TOBACCO SETTLEMENT FINANCING CORPORATION

A COMPONENT UNIT OF THE
STATE OF LOUISIANA

FINANCIAL AUDIT SERVICES

Financial Statement Audit for the
Year Ended June 30, 2023
Issued January 25, 2024

LOUISIANA
LEGISLATIVE
AUDITOR

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LOUISIANA LEGISLATIVE AUDITOR

MICHAEL J. "MIKE" WAGUESPACK, CPA
LOUISIANA LEGISLATIVE AUDITOR

January 24, 2024

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, 2023, 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, 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 (*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 8 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 8. 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 9 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The Schedule of Continuing Disclosure Requirements, on page 29, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with *GAAS*. In our opinion, the Schedule of Continuing Disclosure Requirements is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2024, 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

WN:EBT:BH:BQD:ch

TSFC 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2023, 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 plus deferred outflows of resources exceeded liabilities at the close of the fiscal year by $45,939,937, which represents a surplus in net position. The deficit decreased by $85,051,562, which represents a 217.46% change over the prior year deficit of $39,111,625.
- The revenues of the TSFC decreased $7,015,841, or 7.00%
- The expenses of the TSFC decreased $3,784,786, or 31.52%

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. Under generally accepted accounting principles, 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 2023 and 2022 are as follows:

Statement of Net Position
June 30, 2023 and 2022

	June 30, 2023	June 30, 2022
Assets:		
Cash	$263,393	$222,393
Investments	65,832,375	62,871,278
Receivables	45,670,931	45,442,141
Total assets	111,766,699	108,535,812
Deferred outflow of resources	1,406,318	3,138,434
Liabilities:		
Accrued interest and fees payable	478,080	977,504
Long-term liabilities		
Due within one year	0	32,884,368
Due in more than one year	66,755,000	116,923,999
Total liabilities	67,233,080	150,785,871
Total net position – restricted/(unrestricted)	$45,939,937	($39,111,625)

Statement of Activities
For the Years Ended June 30, 2023 and 2022

	June 30, 2023	June 30, 2022
Expenses	($8,223,362)	($12,008,148)
General revenues:		
Tobacco settlement revenues	90,903,342	100,136,058
Miscellaneous revenue	0	4,455
Interest income	2,371,582	150,252
Total general revenues	93,274,924	100,290,765
Change in net position	$85,051,562	$88,282,617

An increase in total assets of $3,230,887 is a result of increases in cash of $41,000, interest receivable of $202,184 due to increases in interest rates, investments of $2,961,097 due to an increase in interest revenue, and an increase in the projection of future settlement revenues recorded as a receivable of $26,606.

A decrease in total liabilities of $83,552,791 is due to the payment of principal on debt of $82,220,000, the amortization of premium on outstanding bonds in the current year of $833,367, a decrease in accrued interest of $529,424, offset by an increase in fees payable of $30,000.

The restricted net position of $45,939,937 is a result of assets and deferred outflows exceeding bonds payable and other liabilities. The $45,939,937 is an increase of $85,051,562 over the prior year unrestricted deficit net position of ($39,111,625). This change was caused by continuing to exercise options to repay debt in advance with continued collections of settlement revenues.

Revenues of the Corporation decreased by $7,015,841 or 7.00% compared to prior year's revenue. The decrease was due mainly to the reduction in tobacco settlement revenue of $9,232,716 or 9.22%, offset by an increase in investment earnings of $2,221,330 and a decrease in miscellaneous revenue of $4,455.

Expenses of the Corporation decreased $3,784,786 or 31.52% which resulted from the reduction in interest expense on the outstanding debt balance.

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.

TSFC's debt service fund reported fund balance of $66,310,839, as of June 30, 2023, all of which is restricted for the repayment of the outstanding bonds. Much of this fund balance is contained in reserve accounts, as required by the Trust indenture.

LONG-TERM DEBT ACTIVITY

At June 30, 2023, the TSFC had $66,755,000 in outstanding bonded debt. A description of the long-term debt activity is located at Note 4. On May 16, 2016, Fitch Ratings withdrew its ratings of the U.S. Tobacco asset-backed securities (including Louisiana's) primarily because of custom modifications by several participants to material calculations originally part of the Master Settlement Agreement. These modifications create a risk that consistently reliable structured finance rating methodology cannot be applied going forward.

The outstanding bonded debt balance is expected to be fully repaid during fiscal year end June 30, 2024, if the Corporation exercises the optional redemption. 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 will be transferred to the State of Louisiana and credited to the Millennium Trust Fund. The transfer of assets will only occur once the Trustee determines the amount payable. 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.

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, 2023

ASSETS	
Cash (note 2)	$263,393
Accrued interest receivable	255,071
Investments (note 3)	65,832,375
Tobacco settlement receivable (note 5)	45,415,860
Total assets	111,766,699
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amount on bond refunding	1,406,318
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	113,173,017
LIABILITIES	
Accrued interest payable	438,080
Fees payable	40,000
Long-term liabilities:	
Due in more than one year (note 4)	66,755,000
Total liabilities	67,233,080
NET POSITION - RESTRICTED (note 8)	$45,939,937

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

TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA

Statement of Activities
For the Year Ended June 30, 2023

EXPENSES	
Operations:	
Bank fees	$34,000
Professional services	80,000
Debt Service:	
Interest expense	8,109,362
Total expenses	8,223,362
GENERAL REVENUES	
Tobacco settlement revenue	90,903,342
Investment earnings	2,371,582
Total general revenues	93,274,924
Change in Net Position	85,051,562
Net Position at Beginning of Year	(39,111,625)
Net Position at End of Year	$45,939,937

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, 2023

ASSETS	
Cash (note 2)	$263,393
Investments (note 3)	65,832,375
Accrued interest receivable	255,071
Total assets	66,350,839
LIABILITIES	
Fees payable	40,000
Total liabilities	40,000
FUND BALANCE	
Fund balance - restricted	66,310,839
TOTAL LIABILITIES AND FUND BALANCE	$66,350,839

(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, 2023

Total fund balance - Debt Service Fund	$66,310,839
Revenues collected more than 45 days after year-end and are not available to pay current period expenditures:	
Tobacco settlement receivable - restricted	45,415,860
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental fund:	
Accrued interest payable	(438,080)
Deferred amount on refunding	1,406,318
Bonds payable (net of unamortized premium)	(66,755,000)
Total net position at June 30, 2023 - Governmental Activities	$45,939,937

(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, 2023

REVENUES	
Tobacco settlement revenue (note 5)	$90,876,736
Investment earnings (note 5)	2,371,582
Total revenues	93,248,318
EXPENDITURES	
Operations:	
Bank fees, rating service fees, and other	34,000
Professional services	80,000
Debt Service:	
Principal payments on debt (note 4)	82,220,000
Interest (note 5)	7,740,037
Total expenditures	90,074,037
Change in Fund Balance	3,174,281
Fund Balance at Beginning of Year	63,136,558
Fund Balance at End of Year	$66,310,839

(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, 2023

Net change in fund balance	$3,174,281
Amounts reported in the statement of activities are different because:	
The change in revenues not collected within 45 days of year-end that are not considered "available" and therefore not recognized as revenues in the governmental fund:	
Tobacco settlement revenue	26,606
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	82,220,000
Change in accrued interest payable	529,424
Amortization of premium on bond	833,367
Amortization of deferred amount on debt refunding	(1,732,116)
Change in net position	$85,051,562

(Concluded)

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

NOTES TO THE FINANCIAL STATEMENTS

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 should result 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 the 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 properties of the state of Louisiana and shall be deposited in and credited to the Millennium Trust.

At June 30, 2023, 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/her designee; (iii) the Attorney General or his/her designee; (iv) the President of the Senate or his/her designee; (v) the Speaker of the House of Representatives or his/her designee; and (vi) eight members appointed by the governor, with at least one member representing each congressional district. 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 the 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 debt service.

D. CASH AND INVESTMENTS

Cash consists of demand deposits. Investments consist of money market funds. 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.

In accordance with R.S. 39:99.6(E), funds held by the Corporation or by the indenture trustee may be invested in direct U.S. Treasury and U.S. Government agency obligations or in eligible mutual funds that invest in these securities, direct repurchase agreements, time certificates of deposit, guaranteed investment contracts, investment grade commercial paper, and direct obligations issued by a state of the United States of America other than Louisiana. The Corporation's investments, which consist solely of money market mutual funds, are stated at amortized cost.

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 4 and 5, 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.

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. A significant estimate contained within the financial statements is the tobacco settlement revenue receivable of $45,415,860 (note 5).

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 deferred outflow of resources on the Statement of Net Position is a result of a deferred charge on the current refunding of the 2001B Series bonds (note 4), which represents the difference in the carrying value of refunded debt and its reacquisition price. The deferral is being amortized in a systematic manner over the remaining life of the new debt.

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, 2023, the Corporation has cash totaling $263,393 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, 2023, $13,393 of deposits were exposed to custodial credit risk because it was uninsured and uncollateralized. The Corporation does not have a formal policy for custodial credit risk for cash.

3. INVESTMENTS

At June 30, 2023, investments of $65,832,375 consisted of the following:

Investment Type	Reported Amount	Credit Quality Rating	% of Investments
Dreyfus Treasury Securities CM 674	$65,734,709	Aaa-mf**	99.85%
BlackRock Federal FD INSTL #81	97,666	Aaa-mf**	0.15%
Total Investments	$65,832,375		100.00%

** Credit quality rating obtained from Moody's Corporation (short-term rating)

Of the total investment balance of $65,832,375, a total of $57,574,047 is held in a separate account to satisfy the Liquidity Reserve requirements set forth in the bond trust indenture. The Corporation met its reserve balance requirement at June 30,

2023. The investments are in two money market funds that meet the requirements of SEC Rule 2a7 and are reported at amortized cost with a remaining maturity of less than one year.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, TSFC will not be able to recover the value of its investment that are in the possession of an outside party.

The $65,832,375 of money market mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Credit Risk: This risk is defined as the risk that an issuer or other counterparty to an investment transaction will not fulfill its obligations. The Corporation does not have a formal credit risk policy. However, in practice, credit risk is minimized by investing in money market funds containing underlying securities which are guaranteed by the U.S. government and commercial paper of corporations rated no less than A-1+ by Standard & Poor's or its equivalent.

Concentration of Credit Risk: The Corporation does not have a policy for this type of risk, which is defined as the risk of loss attributed to the magnitude of the Corporation's investment in a single issuer. As indicated in the listing of investments above, the Corporation's portfolio contains concentrations in single debt issuers in excess of 5% of its total portfolio.

Interest Rate Risk: This risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. The Corporation's investment in the money market fund is not exposed to interest rate risk and the Corporation does not have a formal interest rate risk policy.

4. LONG-TERM DEBT

Long-term debt is composed of the following:

Series 2013A (Tax Exempt) Term Bonds due May 15, 2023, with interest of 5.00% due semiannually on May 15 and November 15, commencing on November 15, 2013	$0
Series 2013A (Tax Exempt) Term Bonds due May 15, 2033, with interest ranging from 5 - 5.50% due semiannually on May 15 and November 15, commencing on November 15, 2013	0
Series 2013A (Tax Exempt) Term Bonds due May 15, 2035, with interest of 5.25% due semiannually on May 15 and November 15, commencing on November 15, 2013	66,755,000
Total bond debt	66,755,000
Add: unamortized bond premium	0
Total bond debt, net of unamortized bond premium	$66,755,000

The following is a summary of the debt obligation transactions for the year ended June 30, 2023:

	Debt Payable at June 30, 2022	Additions	Deductions	Debt Payable at June 30, 2023	Amounts Due Within One Year
Tobacco Settlement Asset-Backed bonds:					
Series 2013A (Tax Exempt) due May 15, 2023	$32,460,000		$32,460,000	$0	$0
Series 2013A (Tax Exempt) due May 15, 2033	34,590,000		34,590,000	0	0
Series 2013A (Tax Exempt) due May 15, 2035	81,925,000		15,170,000	66,755,000	0
Total	148,975,000	NONE	82,220,000	66,755,000	0
Add: unamortized bond premium	833,367		833,367	0	0
Total, net of unamortized bond premium	$149,808,367	NONE	$83,053,367	$66,755,000	$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 are 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 are 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 a 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. For the year ended June 30, 2023, $1,732,116 of the deferred outflow was amortized resulting in a deferred amount on refunding of $1,406,318 on the government-wide statement of net position as of June 30, 2023.

The official bond documents provide several schedules for the repayment of principal: the Optional Redemption and the Mandatory Sinking Fund Installment. A description of each of the repayment methods and the requirements of the Corporation with respect to those methods is as follows:

Optional Redemptions are the amounts maturing on or after May 15, 2024, which have not been purchased by the Corporation from moneys in the Supplemental Account that are subject to redemption at any time on or after the dates set forth in the indenture, in each case in whole or in part from any money in the Supplemental Account available therefor, or from the proceeds of refunding obligations of the Corporation, at the direction of the Corporation, which direction will specify the maturities of the Series 2013 Bonds to be subject to such redemption at a redemption price equal to 100% of the principal amount being redeemed, plus interest accrued to the date fixed for redemption, without premium. This optional redemption method allows the Corporation to repay the bonds in early callable dates in various denominations which will shorten the principal repayment redemption to repay the bonds by 2024 instead of 2035.

Mandatory sinking fund installments represent the amount of principal that the Corporation will pay according to the terms of the indenture. The Corporation is required to make these payments to the extent that funds are available for payment. Failure by the Corporation to make a sinking fund installment according to the terms of the indenture will constitute an event of default. The amount of any sinking fund installments made will be credited against term maturities in ascending chronological order. Note 5 describes the pledge of tobacco settlement revenues for the repayment of the Series 2013 bonds which is deemed to be collateral. In addition, note 3 also identifies collateral for the repayment of the 2013 Series bonds.

Events of default are outlined in the transcript of the Series 2013 bonds and include failure to pay interest, principal, and sinking fund installments when due. In addition, failure to observe or perform any other covenant, condition, agreement, or provision contained in the Bond, in the Indenture, or Tax Certificate that is not remedied within 60 days after receiving written notice. The remedies in the event of default are also outlined in the transcript of the Series 2013 bonds and include steps for the trustee to follow to enforce the rights of the bondholders including providing written notice to the Corporation.

Debt service requirements, including interest to maturity under the mandatory sinking schedule, are as follows:

	Sinking Fund Maturities	
Fiscal Year	**Principal**	**Interest**
2024	$0	$3,504,637
2025	0	3,504,637
2026	0	3,504,637
2027	0	3,504,637
2028	0	3,504,637
2029-2033	0	17,523,188
2034-2035	66,755,000	5,670,262
Total	$66,755,000	$40,716,635
Unamortized premium	0	
Total plus unamortized bond premium	$66,755,000	

5. 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 4. The Bonds are 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 $93,248,318 in pledged revenues and investment earnings for fiscal year 2023. The bonds, payable through 2035, have total principal outstanding of $66,755,000. The interest paid for debt service in the current year was $7,740,037. The total future installments of interest and principal payments and the total bond principal paid during fiscal year 2023 are disclosed in note 4.

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 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 are required to pay to the Settling States (i) five initial payments all of which have been paid; (ii) annual payments required to be made on April 15, commencing April 15, 2000, and continuing in perpetuity (Annual Payments) and (iii) 10 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. The receivable recognized in the financial statements represents an estimate of the shipments made through June 30, 2023.

6. 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.

7. CONTINGENCIES

Certain smokers, consumer groups, cigarette manufacturers, cigarette importers, cigarette distributors, Native American tribes, taxpayers, taxpayer groups and other parties have instituted litigation against various tobacco manufacturers, including the PMs, as well as certain Settling States, including Louisiana, and other public entities. The lawsuits have alleged, among other things, that the Master Settlement Agreement or "MSA" as well as "tobacco" statutes, including both escrow and complementary legislation in MSA states, violates 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. In the event of an adverse court ruling, the corporation may not have adequate financial resources to make payment on the Bonds.

Additionally, the state of Louisiana, along with other states, participated in a multi-state arbitration against various manufacturers, including Liggett, Commonwealth and Lignum. Over the past several years, Liggett has withheld funds from its MSA payments due because Liggett disputes the Independent Auditor's Decision to change the units used to measure the total domestic cigarette market and each Participating Manufacturer'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 is 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 January 24, 2024, 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.

8. 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 that once all the bonds have been paid, which is expected to occur during fiscal year end June 30, 2024, if the Corporation exercises the optional redemption, the remaining assets will be transferred to the State of Louisiana and credited to the Millennium Trust Fund. The transfer of assets will only occur once the Trustee determines the amount payable. 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.

SUPPLEMENTARY INFORMATION SCHEDULE

SCHEDULE OF CONTINUING DISCLOSURE REQUIREMENTS

Schedule 1 presents financial information or operating data reflecting actual results to date in accordance with the continuing disclosure agreement in the $659,745,000 Tobacco Settlement Asset-Backed Refunding Bonds Series 2013A (Series 2013 Bonds) Offering Circular.

TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA

Schedule of Continuing Disclosure Requirements
For the Year Ended June 30, 2023

Estimated Debt Service Coverage:

	Estimated Debt Service Coverage for Series 2013 Bonds	Actual Debt Service Coverage for Series 2013 Bonds
2023	2.37	2.37

Projection of Annual Payments to be Received by the Corporation:

	Projected Total Annual Payments to the Corporation	Actual Total Annual Payments to the Corporation
2023	$90,778,507	$90,876,736

Liquidity Reserve Account Earnings:

	Projected Total Earnings	Actual Total Earnings
2023	$430,268	$1,937,875

OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

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.

LOUISIANA LEGISLATIVE AUDITOR

MICHAEL J. "MIKE" WAGUESPACK, CPA
LOUISIANA LEGISLATIVE AUDITOR

January 24, 2024

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, 2023, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated January 24, 2024. 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,

Michael J. "Mike" Waguespack, CPA
Legislative Auditor

WN:EBT:BH:BQD:ch

TSFC 2023