Going Concern***

The accompanying financial statements have been prepared assuming that the Corporation will continue as a going concern. As discussed in Note 7 to the financial statements, the Corporation has stated that substantial doubt exists about the Corporation's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 7. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is 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 Corporation'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 judgment 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 judgment 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 the purpose of expressing an opinion on the effectiveness of the Corporation'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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation'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 Management's Discussion and Analysis on pages 6 through 10 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2025, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Corporation'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 Corporation's internal control over financial reporting and compliance.

Respectfully submitted,



Michael J. "Mike" Waguespack, CPA  
Legislative Auditor

DT:EBT:BH:BQD:ch

TSFC 2024



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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This section of the Tobacco Settlement Financing Corporation's (TSFC or Corporation) annual financial report represents management's analysis of the TSFC's financial performance during the fiscal year ended June 30, 2024, in comparison to that of the previous fiscal year. Please read it in conjunction with the financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- Assets exceeded liabilities at the close of the fiscal year by \$245,113, which represents a surplus in net position. The surplus represents a \$45,694,824 or 99.47% change in net position over the prior year balance of \$45,939,937.
- All outstanding bonds were fully paid along with a transfer paid to the State of Louisiana of \$80,004,156 in payment of the residual certificate.
- The tobacco settlement revenues and investment earnings of the TSFC decreased \$54,389,437, or 58.31%. As a result of the bonds being fully repaid, the Corporation will no longer receive its 60% of future settlement revenues.
- Due to the timing of the bond final payments, the expenses of the TSFC decreased \$3,647,207, or 44.35%.

The TSFC was formed by an act of the Louisiana Legislature for the purpose of purchasing Tobacco Settlement Revenues (TSRs) from the state of Louisiana. This purchase was financed by the issuance of bonds to be repaid solely from the TSRs. The TSRs consist of amounts to be collected as part of a Master Settlement Agreement (MSA) between Participating Manufacturers (PMs) and 46 states and other U.S. jurisdictions (Settling States). Under the MSA, the PMs are required to pay the Settling States annual payments in perpetuity.

Much of the TSRs represent a portion of future domestic sales of tobacco products, the amount of which is to be determined based upon future domestic sales of tobacco products. TSR payments are remitted to the Corporation annually based upon those sales; however, future TSR payments will cease once the bonds are fully repaid. As of June 30, 2024, the bonds were fully repaid, and future revenues no longer recognized. Under generally accepted accounting principles (GAAP), such contingent amounts can be recognized as a receivable and revenue on a full accrual basis when the domestic sale of tobacco products is known. Under the modified accrual basis of accounting, revenue should be recognized as the sales occur and the TSRs become available for use by the Corporation.

## OVERVIEW OF THE FINANCIAL STATEMENTS

These financial statements consist of two sections – Management's Discussion and Analysis (this section) and the basic financial statements (including the notes to the financial statements).

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are two basic financial statements that report information about the TSFC as a whole using a long-term economic resources measurement focus. The financial data is reported using the full accrual basis of accounting and provides insight as to the TSFC's total, long-term, financial position and whether or not the TSFC's total financial position has improved as a result of the current-year's activities.

Comparative condensed Statements of Net Position and Activities for 2024 and 2023 are as follows:

### Statement of Net Position June 30, 2024 and 2023

	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Assets:		
Cash	\$260,113	\$263,393
Investments		65,832,375
Receivables		45,670,931
Total assets	<u>260,113</u>	<u>111,766,699</u>
Deferred outflow of resources		<u>1,406,318</u>
Liabilities:		
Accrued interest and fees payable	15,000	478,080
Long-term liabilities		
Due in more than one year		66,755,000
Total liabilities	<u>15,000</u>	<u>67,233,080</u>
Total net position – restricted	<u>\$245,113</u>	<u>\$45,939,937</u>

**Statement of Activities**  
**For the Years Ended June 30, 2024 and 2023**

	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Expenses	<u>(\$4,576,155)</u>	<u>(\$8,223,362)</u>
<u>General revenues and transfers:</u>		
Tobacco settlement revenues	35,629,509	90,903,342
Investment earnings	3,255,978	2,371,582
Intergovernmental transfer	<u>(80,004,156)</u>	
Total general revenue and transfers	<u>(41,118,669)</u>	<u>93,274,924</u>
Change in net position	<u><u>\$ (45,694,824)</u></u>	<u><u>\$85,051,562</u></u>

A decrease in total assets of \$111,506,586 is a result of decreases in investments and accounts receivables due to the bonds being fully called and repaid in the current year including a transfer to the state of Louisiana of the residual certificate as described in Note 7 to the financial statements.

A decrease in total liabilities of \$67,218,080 is due to the payment of principal on debt of \$66,755,000, a decrease in accrued interest payable of \$438,080 and a decrease in fees payable of \$25,000.

The restricted net position of \$245,113 is a result of assets exceeding fees payable. The \$245,113 is a decrease of \$45,694,824 over the prior year restricted net position of \$45,939,937. This change was caused by the bonds being fully repaid in the current year along with a transfer to the state of Louisiana of \$80,004,156 in payment of the residual certificate.

Revenues of the Corporation decreased by \$54,389,437 or 58.31% compared to prior year's revenue. The decrease was mainly a result of the reduction in tobacco settlement revenue recognized of \$55,273,833 or 60.81% due to the full repayment of the bonds and the Corporation no longer collecting 60% of the future Settlement Revenues.

Expenses of the Corporation decreased \$3,647,207 or 44.35% which resulted from the reduction in interest expense due to the timing of repayment of the bonds in full and professional fees.

## **FUND FINANCIAL STATEMENTS**

The fund financial statements provide detailed information about the TSFC as a debt service fund. As defined by the Governmental Accounting Standards Board, a fund is

a fiscal and accounting entity with a self-balancing set of accounts that a governmental entity uses to keep track of specific sources of funding and spending for a particular purpose.

For fund level reporting, all of the TSFC's transactions are reported in the debt service fund, which is a type of governmental fund. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources. This approach applies a flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the TSFC's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the TSFC.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliations are provided to facilitate this comparison between the governmental fund and the government-wide financial statements. These reconciliations are presented in the Reconciliation of the Debt Service Fund Balance Sheet to the Statement of Net Position and the Reconciliation of the Debt Service Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities.

The TSFC's debt service fund reported fund balance of \$245,113 as of June 30, 2024. No difference exists between the reported fund balance and net position as the Corporation no longer has any debt remaining or future settlement receivable to accrue.

## **LONG-TERM DEBT ACTIVITY**

At June 30, 2024, the TSFC paid all remaining outstanding bonded debt. A description of the long-term debt activity is located at Note 3. The Corporation exercised its optional redemption, and the bonds were fully repaid during fiscal year end June 30, 2024.

## **CURRENTLY-KNOWN FACTS, DECISIONS, OR CONDITIONS**

The Purchase and Sales Agreement includes Appendix A Residual Certificate that identifies the registered owner as the State of Louisiana. The Residual Certificate requires that once all the bonds have been paid, the remaining assets held by the Trustee will be transferred to the State of Louisiana and credited to the Millennium Trust Fund. The Corporation transferred \$80,004,156 to the State of Louisiana as required by the bond indenture and the residual certificate.

Also, per Louisiana Revised Statute 39:99.7, the Corporation's board shall dissolve and terminate the existence of the Corporation no later than two years after the date of final payment of all outstanding bonds and the payments or satisfaction of all other

outstanding obligations and liabilities of the Corporation, or to fulfill any outstanding bond covenants or other agreements.

This condition is expected to have a significant effect on the financial position and/or results of operation of the Corporation.

#### **CONTACTING THE TOBACCO SETTLEMENT FINANCING CORPORATION'S MANAGEMENT**

This financial report is designed to provide a general overview of the TSFC finances and to demonstrate the TSFC's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Tobacco Settlement Financing Corporation, P.O. Box 44154, Baton Rouge, LA 70804.



**TOBACCO SETTLEMENT FINANCING CORPORATION  
STATE OF LOUISIANA****Statement of Net Position, June 30, 2024****ASSETS**

Cash (note 2)	<u>\$260,113</u>
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<b>TOTAL ASSETS</b>	<u>260,113</u>
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**LIABILITIES**

Fees payable	<u>15,000</u>
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<b>TOTAL LIABILITIES</b>	<u>15,000</u>
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<b>NET POSITION - RESTRICTED (note 7)</b>	<u><u>\$245,113</u></u>
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The accompanying notes are an integral part of this financial statement.





**Statement B****TOBACCO SETTLEMENT FINANCING CORPORATION  
STATE OF LOUISIANA****Statement of Activities  
For the Year Ended June 30, 2024****EXPENSES**

## Operations:

Bank fees	\$34,000
Professional services	69,280

## Debt Service:

Interest expense	4,472,875
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<b>Total expenses</b>	<u>4,576,155</u>
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**GENERAL REVENUES AND TRANSFERS**

Tobacco settlement revenue	35,629,509
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Investment earnings	3,255,978
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Intergovernmental transfer	<u>(80,004,156)</u>
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<b>Total general revenues and transfers</b>	<u>(41,118,669)</u>
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<b>Change in Net Position</b>	<u>(45,694,824)</u>
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<b>Net Position at Beginning of Year</b>	<u>(45,939,937)</u>
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<b>Net Position at End of Year</b>	<u><u>\$245,113</u></u>
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The accompanying notes are an integral part of this financial statement.



**TOBACCO SETTLEMENT FINANCING CORPORATION  
STATE OF LOUISIANA**

**Debt Service Fund Balance Sheet, June 30, 2024**

**ASSETS**

Cash (note 2)	\$260,113
<b>Total assets</b>	<u>260,113</u>

**LIABILITIES**

Fees payable	15,000
<b>Total liabilities</b>	<u>15,000</u>

**FUND BALANCE**

Fund balance - restricted	<u>245,113</u>
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<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><u>\$260,113</u></u>
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(Continued)

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

**TOBACCO SETTLEMENT FINANCING CORPORATION  
STATE OF LOUISIANA**

**Reconciliation of the Debt Service Fund Balance Sheet  
to the Statement of Net Position, June 30, 2024**

Total fund balance - Debt Service Fund	\$245,113
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No differences exists between the reported fund balance and net position as the Corporation no longer has any debt remaining or future settlement receivable to accrue.

Total net position at June 30, 2024 - Governmental Activities	<u><u>\$245,113</u></u>
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(Concluded)

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

**Statement D****TOBACCO SETTLEMENT FINANCING CORPORATION  
STATE OF LOUISIANA****Debt Service Fund Statement of Revenues, Expenditures, and Changes in Fund Balance  
For the Year Ended June 30, 2024****REVENUES**

Tobacco settlement revenue (note 4)	\$81,045,369
Investment earnings (note 4)	<u>3,255,978</u>
<b>Total revenues</b>	<u>84,301,347</u>

**EXPENDITURES**

Operations:	
Bank fees, rating service fees, and other	34,000
Professional services	69,280
Debt Service:	
Principal payments on debt (note 3)	66,755,000
Interest (note 4)	<u>3,504,637</u>
<b>Total expenditures</b>	<u>70,362,917</u>
 Excess of revenues over expenditures	 13,938,430

**OTHER FINANCING (USES)**

Transfers out	<u>(80,004,156)</u>
Total other financing (uses)	<u>(80,004,156)</u>

**Net Change in Fund Balance** (66,065,726)

**Fund Balance at Beginning of Year** 66,310,839

**Fund Balance at End of Year** \$245,113

(Continued)

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

**TOBACCO SETTLEMENT FINANCING CORPORATION**  
**STATE OF LOUISIANA**

**Reconciliation of the Debt Service Fund Statement of Revenues, Expenditures,  
and Changes in Fund Balance to the Statement of Activities  
For the Year Ended June 30, 2024**

Net change in fund balance	(\$66,065,726)
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Amounts reported in the statement of activities are different because:

Revenues not collected within 45 days of prior year-end that were  
not considered "available" until collected and recognized as  
revenues in the governmental fund in the current year-end:

Tobacco settlement revenue	(45,415,860)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal on long-term debt consumes the current financial resources of a governmental fund. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Principal payments on debt	66,755,000
Change in accrued interest payable	438,080
Amortization of deferred amount on debt refunding	<u>(1,406,318)</u>

Change in net position	<u><u>(\$45,694,824)</u></u>
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(Concluded)

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

# NOTES TO THE FINANCIAL STATEMENTS

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## INTRODUCTION

The Tobacco Settlement Financing Corporation (referred to as the Corporation or TSFC) was created by Act 1145 of the 2001 Regular Session of the Louisiana State Legislature codified under the provisions of Louisiana Revised Statutes (R.S.) 39:99.1 through 39:99.20. The Corporation is a special purpose, public corporate entity, an instrumentality independent of the state.

On November 23, 1998, the state of Louisiana entered into a Master Settlement Agreement with the major United States tobacco product manufacturers that resulted in Louisiana receiving substantial monies in perpetuity. The Corporation is authorized and empowered to, among other things, (1) purchase the state's allocation of monies to be received as a result of the master settlement agreement and receive, or authorize the indenture trustee to receive the tobacco settlement payments when they become due; (2) issue bonds; (3) determine the amounts of the residual interests, and pay and transfer such residual interests to the state treasurer, semiannually, in accordance with the provisions of the Louisiana Revised Statutes noted above; and (4) do any and all other acts and things necessary, convenient, appropriate or incidental in carrying out the provisions of the Louisiana Revised Statutes noted above.

Income of the Corporation and bond proceeds, if any, not previously paid to the state that are in excess of the Corporation's requirements to pay its operating expenses, debt service, sinking fund requirements, reserve fund requirements, and any other contractual obligations to the holders or that may be incurred in connection with the issuance of the bonds shall be transferred and paid by the Corporation to the state treasurer for deposit in and credit to the Millennium Trust.

The Corporation shall have perpetual existence; provided, however, the board shall dissolve and terminate the existence of the Corporation no later than two years after the date of final payment of all outstanding bonds and the payments or satisfaction of all other outstanding obligations and liabilities of the Corporation. Upon dissolution of the Corporation, title to all assets and properties of the Corporation shall vest in and become the property of the State of Louisiana and shall be deposited in and credited to the Millennium Trust – see Note 7.

At June 30, 2024, the Corporation was governed by a board consisting of 13 members as follows: (i) the Governor or his/her designee; (ii) the State Treasurer or his designee; (iii) the Attorney General or his designee; (iv) the President of the Senate or his designee; (v) the Speaker of the House of Representatives or his designee; and (vi) eight members appointed by the governor with at least one member representing each congressional district and a member at large. The State Treasurer serves as the secretary-treasurer of the Corporation and the board. The

TSFC is a blended component unit of the state and is included in the state's financial statements.

Operations of the Corporation were funded initially with a portion of bond proceeds but are now funded with tobacco settlement revenues and investment earnings. The Corporation has no employees. R.S. 39:99.8(A) states the staff of the Department of the Treasury, including that of the State Bond Commission, may, pursuant to a cooperative endeavor agreement, serve as staff to the Corporation under the supervision of the state treasurer.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **A. REPORTING ENTITY**

Using the criteria in Governmental Accounting Standards Board (GASB) Codification Section 2100, the Division of Administration, Office of Statewide Reporting and Accounting Policy, has defined the governmental reporting entity to be the State of Louisiana. The Office of Statewide Reporting and Accounting Policy considers the Corporation to be a blended component unit of the State of Louisiana because the state has financial accountability for fiscal matters as follows: (1) a majority of the members of the governing board are appointed by the governor; (2) the state has control and exercises authority over budget matters; (3) no later than two years after the full payment of tobacco settlement asset-backed bonds principal and interest, the board shall dissolve and terminate the existence of the Corporation; and (4) services are provided entirely to the primary government. Annually, the State of Louisiana issues financial statements, which include the activity contained in the accompanying financial statements. Those financial statements are audited by the Louisiana Legislative Auditor.

### **B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental entities and promulgated by GASB Codification of Governmental Accounting and Financial Reporting Standards.

The accompanying governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available to fund current operations. The Corporation considers revenues as available if they are collected within 45 days after year-end. Expenditures are recognized when the related fund liability is incurred, except for principal and interest on long-term debt which is recognized when due.



The accompanying government-wide statements (Statement of Net Position and Statement of Activities) are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when the related liability is incurred, regardless of the timing of related cash flows.

Reconciliations are provided to facilitate the comparisons between the governmental fund and the government-wide financial statements. These reconciliations are presented in the Reconciliation of the Debt Service Fund Balance Sheet to the Statement of Net Position and in the Reconciliation of the Debt Service Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities.

### **C. FUND ACCOUNTING**

The activities of the Corporation are accounted for in a Debt Service Fund. Debt Service Funds account for the accumulation of resources for, and the payment of, long-term debt principal and interest. The Corporation's Debt Service Fund balance sheet portrays the current assets and current liabilities of the Corporation with the difference being fund balance restricted for dissolution of the Corporation and any remaining assets in the fund (see Note 7).

### **D. CASH**

Cash consists of demand deposits. Under state law, the Corporation may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States.

### **E. NET POSITION/FUND BALANCE**

Net position represents the difference between assets and deferred outflows of resources with liabilities and deferred inflows of resources.

The following fund balance classifications are defined by GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definition*, as amended, and describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance – amounts that are not in spendable form or are required to be maintained intact;
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, enabling legislation, indentures of trust, or other external means;

- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint;
- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance – amounts that are available for any purpose; positive amounts are reported in the general fund only.

All of the Corporation's fund balance is considered restricted based on enabling legislation under the provisions of R.S. 39:99.1 through 39:99.20.

#### **F. FUTURE SETTLEMENT PAYMENTS PURCHASED FROM THE STATE AND REVENUE RECOGNITION**

As described more fully in Notes 3 and 4, the Corporation initially purchased 60% of the future revenues to be received under the Master Settlement Agreement with bond proceeds. The Corporation follows GASB Technical Bulletin 2004-1 as amended by GASB Statement No. 48 Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues in establishing accounting policy for the purchase of future settlement collections which, for the Corporation, require no asset recognition.

In accordance with GASB Technical Bulletin 2004-1, settlement payments to be received by the Corporation are recognized as revenue as the underlying tobacco product sales occur until final payment is made on the outstanding bonds. Due to the bonds being fully repaid, the Corporation will no longer receive the 60% of future revenues and no receivable at June 30, 2024 was recognized.

#### **G. ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

## H. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

*Deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. *Deferred inflows of resources* represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources until that time.

The prior year deferred outflow due to bond refunding was fully amortized due to Series 2013 bonds being fully repaid with no remaining balance. The current year amortization is disclosed in Note 3.

## 2. CASH

For deposits in financial institutions, custodial credit risk is the risk that, in the event of failure of the financial institution, TSFC will not be able to recover the value of its deposits.

At June 30, 2024, the Corporation has cash totaling \$260,113 held in a demand deposit account. The deposits (collected bank balances) held in the demand deposit account are secured from risk by federal deposit insurance up to \$250,000. Therefore, as of June 30, 2024, \$10,113 of deposits were exposed to custodial credit risk because it was uninsured and under collateralized. The Corporation does not have a formal policy for custodial credit risk for cash.

## 3. LONG-TERM DEBT

The following is a summary of the debt obligation transactions for the year ended June 30, 2024:

	Debt Payable at June 30, 2023	Additions	Deductions	Debt Payable at June 30, 2024	Amounts Due Within One Year
Tobacco Settlement Asset-Backed bonds:					
Series 2013A (Tax Exempt) due May 15, 2035	\$ 66,755,000		\$ 66,755,000	\$0	\$0
Total	66,755,000	NONE	66,755,000	0	0
Add: unamortized bond premium	0		0	0	0
Total, net of unamortized bond premium	\$66,755,000	NONE	\$66,755,000	\$0	\$0

On November 7, 2001, the Corporation issued \$1,202,770,000 in Tobacco Settlement Asset-Backed Bonds. The bonds were issued to finance the Corporation's purchase of 60% of the state's future receipts from the Master Settlement Agreement with participating cigarette manufacturers. On July 10, 2013, the Corporation refunded the outstanding 2001B bonds totaling \$738,300,000 through the issuance of \$659,745,000 Tobacco Settlement Asset-Backed Refunding Bonds, Series 2013A (Series 2013 Bonds) with an original issue premium of \$44,326,777 and available funds of \$102,487,230. The bonds were secured by the Corporation's claim to 60%

of these future receipts. The claim is on parity with the claim of the state to the ownership of the remaining 40% of all amounts expected to be paid to the state under the Master Settlement Agreement. In addition, the bonds were secured by all earnings on investments held in certain accounts established under an indenture of trust.

All of the outstanding Series 2013 Bonds were originally offered for public sale and none of the outstanding Series 2013 Bonds were issued as direct borrowings or placements as defined in Statement 88 of the GASB.

The bonds state that the Series 2013 Bonds shall not be deemed to be nor constitute a debt or obligation of the state or a pledge of the full faith or credit of the state or any political subdivision thereof. The Corporation has no taxing power. No assets or revenues of the state or any political subdivision thereof is or shall be obligated or pledged to the payment of the principal of or interest on the bonds.

The difference between the reacquisition price and the net carrying amount of the old debt, totaling \$13,898,751, is systematically recognized over the life of the new bonds and recognized as deferred outflow in the government-wide financial statements. As of June 30, 2024, \$1,406,318 of the deferred outflow was amortized resulting in no remaining deferred amount on refunding on the government-wide statement of net position as of June 30, 2024.

#### **4. PLEDGED TOBACCO SETTLEMENT REVENUES AND RECEIVABLE**

Tobacco Settlement Financing Corporation, a special purpose public corporate entity and an instrumentality independent of the State, issued \$1,202,770,000 of tobacco settlement asset-backed bonds in 2001. The revenue bonds were issued to finance the Corporation's purchase of the pledged tobacco settlement revenues (TSRs). The pledged TSRs consist of 60% of all amounts required to be paid to the State after the issuance of the Series 2001 Bonds. Participating cigarette manufacturers (PMs) entered into a Master Settlement Agreement (MSA) with 46 states and six other U.S. jurisdictions in 1998. The MSA requires the PMs to make certain initial, annual and strategic contribution payments to each entity included in the MSA. The Corporation's claim to pledged TSRs is on parity with the State's claim of the remaining 40% of all amounts payable to the State. In July 2013, the Corporation refunded the outstanding 2001 bonds and issued the 2013A Series as described in Note 3. The Bonds were secured by and payable from (i) the pledged TSRs and all investment earnings on the amounts on deposit in certain collection accounts, (ii) amounts held in a liquidity reserve account, and (iii) all amounts, if any, on deposit in other accounts established. The Corporation received \$84,301,347 in pledged revenues and investment earnings for fiscal year 2024. There is no remaining principal balance due on the bonds. The interest paid for debt service in the current year was \$3,504,637.

TSRs consist of the amounts to be received under the terms of a MSA among participating cigarette manufacturers and 46 states and six other U.S. jurisdictions (Settling States). The MSA is an industry-wide settlement of litigation between the Settling States and the Original Participating Manufacturers (OPMs) and was entered into between the attorneys general of the Settling States and the OPMs on November 23, 1998. The MSA provides for other tobacco companies, referred to as Subsequent

Participating Manufacturers (SPMs), to become parties to the MSA. The four OPMs together with the 30+ SPMs are referred to as the PMs. The settlement represents the resolution of a large potential financial liability of the PMs for smoking-related injuries, the cost of which has been borne and will likely to continue to be borne by cigarette consumers.

Pursuant to the MSA, the Settling States agreed to settle all their past 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 other things, making payments to the Settling States, abiding by more stringent advertising restrictions and funding educational programs, all in accordance with the terms and conditions set forth in the MSA. Distributors of the PMs are also covered by the settlement of such claims to the same extent as the PMs.

Under the MSA, the PMs were required to pay to the Settling States (i) five initial payments all of which has been paid; (ii) annual payments required to be made on April 15, commencing April 15, 2000, and continuing in perpetuity (Annual Payments) and (iii) ten annual payments required to be made on each April 15, commencing April 15, 2008, and continuing through April 15, 2017 (Strategic Contribution Payments). Prior to the formation of the Corporation, the PMs made the first of the three required Initial Payments and the Annual Payments due April 15, 2000 and 2001, none of which the Corporation had any right to receive.

The TSRs due under the MSA are subject to numerous adjustments, some of which may be material. Such adjustments include, among others, reductions for decreased domestic cigarette shipments, reductions for amounts paid by PMs to four states which had previously settled their claims independently of the MSA, and in the case of Annual Payments and Strategic Contribution Payments, increases related to inflation of not less than 3% per annum. Furthermore, TSRs are subject to a Nonparticipating Manufacturer adjustment which may be triggered by, among other occurrences, the determination that the MSA has contributed to market share loss. In recent years the PM's have applied these adjustments in determining their annual payments to be remitted and those adjustments have resulted in lesser payments than would otherwise have been made.

Much of the TSRs represent a portion of future sales of tobacco products. GASB Technical Bulletin No. 2004-1 clarified guidance relating to the recognition of revenues and receivables. Specifically, the bulletin allows for the recognition of revenue based on the shipment of domestic cigarettes. Due to the bonds being fully repaid, the Corporation will no longer receive the 60% of future revenues and no receivable at June 30, 2024 was recognized.

## **5. ADMINISTRATIVE EXPENSES**

The State of Louisiana's Division of Administration performs certain accounting and administrative services for the Corporation for which it receives no compensation. The value of such services was immaterial to the Corporation's financial statements.

## 6. CONTINGENCIES

Certain smokers, consumer groups, cigarette manufacturers, cigarette importers, cigarette distributors, Native American tribes, taxpayers, taxpayers' groups, and other parties have instituted litigation against various tobacco manufacturers, including the PMs, as well as certain Settling States to the MSA, including Louisiana, and other public entities. The lawsuits have alleged, among other things, that the MSA as well as 'tobacco' statutes, including both escrow and complementary legislation in MSA states, violate certain provisions of the United States Constitution, state constitutions, the federal antitrust laws, federal civil rights laws, state consumer protection laws and unfair competition laws, while other suits allege breach of the MSA. In addition, class action lawsuits have been filed in several federal and state courts alleging that under the federal Medicaid law, any amount of tobacco settlement funds that the Settling States receive in excess of what they paid through the Medicaid program to treat tobacco-related diseases should be paid directly to Medicaid recipients. To date, no such lawsuits challenging the MSA or state escrow statute(s) have been successful. The enforcement of the terms of the MSA may, however, continue to be challenged in the future.

Additionally, the State of Louisiana, along with other states, participated in a multi-state arbitration against various tobacco manufacturers, including Liggett, Commonwealth and Lignum. Over several years, Liggett withheld funds from its MSA payments due because Liggett disputed the Independent Auditor's Decision to change the units used to measure the total domestic cigarette market and each PM's payment obligation from gross to net. The arbitration panel ruled that Liggett was entitled to have its grandfathered market share ("GFMS") calculated on a gross basis, with the Independent Auditor utilizing its prior calculation of Liggett's GFMS applicable to its payment due on or about March 30, 2000, and further provided that the Independent Auditor was to compute Liggett's Market Share for all years after March 30, 2000, on a net basis, with a computation adjustment to approximate a gross assessment by using actual product return data in accordance with a hypothetical procedural attached to the corrected award. The panel also ruled that the Independent Auditor shall use 0.0325 ounces of roll-your-own ("RYO") tobacco to be the equivalent of one cigarette in computing payments due from the Participating Manufacturers who sell RYO tobacco. The Independent Auditor has implemented the panel's award, although the states and Liggett have disputed certain calculations made by the Independent Auditor, and this matter remains unresolved.

The Corporation is also exposed to various risks of loss related to torts, theft of assets, and errors and omissions that could occur in the normal course of business. The corporation retains the risk of loss in the event of any judgments against it. As of February 6, 2025, no known asserted or unasserted claims or judgments were against the corporation. Members of the board and persons acting on the corporation's behalf, while acting within the scope of their duties or employment, shall not be subject to any personal liability resulting from carrying out the powers and duties conferred on them pursuant to R.S. 39:99.5 and shall have the indemnification rights provided in R.S.13:5108.1 with respect to such actions.

## **7. RESIDUAL CERTIFICATE AND FINAL BOND REPAYMENT**

The Purchase and Sales Agreement includes Appendix A Residual Certificate that identifies the registered owner as the state of Louisiana. The Residual Certificate requires the remaining assets to be transferred to the state of Louisiana and credited to the Millennium Trust Fund. The transfer of assets was to occur once the Trustee was able to determine the amount payable. The residual coupon was presented to the Trustee who transferred \$80,004,156 to the state of Louisiana. Also, per Louisiana Revised Statute 39:99.7, the Corporation's board shall dissolve and terminate the existence of the Corporation no later than two years after the date of final payment of all outstanding bonds and the payments or satisfaction of all other outstanding obligations and liabilities of the Corporation, or to fulfill any outstanding bond covenants or other agreements. Since the bonds were fully repaid and the residual coupon paid to the state of Louisiana, the Corporation has two years to dissolve and terminate existence. No actions have been initiated to dissolve or terminate the Corporation as of June 30, 2024.





## **OTHER REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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### **Exhibit A**

The following pages contain our report on internal control over financial reporting and on compliance with laws, regulations, and other matters as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. The report is based solely on the audit of the financial statements and includes, where appropriate, any significant deficiencies and/or material weaknesses in internal control or compliance and other matters that would be material to the presented financial statements.



February 6, 2025

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*

Independent Auditor's Report

**TOBACCO SETTLEMENT FINANCING CORPORATION**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

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 (*Government Auditing Standards*), the financial statements of the governmental activities and the debt service fund of the Tobacco Settlement Financing Corporation (Corporation), a blended component unit of the state of Louisiana, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated February 6, 2025. Our report was modified to include an emphasis of matter paragraph regarding substantial doubt about the Corporation's ability to continue as a going concern.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 were not identified.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'Mike Waguespack', with a stylized flourish at the end.

Michael J. "Mike" Waguespack, CPA  
Legislative Auditor

DT:EBT:BH:BQD:ch

TSFC 2024