TSA

TOBACCO SETTLEMENT AUTHORITY

Tobacco Settlement Authority

Special Meeting

December 18, 2018

TSA

TOBACCO SETTLEMENT AUTHORITY

Meeting Agenda

YOU ARE HEREBY NOTIFIED that the Tobacco Settlement Authority will hold a Special Meeting in the Authority's Offices at 1000 Second Avenue, Suite 2800, Seattle, WA 98104 in the Board Room at 2:00 p.m. Pacific Time, on Tuesday, December 18, 2018, to consider the following:

I. CALL TO ORDER: *Chair, Ms. Carla DewBerry*

II. APPROVAL OF THE JULY 24, 2018 SPECIAL MEETING MINUTES: *Chair* **1**

III. ACTION ITEMS:

A. **Finance Report –** *Mr. Bob Cook*

1. Consider and Act on acceptance of Final Audit Report **2**
2. Review and consider approval of the Financial Statement **3**

IV. INFORMATION ITEMS

A. Invoice for Services **–** *Mr. Bob Cook* **4**

B. Tobacco Securitization Market Update – *Ms. Kym Arnone, Jefferies LLC* **5**

C. Trustee Report – *Ms. Deborah Kuykendall, U.S. Bank* **6**

D. Status of Nonparticipating Manufacturer (NPM) Adjustment Arbitration

– *Mr. Robert J. (Rusty) Fallis, Assistant Attorney General*

V. ADDITIONAL INFORMATION ITEMS

A. Executive Director's Report – *Mr. Kim Herman*

B. Authority Meeting Schedule – *Mr. Kim Herman*

1. June 5, 2019
2. December 4, 2019

VI. PUBLIC COMMENT : *Chair*

(*May limit public comment to five minutes or less per person*).

VII. EXECUTIVE SESSION

VIII. MISCELLANEOUS BUSINESS AND CORRESPONDENCE 7

IX. ADJOURNMENT

Board Members may participate in the Special Meeting by dialing in on the designated call-in number.

TAB 1

TOBACCO SETTLEMENT AUTHORITY
BOARD OF DIRECTORS
Special Meeting

Minutes

July 24, 2018

Board Chair, Ms. Carla DewBerry, called the meeting of the Tobacco Settlement Authority (the "Authority") to order at 1:05 p.m. on Tuesday, July 24, 2018.

The Special Meeting was held in the Board Room of the Washington State Housing Finance Commission (the "Commission") located on the 28th floor of 1000 Second Avenue, Seattle, Washington 98104.

Board members Ms. Carla DewBerry and Mr. Tim Kerr were present in the board room. Board members Ms. Marlis Petersen Spawn and Mr. Mike Roberts were present by telephone. Authority staff members present were Mr. Kim Herman, Executive Director; Mr. Paul Edwards, Deputy Director; Mr. Bob Cook, Senior Finance Director; Ms. Carol Johnson, Affiliates Manager; and Ms. Rona Monillas, Affiliates Program Assistant.

Finance team members present were Ms. Faith Pettis of Pacifica Law Group; Ms. Debbie Kuykendall and Ms. Christine Ok of U.S. Bank; and Mr. Rusty Fallis, Assistant Attorney General. Joining via teleconference was Mr. Fred Eoff of Public Financial Management Group; Ms. Kym Arnone of Jefferies LLC; Mr. Howard Zucker and Mr. Roger Bagley of Hawkins, Delafield and Wood; and Mr. Mike Leffler, Mr. Michael Jang, and Mr. Timothy Rattigan of Citigroup.

Approval of the May 15, 2018 Special Meeting Minutes

Ms. DewBerry asked for a motion to approve the minutes of the meeting held on May 15, 2018. Mr. Kerr made the motion and it was seconded by Mr. Roberts. The minutes were approved unanimously, 4-0.

Action Item: Approval of Annual Budget

Ms. DewBerry introduced Mr. Cook to present the proposed annual budget for the fiscal year beginning July 1, 2018 thru June 30, 2019. Mr. Cook explained that the budget has more expenses in the next year, up about $16,000 from the 2018 budget and totaling $118,000. He added that in April 2018, $19,000 was drawn from the Tobacco Settlement Revenues (TSR's) to fund general operations and for continuing operating funds for the following year.

Mr. Cook addressed the budget summary for the fiscal year ending 2019 and stated that the budget aims to monitor the transaction and exercise any refunding option that may become available. The budget is a little higher than budgeted last year due to additions in the administrative area. He added that the Authority expects an increase in the 2018 projected actual budget when we close out this fiscal year. This increase is due to refunding activity that was not anticipated when the budget was established.

Ms. DewBerry asked for a motion to accept the budget for the 2018-2019 fiscal year. Mr. Roberts made the motion and it was seconded by Mr. Kerr. The motion was approved unanimously, 4-0.

Review & Consider Acceptance of Financial Statement

Ms. DewBerry asked Mr. Cook to present the unaudited current financial statement. Mr. Cook stated that the financial statement as of May 31, 2018 shows assets of approximately $178,000 with $13,000 of expenditures, leaving a net unrestricted position of around $165,000. He added that current year-to-date revenue was around $21,000 with expenditures of $47,000 and a net deficit of $26,000.

Ms. DewBerry asked for a motion to accept the unaudited financial statements. Mr. Roberts made the motion and it was seconded by Ms. Petersen Spawn. The motion was approved unanimously, 4-0.

Invoice for Services

Mr. Cook stated that the invoices from the Housing Finance Commission for the three-month period from January 1, 2018 through March 31, 2018 totaled $5,496.94. The invoice was previously approved by Board Treasurer, Ms. Petersen

Spawn.

Refunding Recap

Ms. DewBerry introduced Mr. Herman and Ms. Arnone to present a recap on the TSA 2018 refunding.

Mr. Herman presented the press release on the refunding and reminded everyone of how it became a smaller transaction. Ms. Arnone added that the transaction was successful and that all the bonds were structured to pass S&P's rating criteria, with ratings of "A". She mentioned that the transaction was priced aggressively and was well received in the marketplace. She added that the deal ended up generating about $4.9 million in present value (PV) savings which was in excess of 10.39% of the refunded par. She recalled that back in May, the expected PV savings were in the range of $3.7 million or 7.8% of the refunded par and mentioned that the deal certainly exceeded the preliminary level by a considerable margin.

Ms. Arnone reported that there were $134.8 million of Series 2013 bonds that remained outstanding as of July 2, 2018. Of those, $71.2 million are non-callable serials and $63.5 million are callable serials that remain mature 2030-2033.

Mr. Herman added that the Authority was prepared for possible inquiries from the public regarding the recent refunding. He said that aside from a call from one journalist, the Authority did not receive inquiries on this deal compared to the 2002 and 2013 bond issues.

Market Update

Ms. Arnone proceeded with the tobacco market update and stated that the market has very favorable technicals and stable credit fundamentals. She mentioned that Altria will be releasing their Q2 results this week.

Trustee Report

Ms. DewBerry introduced Ms. Kuykendall to present the Trustee's Report.

Ms. Kuykendall gave an update on the 2013 and 2018 refundings. She stated that the partial refunding generated $47,645,000 with interest expense of $212,844.06.

She specified that as of June 30, 2018 the outstanding bonds from Series 2013 were $182,480,000 and $43,630,000 for series 2018, totaling $226,110,000 in total bonds outstanding. An amount of $47,645,000 in 2013 bonds was scheduled for redemption in early July.

Ms. Kuykendall said that the projected TSR's as of June 1, 2018 were $40,834,487 and added that she will be updating these numbers based on the 2018 Official Statement. She also mentioned that the Authority gained $18,086 in income on the investment proceeds while we waited to redeem the refunded bonds.

Ms. Kuykendall stated that the report from June 1, 2018 was submitted to the rating agency. She said that they will be operating under two similar disclosure agreements for the 2013 and 2018 bonds with different CUSIP numbers for each. She also reported that the total reserve was maintained at $31,997,719.44.

Executive Director's Report

Ms. DewBerry introduced Mr. Herman to present the Executive Director's Report.

Mr. Herman thanked Mr. Roberts for his continued support for the Authority although his term ended already. He added that the Authority is in the process of looking for a new board member to replace him. He mentioned that the Authority is accepting suggestions and recommendations.

Mr. Herman shared a Bond Buyer article regarding ratings of underwriters and financial advisors. He noted that TSA finance team members Public Financial Management, Inc., Jefferies, and Citigroup dominated the rankings and were mentioned very favorably in the article. He added that the Authority has one of the best financing teams in the business.

Mr. Herman stated that if there is no change in the schedule, the next Authority board meeting will be on December 5, 2018.

Public Comment

Ms. DewBerry asked if there were any comments from the public.

Adjournment Ms. DewBerry adjourned the meeting at 1:25 p.m.

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Ms. Carla DewBerry, Chair

TAB 2

TSA

memorandum

To: Authority Members

CC: Kim Herman; Paul Edwards; Carol Johnson

From: Bob Cook & Debra Stephenson

Date: November 20, 2018

Re: Audit Report for the fiscal year ended June 30, 2018

The Authority's financial statements are audited by an independent auditing firm each fiscal year. The audit for the year ended June 30, 2018 has been completed by Moss Adams, LLP. We are happy to report that the opinion, dated November 14, 2018, confirms that the statements are fairly presented, with no qualifications.

We have attached the audited financial statements that management prepared and Moss Adams has audited for your review. We will be available to answer any questions you might have at the December scheduled Authority meeting.

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REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS WITH
SUPPLEMENTAL INFORMATION

TOBACCO SETTLEMENT AUTHORITY

(A Component Unit of the State of Washington)

June 30, 2018 and 2017

MOSSADAMS

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MOSSADAMS

Report of Independent Auditors

To the Board of Directors
Tobacco Settlement Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Tobacco Settlement Authority, which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tobacco Settlement Authority as of June 30, 2018 and 2017, and the changes in its net position and results of its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements. The supplemental schedules of program net position, program revenues, expenses, and changes in program net position, and program cash flows on pages 19 through 21 are presented for purposes of additional analysis and are 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules of program net position, program revenues, expenses, and changes in program net position and program cash flows are fairly stated in all material respects in relation to the financial statements as a whole.

Moss Adams LLP

Seattle, Washington
November 14, 2018

As management of the Tobacco Settlement Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the years ended June 30, 2018 and 2017. This overview and analysis is required by accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB).

Financial Highlights

Tobacco Settlement Revenues (TSRs) of $33.7 million and $39.8 million were recognized as revenue in the fiscal years ended June 30, 2018 and 2017, respectively. In accordance with GASB 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, $16.4 million of TSRs applicable to cigarette sales between January 1, 2018, and June 30, 2018, were recorded as accrued TSR Receivable as of June 30, 2018, while $18.0 million of TSRs applicable to cigarette sales between January 1, 2017, and June 30, 2017, were recorded as accrued TSR Receivable as of June 30, 2017.

Significant year over year changes from June 30, 2017 to June 30, 2018, include:

- TSR receivables decreased by $1.6 million (8.9%) to $16.4 million primarily due to cigarette sale declines.

- At year-end, the Authority had total net bonds payable of $192.8 million, net of premiums. This represents a net decrease of $29.6 million (13.3%) resulting from principal payments on bonds from maturities and a current defeasance completed near year end.

- At June 30, 2018, the Authority had an increase of $24.6 million (15.0%) in net position over that of the previous fiscal year end.

- Bond interest expense decreased $1.6 million (12.5%) as bonds payable continued to decline.

Overview of the Financial Statements

The financial statements consist of three parts: management's discussion and analysis, the basic financial statements and the notes to the financial statements. The financial statements are presented in a manner similar to that of a private business, using the economic resources measurement focus and the accrual basis of accounting. The financial statements report information for all Authority operations. The statement of net position includes all of the Authority's assets and liabilities. All of the revenues and expenses of the Authority are accounted for in the statements of revenues, expenses and changes in net position.

In addition, program financial statements are presented as supplemental information. These supplemental statements separate the financial statements into the Restricted Bond Fund and General Operating Fund.

Overview of the Financial Statements (continued)

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority has applied all applicable GASB pronouncements. All program and general operating funds of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows and all liabilities and deferred inflows associated with the operation of these funds are included on the statements of net position. The statements of revenue, expenses and changes in net position for all funds present increases (e.g., revenues) and decreases (e.g., expenses) in net fund position. These funds utilize the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Management believes that the present value amount of TSRs that will be collected over time is $139.6 million, an amount equal to the net deficit position.

Economic Outlook

The volume of cigarette shipments is the major factor in determining the amount of TSRs received by the Authority. Shipments of cigarettes over the history of the Authority have declined more rapidly than originally predicted when its bonds were issued in 2002. Factors influencing demand over that period have been significant increases in state and federal tobacco excise taxes, greater restrictions on public smoking, and the rise in popularity of e-Cigarettes. According to data from industry sources, cigarette shipments during 2016 declined 2.39%. Authority staff consider the industry information available to them each year when accruing estimated TSRs to be received as revenue.

During 2018, due to favorable market conditions, the Authority refinanced a portion of the Series 2013 refunding bonds, reducing the required total debt service. Cigarette consumption information included in the Official Statement for the 2018 Refunding Bonds reports an average decline of 3.910% between the years 2008 and 2017. The TSA Refunding bonds remaining outstanding were modeled to withstand a decline in consumption of as much as 9.088% annually.

Financial Analysis of the Authority

Statements of Net Position

The following table summarizes the changes in assets and deferred outflows, liabilities and deferred inflows, and net position between the years ended June 30, 2018 and 2017 (in millions):

	2018	2017	Change	
Assets				
Cash and cash equivalents	$ 36.7	$ 37.9	$ (1.2)	(3.2%)
Accrued TSR and other receivables	16.4	18.0	(1.6)	(8.9%)
Total assets	53.1	55.9	(2.8)	(5.0%)
Deferred outflow of resources	2.0	3.2	(1.2)	(37.5%)
Total assets and deferred outflow of resources	$ 55.1	$ 59.1	$ (4.0)	(6.8%)
Liabilities				
Accrued interest payable and other liabilities	$ 0.6	$ 0.9	$ (0.3)	(33.3%)
Bonds payable, net	192.8	222.4	(29.6)	(13.3%)
Total liabilities	193.4	223.3	(29.9)	(13.4%)
Deferred inflow of resources	1.3	-	1.3	100.0%
Net position	(139.6)	(164.2)	24.6	15.0%
Total liabilities and net position	$ 55.1	$ 59.1	$ (4.0)	(6.8%)

Statements of Revenues, Expenses, and Changes in Net Position

The following table summarizes the activities in revenues and expenses between the years ended June 30, 2018 and 2017 (in millions):

	2018	2017	Change	
Revenues				
Tobacco settlement and other revenues	$ 34.1	$ 40.1	$ (6.0)	(15.0%)
Bond interest and program revenue	0.5	0.2	0.3	(100.0%)
Total revenues	$ 34.6	$ 40.3	$ (5.7)	(14.1%)
Expenses				
Bond program interest expense	$ 11.2	$ 12.8	$ (1.6)	(12.5%)
Other bond program expenses	(1.3)	(2.7)	1.4	(51.9%)
General and administrative	0.1	0.1	-	- %
Total expenses	$ 10.0	$ 10.2	$ (0.2)	(2.0%)
Change in net position	$ 24.6	$ 30.1	$ (5.5)	(18.3%)

Financial Analysis of the Authority (continued)

TSRs of $33.7 million and $11.2 million of interest on debt are the primary components of total revenues and expenses, respectively, for the Restricted Bond Program.

During fiscal year 2018, revenue received for general operations included other income of $19.3 thousand representing a draw from TSR's and $2.2 thousand of interest income. General operating expense for fiscal year 2018 within the General Operating Fund was $54.3 thousand comprised of allocable salaries and wages, and other general and administrative expenses.

Debt Administration

The Authority has long-term debt obligations of $192.8 million, net of bond premium at June 30, 2018. The Authority's bond funds are held by a trustee who ensures that bond resolution requirements are met, including payments of debt service and funding of necessary reserves. At June 30, 2018, amounts held by the trustee and future receipts of TSRs represent full funding of these requirements.

The 2002 series bonds were sold pursuant to a Purchase and Sale Agreement between the Authority and the State of Washington in which TSRs ($30 million by July 1, 2003, and 29.2% of the TSRs thereafter) were purchased by the Authority for a one-time cash distribution of $450 million to the State of Washington. During fiscal year 2014, the Series 2002 bonds were refunded by the Series 2013 Refunding Bonds under the existing Purchase and Sale Agreement with the State. On June 20, 2018, the Authority issued $43,630,000 of Series 2018 Refunding Bonds. The proceeds (including bond premium) were used to refund $47,645,000 of the Series 2013 Refunding Bonds. The Series 2013 and 2018 Refunding Bonds are solely secured by the "right to receive" TSRs from major tobacco companies under the Master Settlement Agreement. The Bonds consist of Serial Bonds. The Serial Bonds with maturity dates 2024-2033 include optional call provisions, allowing the application of TSRs received in excess of the required redemptions.

The Authority and the State of Washington covenanted to do and perform all acts and things permitted by law and the Bond Indenture which are necessary or desirable in order to ensure that interest paid on the Tax-Exempt Bonds will be excluded from gross income for federal income tax purposes and shall take no action that would result in such interest not being excluded from gross income for federal income tax purposes.

The Authority has no general obligation bonds and does not currently have an issuer credit rating.

Additional information on the Authority's long-term liabilities can be found in Note 5 of the Authority's financial statements.

Comparison of Fiscal Years 2017 with 2016

Statements of Net Position

The following table summarizes the changes in combined net position between fiscal years ended June 30, 2017 and 2016 (in millions):

	2017	2016	Change	
Assets				
Cash and cash equivalents	$ 37.9	$ 38.8	$ (0.9)	(2.3%)
Accrued TSR and other receivables	18.0	22.3	(4.3)	(19.3%)
Total assets	55.9	61.1	(5.2)	(8.5%)
Deferred outflow of resources	3.2	3.8	(0.6)	(15.8%)
Total assets and deferred outflow of resources	$ 59.1	$ 64.9	$ (5.8)	(8.9%)
Liabilities				
Accrued interest payable and other liabilities	$ 0.9	$ 1.0	$ (0.1)	(10.0%)
Bonds payable, net	222.4	258.2	(35.8)	(13.9%)
Total liabilities	223.3	259.2	(35.9)	(13.9%)
Net position	(164.2)	(194.3)	30.1	(15.5%)
Total liabilities and net position	$ 59.1	$ 64.9	$ (5.8)	(8.9%)

During the fiscal year ended June 30, 2017, the Authority's combined total assets and deferred outflows of resources decreased by $5.8 million primarily due to the decrease in TSRs and other receivables ($4.3 million).

Comparison of Fiscal Years 2017 with 2016 (continued)

Statements of Revenues, Expenses and Changes in Net Position

The following table summarizes the combined changes in net position between the fiscal years 2017 and 2016 (in millions):

	2017	2016	Change	
Revenues				
Tobacco settlement and other revenues	$ 40.1	$ 46.8	$ (6.7)	(14.3%)
Bond interest and program revenue	0.2	-	0.2	100.0%
Total revenues	$ 40.3	$ 46.8	$ (6.5)	(13.9%)
Expenses				
Bond program interest expense	$ 12.8	$ 14.7	$ (1.9)	(12.9%)
Other bond program expenses	(2.7)	(2.8)	0.1	(3.6%)
General and administrative	0.1	0.2	(0.1)	(50.0%)
Total expenses	$ 10.2	$ 12.1	$ (1.9)	(15.7%)
Change in net position	$ 30.1	$ 34.7	$ (4.6)	(13.3%)

The change in net position of $30.1 million for fiscal year 2017 represents a decrease of $4.6 million over the fiscal year 2016 change of $34.7 million. The decrease is primarily attributable to the reduction in TSRs, partially offset by the realized savings in bond interest.

Questions and inquiries may be directed to the Senior Director of Finance or the Senior Controller at Tobacco Settlement Authority, 1000 Second Avenue, Suite 2700, Seattle, WA 98104 or 206-464-7139.

	June 30, 2018	June 30, 2017
ASSETS AND DEFERRED OUTFLOW OF RESOURCES		
CASH AND CASH EQUIVALENTS	$ 36,745,871	$ 37,905,850
TSR RECEIVABLE	16,410,696	17,956,373
PREPAID FEES AND INTEREST RECEIVABLE	57,068	26,898
TOTAL ASSETS	53,213,635	55,889,121
DEFERRED OUTFLOW OF RESOURCES		
Unamortized loss on refunded debt	1,964,493	3,209,735
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$ 55,178,128	$ 59,098,856
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION		
ACCRUED INTEREST PAYABLE	$ 641,714	$ 890,473
ACCOUNTS PAYABLE AND OTHER LIABILITIES	12,969	8,153
BONDS PAYABLE		
Interest bonds	178,465,000	208,745,000
Unamortized bond premium	14,302,756	13,669,678
	192,767,756	222,414,678
TOTAL LIABILITIES	193,422,439	223,313,304
DEFERRED INFLOW OF RESOURCES		
Unamortized gain on refunded debt	1,355,851	-
TOTAL NET POSITION	(139,600,162)	(164,214,448)
TOTAL LIABILITIES, DEFERRED INFOW OF RESOURCES AND NET POSITION	$ 55,178,128	$ 59,098,856

See accompanying notes.

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended June 30, 2018	2017
REVENUES		
Tobacco settlement revenues and other income	$ 34,092,723	$ 40,103,475
Interest income	516,548	146,136
	34,609,271	40,249,611
EXPENSES		
Interest on debt	11,190,624	12,820,402
Amortization of bond premium	(2,379,864)	(2,699,281)
Cost of issuance	1,082,631	-
General and administrative	101,594	153,894
	9,994,985	10,275,015
CHANGE IN NET POSITION	24,614,286	29,974,596
NET POSITION		
Beginning of year	(164,214,448)	(194,189,044)
End of year	$ (139,600,162)	$ (164,214,448)

See accompanying notes.

	Years Ended June 30,	
	2018	2017
OPERATING ACTIVITIES		
Cash received from tobacco settlement and other revenues	$ 35,640,558	$ 44,483,261
Cash paid for bond program expenses	(1,129,931)	(28,000)
Cash paid for general and administrative expenses	(49,446)	(122,780)
Net cash from operating activities	34,461,181	44,332,481
INVESTING ACTIVITIES		
Cash received from interest income	484,187	125,364
NONCAPITAL FINANCING ACTIVITIES		
Proceeds from issuance of bonds	48,692,963	-
Principal repayment on bonds	(73,910,000)	(33,050,000)
Cash paid for bond interest expense	(10,888,310)	(12,324,300)
Net cash used for financing activities	(36,105,347)	(45,374,300)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,159,979)	(916,455)
CASH AND CASH EQUIVALENTS		
Beginning of year	37,905,850	38,822,305
End of year	$ 36,745,871	$ 37,905,850
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Excess of revenues over expenses	$ 24,614,286	$ 29,974,596
Adjustments to reconcile operating income to net cash provided by operating activities		
Amortization of bond premium	(2,379,864)	(2,699,281)
Amortization of loss on refunded debt	551,072	633,810
Cash paid for bond interest expense	10,888,311	12,324,300
Cash received from interest income	(484,187)	(125,363)
Changes in assets and liabilities		
(Increase) decrease in TSR receivable	1,545,677	4,378,883
Decrease in prepaid fees and other receivables	(30,171)	(19,870)
Increase (decrease) in accounts payable and other liabilitie:	(243,943)	3,114
Decrease in accrued interest payable	-	(137,708)
Net cash from operating activities	$ 34,461,181	$ 44,332,481

Note 1 – Organization, Program Funds, and Description of Business

The Tobacco Settlement Authority (the Authority) was formed in April 2002 pursuant to legislation enacted by the Washington State Legislature (RCW 43.340) and signed into law by Governor Gary Locke. It is a public instrumentality separate and distinct from the State. However, because the State appoints the governing body and is entitled to the resources of the Authority, the financial accountability criteria as defined by the Governmental Accounting Standards Board (GASB) have been met. As such, the Authority is presented as a blended component unit of the State in its Comprehensive Annual Financial Report (CAFR).

The Authority board consists of five directors, each appointed by the governor. The chair of the Authority serves at the pleasure of the governor while the remaining directors serve terms of four years from the date of their appointment.

The Authority was created to generate a one-time payment of $450 million for the State of Washington (the State) in the 2002-2004 biennium by issuing bonds securitizing a portion of the future revenue stream available under the Master Settlement Agreement (MSA) among participating cigarette manufacturers and Settling States. The Settling States included the state of Washington, 45 other states and six other U.S. jurisdictions. In November 2002, $517 million of bonds were issued and $450 million was deposited by the Authority into the State general fund in exchange for acquiring a one-time payment of $30 million at bond closing and 29.2% of the State's Tobacco Settlement Revenues (TSRs) received on or after July 1, 2003. The final maturity of the Series 2002 Bonds was 2032. On October 17, 2013, $334,700,000 in refunding bonds were issued. The bond proceeds were used to currently refund all 2002 bonds. The structure of the Series 2013 Refunding Bonds provided a reduced interest rate with a final scheduled maturity in 2033. On June 20, 2018, $46,630,000 in refunding bonds were issued. The proceeds were used to partially refund the Series 2013 Refunding Bonds, providing a further reduction in interest rate. The expected maturity of both series of Refunding Bonds is 2023. For further information on the MSA, see Note 6.

Payment on the bonds is a sole obligation of the Authority and not an obligation of the State of Washington. Neither the faith and credit nor the taxing power of the State of Washington or any municipal corporation, subdivision or agency of the State is pledged to the payment of the bonds.

The Authority's financial operations are accounted for in two funds, the Restricted Bond Fund and General Operating Fund. The Restricted Bond Fund accounts for the receipt of the Authority's TSRs and of the payments related to servicing the bonds. The General Operating Fund accounts for the fiscal activities of the ongoing program administration responsibilities of the Authority. It is funded by draws, as necessary, from the TSRs used to repay the debt. The Authority's fiscal year begins on July 1 and ends on June 30.

Administrative and technical support for the Authority is provided by the Washington State Housing Finance Commission, which is reimbursed for its costs from the Authority's operating fund. Accounting and staff services are to be provided until the bonds are retired.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority has applied all applicable GASB pronouncements.

The most significant of the Authority's accounting policies are described below.

Measurement focus and basis of accounting – All program and general operating funds of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows and all liabilities and deferred inflows associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in net position for all funds present increases (e.g., revenues) and decreases (e.g., expenses) in net fund position. These funds utilize the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities and deferred inflows are incurred.

Unclassified statement of net position – The Authority's business cycle is greater than one year. As such, all assets and liabilities as shown on the statement of net position are unclassified.

Cash and cash equivalents – Cash deposits held in the Restricted Bond Fund are held in the corporate trust department of a commercial bank (the Trustee) in the bond issue's name. Cash deposits held by the General Operating Fund are entirely covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission. Cash and cash equivalents by fund as of June 30, 2018 and 2017, are:

	2018	2017
Cash and cash equivalents		
Restricted Bond Fund	$ 36,580,719	$ 37,712,710
General Operating Fund	165,152	193,140
Total cash and cash equivalents	$ 36,745,871	$ 37,905,850

For purposes of the statement of cash flows, the Authority considers all highly liquid, interest-bearing instruments purchased with an original maturity of three months or less that are readily convertible to cash to be cash and cash equivalents.

Investments – The Authority's Trustee holds all of the Authority's investments in the name of the Authority, however there were no investments outstanding at June 30, 2018 or 2017.

Note 2 – Summary of Significant Accounting Policies (continued)

Deferred outflow and inflow of resources – In addition to assets and liabilities, the statement of net position, when applicable, will report a separate section for deferred outflow and inflow of resources. Deferred outflow 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) until then. Similarly, deferred inflows represent the expected savings of net position that apply to future period(s). The excess of costs and the excess of savings incurred over the carrying value of bonds refunded on early extinguishment of debt is amortized, using the bonds outstanding method, over the shorter of the remaining life of the old bonds or the life of the new issue and recorded as a deferred outflow of resources.

Unamortized bond discounts and premium – Unamortized bond discounts and premiums are amortized using the bonds outstanding method over the expected life of the bonds.

Bond issuance costs – Bond issuance costs, including underwriter's discounts are expensed at issuance.

Bonds payable – Serial Bonds are stated at their principal amount outstanding, net of unamortized bond premium.

Income taxes – The Authority is exempt from federal income taxes under Internal Revenue Code Section 115(a) and accordingly, no provision for income taxes was made for the years ended June 30, 2018 and 2017.

Tobacco settlement revenues – The purchase and sale agreement between the Authority and the State of Washington conveyed the right to the first $30 million of the TSRs for the fiscal year ended June 30, 2003, and 29.2% of the TSRs thereafter until all of the bonds are redeemed. They are to be deposited with the Authority's Bond Trustee and used in accordance with the bond indenture to redeem bonds and pay costs until such time as the bond and other obligations are fully paid.

The Authority has elected to continue recognition of its Purchase and Sale Agreement of Tobacco Assets on its previous transactions consistent with its treatment prior to the issuance of GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* as allowed by the statement. Therefore, the Authority does not recognize a deferred inflow of resources related to the purchase of this future revenue stream from the State. The Authority recognizes TSRs as an asset and revenue based on the domestic shipment of cigarettes. The Authority estimates accrued TSRs that derive from sales of cigarettes from January 1 to June 30, according to the annual TSRs payment that are based on cigarette sales from the preceding calendar year and historical payment trends. TSRs recognized for 2018 and 2017 included an accrual of $16,410,696 and $17,956,373, respectively.

Other fee income – The Authority is entitled to receive operating funds each year from TSRs as outlined in the bond indenture. However, the Authority has the option to deliver an officer's certificate to the Trustee on or before April 15 of each year certifying changes to the amount of operating funds to be drawn. For fiscal years 2018 and 2017, the Authority delivered officer's certificates to the Trustee requesting operating funds of $19,300 and $67,000, respectively, be disbursed which were received by the Authority prior to the fiscal years' end.

Note 2 – Summary of Significant Accounting Policies (continued)

Use of estimates – The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Net position – The net deficit position balances of $139,600,162 at June 30, 2018, and $164,214,448 at June 30, 2017, reflect unrestricted net deficit positions as defined by GASB Statement No. 34. This balance is comprised of amounts from two funds. The general operating fund has a net position balance of $158,666 at June 30, 2018, and $191,502 at June 30, 2017. The restricted bond fund has a net deficit balance of $139,758,828 at June 30, 2018, and $164,405,950 at June 30, 2017. Management believes that the present value of the TSRs allocated to the Authority approximates the net deficit position.

Arbitrage rebate – No arbitrage rebate is owed to the United States Treasury for the years ended June 30, 2018 and 2017.

Note 3 – Investments

Bond issue investment policy – The trust indenture for the bond issue outlines the permitted investments. Although all of the program funds must be used for program purposes, certain funds have been restricted for payment of debt service as required by the indenture.

Operations investment policy – The Authority can invest in nongovernmental investments including certificates of deposit, banker's acceptances and repurchase agreements.

In addition, the following governmental investments are eligible:

1. Treasury bills, notes and other obligations issued by the United States Department of the Treasury and backed by the full faith and credit of the U.S. government.

2. Federal Home Loan Bank notes and bonds.

3. Federal Land Bank bonds.

4. Federal National Mortgage Association notes, debentures and guaranteed certificates of participation.

5. The obligations of certain government-sponsored corporations whose obligations are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System.

6. Shares of mutual funds with portfolios consisting of only U.S. government bonds or U.S. government guaranteed bonds issued by federal agencies with average maturities less than four years.

Note 3 – Investments (continued)

The Authority measures investments at fair value on a reoccurring basis and categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. However, as of the years ended June 30, 2018 and 2017, the Authority held no investments as all excess funds were held as cash and cash equivalents.

Note 4 – Contracted Staff Services

The Washington State Housing Finance Commission provides staff and other administrative services to the Authority. Total charges were $28,028 and $27,069 for the years ended June 30, 2018 and 2017, respectively. The Authority has no directly hired staff and as such has no pension obligations. The Authority had fees payable totaling $12,546 and $7,356 with the Washington State Housing Finance Commission at June 30, 2018 and 2017, respectively.

Note 5 – Bonds Payable

The bonds are limited obligations of the Authority payable solely from its TSRs received and due from the State secured by the purchase and sale agreement as described in Note 2, restricted investments, and undisbursed bond proceeds and the earnings thereon held under the indenture authorizing the bonds.

Bond defeasance – On June 20, 2018, the Authority issued Series 2018 Tobacco Settlement Refunding bonds of $43,630,000 with an effective interest rate of 3.09%. The bond proceeds were used to refund $47,645,000 of outstanding 2013 Tobacco Settlement Authority Bonds. As a result of the current refunding, the Authority reduced its total debt service requirements by $17,548,768, which resulted in an economic gain (the difference between the present value of the debt service payments on the old and new debt) of $8,655,545. As of June 30, 2018, the Authority had outstanding bonds of approximately $178.5 million. The bonds bear interest rates ranging from 5.00% to 5.25% and mature in varying amounts through 2033. Future principal and interest requirements are shown in the following table.

Years Ending June 30,	Principal Redemptions	Interest Requirements	Total
2019	$ 13,665,000	$ 8,967,053	$ 22,632,053
2020	13,970,000	8,398,938	22,368,938
2021	13,880,000	7,700,437	21,580,437
2022	25,110,000	7,006,437	32,116,437
2023	26,735,000	5,750,937	32,485,937
2024-2028	21,530,000	17,764,938	39,294,938
2029-2033	63,575,000	10,844,400	74,419,400
	$ 178,465,000	$ 66,433,140	$ 244,898,140

Note 5 – Bonds Payable (continued)

Changes in bonds outstanding during the fiscal year ended June 30, 2018, are summarized in the following table:

Balance at June 30, 2017	Issued	Redeemed	Balance at June 30, 2018
$ 208,745,000	$ 43,630,000	$ 73,910,000	$ 178,465,000

Note 6 – Master Settlement Agreement and Tobacco Settlement Revenues

The Master Settlement Agreement is a tobacco industry-wide settlement of litigation between the Settling States and the Original Participating Manufacturers and was entered into by the parties on November 23, 1998. Tobacco Settlement Revenues consist of the amounts to be received under the terms of the Master Settlement Agreement.

The MSA requires annual payments by the four largest tobacco companies to the Settling States; up to $206 billion was to be received during the first 25 years of the agreement. The State of Washington was initially scheduled to receive approximately $4 billion during the first 25 years.

Management believes that the present value of the amount of TSRs that will be collected by the Authority over time is $139,600,162, an amount equal to the net deficit position. However, prior to GASB 48, which was effective for years beginning on or after December 15, 2006, accounting principles generally accepted in the United States of America did not allow these future revenues to be recorded in the financial statements. As such, the only TSRs receivable recorded in the accompanying financial statements are those estimated to accrue due to cigarette shipments from January 1 to June 30, 2018, and January 1 to June 30, 2017.

Note 7 – Contingencies

Certain parties, including smokers, smokers' rights organizations, consumer groups, cigarette manufacturers, cigarette importers, cigarette distributors, Native American tribes, taxpayers, taxpayers' groups and other parties have filed actions against some, and in certain cases all, of the signatories to the MSA, alleging, among other things, that the MSA and related legislation including the Settling States' Qualifying Statutes, Allocable Share Release Amendments and Complementary Legislation as well as other legislation such as "Contraband Statutes" are void or unenforceable under certain provisions of law, such as the U.S. Constitution, state constitutions, federal antitrust laws, state consumer protection laws, bankruptcy laws, federal cigarette advertising and labeling law, and unfair competition laws. Certain of the lawsuits further sought, among other relief, an injunction against one or more of the Settling States from collecting any moneys under the MSA and barring the Participating Manufacturers (PMs) from collecting cigarette price increases related to 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.

Note 7 – Contingencies (continued)

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 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 Authority may not have adequate financial resources to make payment on its outstanding bonds.

Members of the Authority's board of directors and persons acting on the Authority'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, and shall have the indemnification rights under the provisions of the Authority's Public Officials and Employees Liability insurance policy.

Supplemental Information

ASSETS AND DEFERRED OUTFLOW OF RESOURCES	Restricted Bond Fund	General Operating Fund	June 30, 2018	June 30, 2017
CASH AND CASH EQUIVALENTS	$ 36,580,719	$ 165,152	$ 36,745,871	$ 37,905,850
TSR RECEIVABLE	16,410,696	-	16,410,696	17,956,373
PREPAID FEES AND INTEREST RECEIVABLE	50,585	6,483	57,068	26,898
TOTAL ASSETS	53,042,000	171,635	53,213,635	55,889,121
DEFERRED OUTFLOW OF RESOURCES				
Unamortized loss on refunded debt	1,964,493	-	1,964,493	3,209,735
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$ 55,006,493	$ 171,635	$ 55,178,128	$ 59,098,856
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION				
ACCRUED INTEREST PAYABLE	$ 641,714	$ -	$ 641,714	$ 890,473
ACCOUNTS PAYABLE AND OTHER LIABILITIES	-	12,969	12,969	8,153
BONDS PAYABLE				
Interest bonds	178,465,000	-	178,465,000	208,745,000
Unamortized bond premium	14,302,756	-	14,302,756	13,669,678
	192,767,756	-	192,767,756	222,414,678
TOTAL LIABILITIES	193,409,470	12,969	193,422,439	223,313,304
DEFERRED INFLOW OF RESOURCES				
Unamortized Gain on refunded debt	1,355,851	-	1,355,851	-
TOTAL NET POSITION	(139,758,828)	158,666	(139,600,162)	(164,214,448)
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	$ 55,006,493	$ 171,635	$ 55,178,128	$ 59,098,856

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Schedule of Program Revenues, Expenses, and Changes in Program Net Position

	Restricted Bond Fund	General Operating Fund	Years Ended June 30, 2018	2017
REVENUES				
Tobacco settlement revenues and other income	$ 34,073,423	$ 19,300	$ 34,092,723	$ 40,103,475
Interest income	514,390	2,158	516,548	146,136
	34,587,813	21,458	34,609,271	40,249,611
EXPENSES				
Interest on debt	11,190,624	-	11,190,624	12,820,402
Cost of issuance	1,082,631	-	1,082,631	-
Amortization of bond premium	(2,379,864)	-	(2,379,864)	(2,699,281)
General and administrative	47,300	54,294	101,594	153,894
	9,940,691	54,294	9,994,985	10,275,015
CHANGE IN NET POSITION	24,647,122	(32,836)	24,614,286	29,974,596
Beginning of year	(164,405,950)	191,502	(164,214,448)	(194,189,044)
End of year	$ (139,758,828)	$ 158,666	$ (139,600,162)	$ (164,214,448)

	Restricted Bond Fund	General Operating Fund	Years Ended June 30, 2018	2017
OPERATING ACTIVITIES				
Cash received from tobacco settlement and other revenues	$ 35,619,100	$ 21,458	$ 35,640,558	$ 44,483,261
Cash paid for bond program expenses	(1,129,931)	-	(1,129,931)	(28,000)
Cash paid for general and administrative expenses	-	(49,446)	(49,446)	(122,780)
Net cash from (used for) operating activities	34,489,169	(27,988)	34,461,181	44,332,481
INVESTING ACTIVITIES				
Cash received from interest income	484,187	-	484,187	125,364
NONCAPITAL FINANCING ACTIVITIES				
Proceeds from issuance of bonds	48,692,963		48,692,963	-
Principal repayment on bonds	(73,910,000)	-	(73,910,000)	(33,050,000)
Cash paid for bond interest expense	(10,888,310)	-	(10,888,310)	(12,324,300)
Net cash from (used for) financing activities	(36,105,347)	-	(36,105,347)	(45,374,300)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,131,991)	(27,988)	(1,159,979)	(916,455)
CASH AND CASH EQUIVALENTS				
Beginning of year	37,712,710	193,140	37,905,850	38,822,305
End of year	$ 36,580,719	$ 165,152	$ 36,745,871	$ 37,905,850
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Excess of revenues over expenses	$ 24,647,122	$ (32,836)	$ 24,614,286	$ 29,974,596
Adjustments to reconcile operating income to net cash provided by operating activities				
Amortization of bond premium	(2,379,864)	-	(2,379,864)	(2,699,281)
Amortization of loss on refunded debt	551,072	-	551,072	633,810
Cash paid for bond interest expense	10,888,311	-	10,888,311	12,324,300
Cash received from interest income	(484,187)	-	(484,187)	(125,363)
Changes in assets and liabilities				
(Increase) decrease in TSR receivable	1,545,677	-	1,545,677	4,378,883
(Increase) decrease in prepaid fees and other receivables	(30,203)	32	(30,171)	(19,870)
Increase (decrease) in accounts payable and other liabilities	(248,759)	4,816	(243,943)	3,114
Decrease in accrued interest payable	-	-	-	(137,708)
Net cash from (used for) operating activities	$ 34,489,169	$ (27,988)	$ 34,461,181	$ 44,332,481

MOSSADAMS

TAB 3

TOBACCO SETTLEMENT AUTHORITY

November 29, 2018

Authority Directors
Tobacco Settlement Authority
Seattle, Washington

We have compiled the UNAUDITED statement of net position of the Tobacco Settlement Authority (the "Authority"), General Operating Fund, as of October 31, 2018 and the related statement of activities and changes in net position for the month then ended in accordance with generally accepted accounting principles.

This compilation is limited to presenting, in the form of financial statements, information that is accurate to the best of our knowledge and belief. These statements have not been audited or reviewed by an independent third party.

We have elected to omit substantially all of the disclosures required by generally accepted accounting principles including the statement of changes in financial position. If the omitted disclosures were included in the financial statements, they might influence the users' conclusions about the Authority's financial position, results of operations and changes in financial position. Accordingly, these financial statements are not designed for those who are not informed about these matters.

Prepared by: Leora Tyau
Leora Tyau
Fiscal Analyst 4

Approved by: DLStephenson
Debra L. Stephenson
Senior Controller

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TOBACCO SETTLEMENT AUTHORITY
GENERAL OPERATING FUND

October 31, 2018
Unaudited

CONTENTS

(See Accountant's Compilation Report)

Tobacco Settlement Authority
Statement of Net Position
Fund: General Operating Fund
Division: All
October 31, 2018
(See Accountant's Compilation Report)

	Current Year	Prior Year	Variance Amount		Variance %
ASSETS					
Cash and Cash Equivalents:	$ 155,134	$ 188,428	$ (33,294)		-18%
Prepaid Expenses & Other Receivable	4,323	4,325	(2)		0%
Total Assets	$ 159,457	$ 192,753	$ (33,296)		-17%
LIABILITIES					
Accounts Payable and Other Liabilities	$ 28,917	$ 22,936	$ 5,981	(1)	26%
Total Liabilities	28,917	22,936	5,981		26%
NET POSITION					
Unrestricted	130,540	169,817	(39,277)		-23%
Total Net Position	130,540	169,817	(39,277)		-23%
Total Liabilities and Net Position	$ 159,457	$ 192,753	$ (33,296)		-17%

(1) Higher payables balance in the current year is due to higher interagency payables that are comprised of payroll expenses and allocated overhead expenses. TSA hours worked were higher in the current year due to the staffing of a position that was vacant in the prior year from mid-July 2017 through mid-February 2018.

Totals may not add due to rounding.

Tobacco Settlement Authority
Statement of Activities and Changes in Net Position
Fund: General Operating Fund
Division: All
For The Year To Date Ending: October 31, 2018
(See Accountant's Compilation Report)

	Current Period	Current Year to Date	Prior Year to Date	Variance Amount		Variance %
Revenues:						
Interest Earned	$ 265	$ 1,053	$ 705	$ 348	(1)	49%
Total Unadjusted Revenues	265	1,053	705	348		49%
Expenses:						
Salaries, Wages, and Employee Benefits	1,952	11,187	5,628	5,559	(2)	99%
Travel & Conferences	-	-	92	(92)		-100%
Professional Fees	10,400	13,751	13,552	199		1%
Office Expense	806	4,222	3,119	1,103	(3)	35%
Total Expenses	13,158	29,160	22,390	6,770		30%
Adjustments						
Gains/(Loss) on Investments	(3)	(19)	-	(19)		NA
Total Adjustments	(3)	(19)	-	(19)		NA
(Deficit) Excess of Revenues over Expenses	(12,896)	(28,126)	(21,685)	(6,441)		30%
Net Position						
Total net position, beginning of period	143,436	158,666	191,502	(32,836)		-17%
Current Increase (Decrease) to Net Position	(12,896)	(28,126)	(21,685)	(6,441)		30%
Total net position, end of year	$ 130,540	$ 130,540	$ 169,817	$ (39,277)		-23%

(1) The interest income increase is primarily due to a higher market yield in the current period of 2.19 % than for the same time period in the prior year of 1.18%.

(2) The increase in salaries and employee benefits is primarily due to the staffing of a position in the current year that was vacant in the prior fiscal year until February 2018.

(3) The increase in office expenses is primarily due to an increase in overhead expense allocation from WSHFC. The allocation is based on TSA hours worked as a percentage of WSHFC hours worked. As noted for salary expense, a staff position was vacant in the prior year until February 2018, resulting in a higher allocation percentage of overhead expenses during the current fiscal period than the prior fiscal period

Totals may not add due to rounding.

Tobacco Settlement Authority

Detailed Statement of Activities

Fund: General Operating Fund

Division: All

For The Year To Date Ending: October 31, 2018

(See Accountant's Compilation Report)

	Variance-YTD vs. PY Actuals		Prior YTD	YTD	YTD	Variance-YTD Budget to Actual	
	%	Amount	Actual	**Actual**	Budget	Amount	%
Revenues:							
Interest Revenue	49.4%	$ 348	$ 705	**$ 1,053**	$ 778	$ 275	35.3%
Total Unadjusted Revenues	49%	348	705	**1,053**	778	275	35%
Expenses:							
Salaries & Wages - Staff & Temp. Svcs	106.0%	4,351	4,106	**8,457**	19,684	(11,227)	-57.0%
Employee Benefits - Staff	79.4%	1,208	1,522	**2,730**	5,719	(2,989)	-52.3%
Travel in state - Staff	-100.0%	(92)	92	**-**	333	(333)	-100.0%
Accounting Fees	0.0%	-	13,400	**13,400**	13,733	(333)	-2.4%
Legal Fees	130.9%	199	152	**351**	2,500	(2,149)	-86.0%
Financial Advisor Fees	NA	-	-	**-**	500	(500)	-100.0%
Office Rent/Conf. Room Rentals	166.7%	450	270	**720**	840	(120)	-14.3%
Advertising	-100.0%	(124)	124	**-**	-	-	NA
Deliveries	NA	63	-	**63**	133	(70)	-52.6%
Insurance	0.0%	-	2,161	**2,161**	2,333	(172)	-7.4%
Meeting Expense	NA	-	-	**-**	83	(83)	-100.0%
Software Maint. Support & Other Info Svcs	103.1%	362	351	**713**	763	(50)	-6.6%
Postage	123.1%	16	13	**30**	50	(20)	-40.0%
Printing	NA	170	-	**170**	200	(30)	-15.0%
Supplies	200.0%	126	63	**189**	539	(350)	-64.9%
Telephone	155.6%	28	18	**46**	69	(23)	-33.3%
Other Office Expenses	8.3%	10	120	**130**	98	32	32.7%
Total Expenses	30%	6,767	22,392	**29,160**	47,577	(18,417)	-39%
Adjustments							
Revenues:							
Investments Gain (Loss)	NA	(19)	-	**(19)**	-	(19)	NA
Total Adjustments	NA	(19)	-	**(19)**	-	(19)	NA
(Deficit) Excess of Revenues over Expenses	29.7%	$ (6,439)	$ (21,687)	**$ (28,126)**	$ (46,799)	$ 18,673	-39.9%

TAB 4

Statement of Account

Tobacco Settlement Authority
Proration of costs between TSA and WSHFC
For the period April 1, 2018 through June 30, 2018

Month		Salaries & Benefits		Office Expenses (1)		Overhead (2)		Invoice Amount
April	$	2,712.91	$	359.20	$	10.25	$	3,082.36
May		3,567.00		599.86		23.05		4,189.91
June		4,511.93		737.38		24.11		5,273.42
Total Per Category	$	10,791.84	$	1,696.44	$	57.41	$	12,545.69
Due to WSHFC:							$	12,545.69

Allocation of HFC's expenses is based upon percentage of TSA salary hours vs. total HFC's salary hours. HFC's expenses include rent, maintenance, supplies, telephone, Information services & depreciation.

1. Office Expenses include rent, maintenance, supplies, telephone, postage, delivery, and travel as allocated through HFC's overhead allocation and direct vendor charges paid on behalf of TSA, etc.

2. This is HFC's allocation of overhead depreciation for the month.

Approved for Payment

M Petersen

Authority Board Member

Statement of Account

Tobacco Settlement Authority
Proration of costs between TSA and WSHFC
For the period July 1, 2018 through September 30, 2018

Month	Salaries & Benefits	Office Expenses (1)	Overhead (2)	Invoice Amount
July	$ 3,752.45	$ 630.35	$ 22.11	$ 4,404.91
August	2,712.76	915.60	14.79	3,643.15
September	2,455.49	272.77	8.50	2,736.76
Total Per Category	$ 8,920.70	$ 1,818.72	$ 45.40	$ 10,784.82
Previous Balance at June 30, 2018				12,545.69
Payments & Credit Memos (Through September 30, 2018)				(7,266.48)
Due to WSHFC:				$ 16,064.03

Allocation of HFC's expenses is based upon percentage of TSA salary hours vs. total HFC's salary hours. HFC's expenses include rent, maintenance, supplies, telephone, Information services & depreciation.

1. Office Expenses include rent, maintenance, supplies, telephone, postage, delivery, and travel as allocated through HFC's overhead allocation and direct vendor charges paid on behalf of TSA, etc.

2. This is HFC's allocation of overhead depreciation for the month.

Approved for Payment

Authority Board Member

TAB 5

TAB 5

Tobacco Securitization Market Update

(Will be distributed to Board Members prior to meeting)

TAB 6

TOBACCO SETTLEMENT BONDS

Trustee Update December 2018

Structure:
2018 Serial maturities from June 1, 2022 through 2024:
2013 Series maturities from June 1, 2019 through 2022, 2023, and 2027 and 2033

Combined: Bond Debt Service Table					
Date	2013 Series Interest Due	2018 Series Interest Due	2013 Series Maturities	2018 Series Maturities	Series 2013 Optional Redemptions
6/1/2018	5,329,212.50		13,215,000		12,505,000
7/2/2018	212,844.06				47,645,000
12/1/2018	3,450,343.75	975,615.28	-	-	-
6/1/2019					
12/1/2019					
6/1/2020					
	8,992,400.31	975,615.28	13,215,000.00	-	60,150,000.00

Total Bonds Outstanding = $226,110,000
Series 2013: $182,480,000 and Series 2018: $43,630,000

Date	Projected TSR Receipts (OS pg 139)	Actual TSR Receipts	Difference	Other Receipts
6/1/2018	40,834,487.00	35,253,912.55	(5,580,574)	279,726
7/1/2018		Earnings on Bd Proceeds		18,086
12/1/2018			-	123,285
6/1/2019			-	
12/1/2019			-	
6/1/2020			-	
	40,834,487	35,253,913	(5,580,574)	421,098

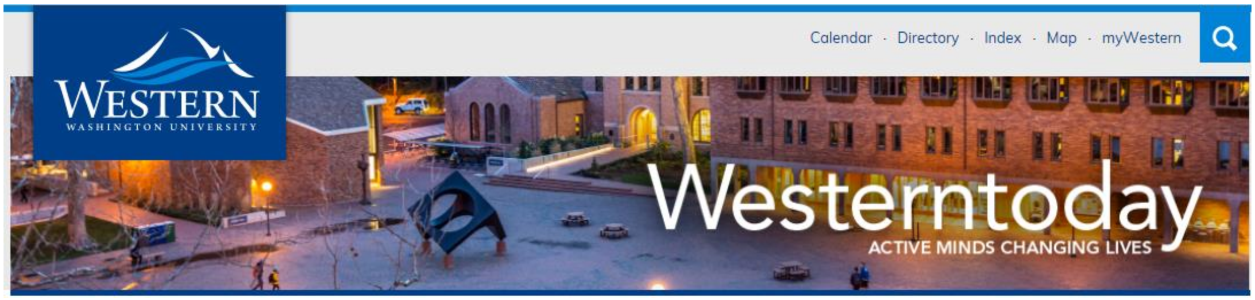
Compliance:
Report to Rating Agency on Debt Service Dates: Report Submitted 12-1-18

Disclosure Reporting:
Series 2017 and 2018 Continuing Disclosure Agreements: 11-20-18

Total Reserve maintained at requirement = $31,997,719.44
Series 2013: $23,214,164.29 and Series 2018: $8,783,555.15

usbank

TAB 7



Gov. Jay Inslee Appoints Faith Li Pettis to WWU Board of Trustees

Thursday, November 15, 2018 - 10:58am


Trustee Faith Pettis

Gov. Jay Inslee has appointed attorney Faith Li Pettis of Seattle to Western Washington University's Board of Trustees.

"Faith has a long record of service to our state and region and she will make an excellent addition to the WWU Board of Trustees," Inslee said. "She understands how education is interconnected with so many other issues and will help ensure that Western's students will have a broad, well-rounded education."

Pettis' six-year term on the Board of Trustees started Oct. 22, 2018 and ends Sept. 30, 2024.

"Faith Pettis brings a wealth of experience in both the private and public sectors that will be a tremendous asset to Western's Board of Trustees. Her commitment to serving the public interest on issues that align with our values make her a superb choice for the Board, and we very much look forward to working with her to advance Western's priorities, and those of our region," said WWU President Sabah Randhawa.

An attorney with Pacifica Law Group in Seattle, Pettis was appointed in 2015 by the Mayor of Seattle to co-chair the city's Housing Affordability and Livability task force, which was charged with delivering a 10-year plan to address housing affordability in the city. She was also appointed in 2012 by Gov. Christine Gregoire and served two terms as chair of the statewide Affordable Housing Advisory Board.

Prior to Pacifica, Pettis practiced as a public finance attorney for 18 years with Preston Gates & Ellis and its successor firm, K&L Gates.

Pettis served on the Board of Directors of the National Association of Bond Lawyers (NABL) from 2010 to 2011 and from 2012 to 2015, and as a trustee for College Spark Washington, an education grant-making organization, from 2010 to 2016.

"I'm grateful for the opportunity to serve Western Washington University and am committed to ensuring that its students are prepared to succeed in a world of accelerating change," Pettis said.

Pettis has a bachelor's degree in Russian language and Russian/East European area studies from the University of Washington and a law degree from Harvard University. She also attended the National Taiwan Normal University, Mandarin Training Center, from 1989 to 1990.

Source: https://westerntoday.wwu.edu/news/gov-jay-inslee-appoints-faith-li-pettis-to-wwu-board-of-trustees

From: Creedon, Paul T [mailto:paul.t.creedon@citi.com]
Sent: Monday, December 03, 2018 3:50 PM
Cc: *MSD US PFD Tobacco <cititobacco@citi.com>
Subject: Tobacco Securitization Market Update - Recent Industry News

All,

In recent weeks, there have been several headlines related to the domestic tobacco industry that could impact future U.S. consumption of combustible cigarettes and, in turn, future MSA payments. A brief description of each news event is provided below. As always, if you have any questions regarding this e-mail, do not hesitate to contact any member of the Citi Tobacco Team.

FDA proposes ban on menthol, new restrictions on flavored e-cigs:
The U.S. Food and Drug Administration, in a landmark announcement, has proposed a plan to ban menthol combustible cigarettes and flavored cigars in the United States. It has been estimated that menthol cigarettes comprise approximately 1/3 of the U.S. combustible cigarette market. It could take several years for the proposed ban to receive regulatory approval and take effect. It is expected that the tobacco industry will fight the imposition of a ban on menthol cigarettes. Some experts believe that an outright ban on menthol flavored cigarettes could result in a steeper than expected decline in domestic consumption of cigarettes which, in turn, could impact MSA payments negatively.

The FDA also announced that it will impose new restrictions on the sales of flavored electronic cigarettes (e-cigarettes) in retail stores, limiting them to closed-off areas that are inaccessible to minors. E-cigarettes and vaping products do not give rise to payment obligations under the MSA.

The FDA will hold a public hearing on December 6th, to discuss its efforts to eliminate youth e-cigarette use as well as other tobacco product use.

https://www.cbsnews.com/news/fda-proposes-ban-on-menthol-cigarettes-restrictions-on-sales-of-flavored-e-cigarettes/

Altria and Juul limit flavors of e-cigarettes:
On October 25th, Altria announced that it would discontinue most of its flavored e-cigarettes and stop selling some brands altogether. Altria, which holds about 9% of the US e-cigarette market, will sell only its tobacco, menthol and mint varieties of its "cig-a-like" products until other flavor variants receive a market order from the U.S. Food and Drug Administration (FDA) or the youth issue is addressed.

https://www.washingtonpost.com/health/2018/10/25/marlboro-maker-altria-halt-sales-flavored-e-cigarettes-amid-concerns-about-youth-vaping-surge/?noredirect=on&utm_term=.5370211997ef

- Juul, which has a 70% market share, said it will stop selling most of its flavored nicotine pods for its e-cigarettes in retail stores — though only temporarily. Flavored e-cigarettes will remain available for purchase through the internet subject to age restrictions, which ban sales to anyone under 21 even in states where the legal age is lower. The company plans to eventually resume sales to retailers that adopt the company's new age restrictions and verification system.

https://www.cnbc.com/2018/11/13/juul-temporarily-suspends-retail-sales-of-most-flavored-e-cigarettes.html

Altria in discussions to acquire minority interest in JUUL:
Altria Group Inc. is in talks for a significant investment in Juul Labs Inc., said a person with knowledge of the matter, who asked not to be identified because the discussions are private. That would give one of the world's largest tobacco companies a minority stake in the controversial e-cigarette maker whose products are popular among teens and drawing scrutiny from the FDA.

https://www.bloomberg.com/news/articles/2018-11-28/altria-jumps-on-report-it-may-take-large-minority-stake-in-juul

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CBS NEWS

By ASHLEY WELCH / CBS NEWS / November 15, 2018, 11:12 AM

FDA proposes ban on menthol cigarettes, new restrictions on flavored e-cigs

In a landmark move, the U.S. Food and Drug Administration has proposed a plan to ban menthol cigarettes and flavored cigars in the United States. The agency also announced Thursday that it will impose new restrictions on the sales of flavored e-cigarettes in retail stores, limiting them to closed-off areas that are inaccessible to minors.

The proposal still has to go through several regulatory phases and it could be years before the rules take effect, but it's a move advocates have been urging for years.

Why menthol?

While traditional cigarettes contribute to serious health issues, including an increased risk of cancer, heart disease, and an early death, adding menthol to them comes with additional concerns.

A 2013 report from the FDA concluded that menthol is associated with increased addiction. Due to its cooling effects, menthol reduces the harshness of cigarette smoke, making it more appealing and easier for new smokers to pick up the habit and get hooked.

The FDA also points out that younger people have the highest rate of smoking menthol cigarettes. "More than half (54 percent) of youth smokers ages 12-17 use menthol cigarettes, compared to less than one-third of smokers ages 35 and older," the agency reported, adding that the rate is even higher among African-American youth: 7 out of 10 young black smokers select menthol cigarettes.

"I believe these menthol-flavored products represent one of the most common and pernicious routes by which kids initiate on combustible cigarettes," FDA commissioner Scott Gottlieb said in a statement Thursday. "The menthol serves to mask some of the unattractive features of smoking that might otherwise discourage a child from smoking."

Newport menthol cigarettes are displayed at Costco in Mountain View, Calif., in a 2009 file photo.

PAUL SAKUMA / AP

In addition to concerns about young people, health advocates have long been concerned about the impact of menthol cigarettes on the African-American community. Research shows that 85 percent of all African-American smokers smoke menthol cigarettes, compared to just 29 percent of whites.

According to the NAACP's Youth Against Menthol Campaign, the tobacco industry "intentionally markets to youth and African American communities to attract new 'replacement' smokers and keep current smokers addicted."

Activists contend this is reflected in higher levels of nicotine dependence in the African-American community, as well as higher death rates. According to the Campaign for Tobacco-Free Kids, research shows that while African-American smokers are more likely than white smokers to have made an attempt to quit and to have used counseling services in the previous year, they are less likely to successfully quit smoking. The campaign also estimates that by 2020, 4,700 excess deaths in the African-American community will be attributable to menthol cigarettes, and that 460,000 African-Americans will have started smoking because of menthol cigarettes.

Lincoln Mondy is an activist and filmmaker behind "Black Lives / Black Lungs," a short film exploring all the routes the tobacco industry took to target the black community. He said he is "cautiously optimistic" regarding the news that the FDA plans to ban the sale of menthol cigarettes.

"The tobacco industry has a well-documented history of infiltrating the black community with menthol products," Mondy told CBS News. "The industry has poured billions into political activity, philanthropic donations, and predatory marketing. This news signals that the industry may no longer enjoy unfettered access to devastate entire communities."

In a joint statement released last week, the Campaign for Tobacco-Free Kids, the American Academy of Pediatrics, American Cancer Society Cancer Action Network, American Heart Association, American Lung Association and Truth Initiative called the FDA's expected action on menthol cigarettes "long overdue."

"There is overwhelming scientific evidence that menthol cigarettes have had a profound adverse effect on public health in the United States, resulting in more death and disease from smoking," the organizations said.

FDA targeting e-cigarettes

The FDA is also expanding its crackdown on e-cigarettes, proposing new restrictions on sales of flavored vaping products on the grounds that they are highly addictive and have become hugely popular with minors.

Though stopping short of banning the sale of flavored e-cigarettes in convenience stores and gas stations -- as was expected based on earlier reports last week -- the FDA's proposal would limit the sale of these products in retail stores to closed-off areas that are inaccessible to minors. The proposal does not include mint and menthol flavors of e-cigarettes, though Gottlieb notes he will revisit this if evidence shows that kids' use of mint or menthol e-cigs isn't declining. The FDA will still allow all flavored e-cigarettes to be sold online.

Experts say these products, with flavors like mango and fruit, are particularly concerning because of their appeal to young people.

"The data show that kids using e-cigarettes are going to be more likely to try combustible cigarettes later," Gottlieb said. "This is a large pool of future risk. ... The data make unmistakably clear that, if we're to break the cycle of addiction to nicotine, preventing youth initiation on nicotine is a paramount imperative."

The American Academy of Pediatrics issued a statement praising the FDA's actions but calling for further steps to protect children from tobacco products.

"Even with new sales restrictions announced today by FDA preventing flavored e-cigarettes from being sold at certain brick and mortar storefronts, teens will still find ways to access them," the doctors' group said. "E-cigarette products that appeal to children have no business in the marketplace, period. FDA must take stronger action to protect young people. Pediatricians will not rest until these dangerous products are off the market and out of the hands of children and adolescents."

In September, the FDA set a 60-day deadline for several major e-cigarette companies to prove they could keep these products away from kids or risk having them pulled off the market.

On Tuesday, Juul Labs, which holds more than 70 percent of the e-cigarette market share and has become overwhelmingly popular with minors, announced it will stop selling its flavored nicotine pods, including mango, fruit, creme, and cucumber, at more than 90,000 retail stores nationwide. These products will still be available for sale online, but the company will impose additional age-verification measures and third-party verification to block sales to anyone under age 21.

Juul also announced it was shutting down some of its social media accounts, which are popular with young people.

https://www.cbsnews.com/news/fda-proposes-ban-on-menthol-cigarettes-restrictions-on-sales-of-flavored-e-cigarettes/

The Washington Post
Democracy Dies in Darkness

Marlboro maker Altria to halt sales of flavored e-cigarettes amid concerns about youth-vaping surge

By Laurie McGinley
October 25

Altria Group, responding to federal regulators' worries about rising rates of teen vaping and the possible health implications, said Thursday it would stop selling its pod-based e-cigarettes, at least temporarily.
The tobacco manufacturer, which also makes Marlboro cigarettes, said it would not put the vaping products back on the market until they get federal clearance or "the youth issue is otherwise addressed."

That means a halt in sales of MarkTen Elite and MarkTen pod-based products. Those pods are essentially cartridges that hold liquids that are turned into vapor before being inhaled. Such pods have become increasingly popular because of their portability and ease of use. The vaping products currently do not need a Food and Drug Administration sign-off if they were on the market before August 2016.

Altria holds about 9 percent of the e-cigarette market in the United States, according to a Wells Fargo analysis of Nielsen data, the Wall Street Journal reported.

Juul Labs, which pioneered an e-cigarette that resembles a USB drive, controls 62 percent of the market, according to data that does not include online sales, the Journal reported.

Altria's move comes at a pivotal moment as the FDA struggles to rein in what Commissioner Scott Gottlieb has declared "an epidemic" of underage use of e-cigarettes. In recent months, Gottlieb has warned manufacturers that he is considering prohibiting or restricting the sale of flavored vaping products, which are thought to be especially appealing to younger people. He also has signaled the possibility of banning online sales of e-cigarettes.

At a conference on tobacco regulation in Washington on Thursday, Jose Luis Murillo, vice president for regulatory affairs at Altria Client Services, said the company wants to be "part of the solution" on youth vaping and not risk being a contributor to the problem.

Mitchell Zeller, who is director of the FDA's Center for Tobacco Products and also attended the conference, did not immediately respond to the Altria action but said that the FDA sees the rise in teen vaping as a public health crisis — in part because some proportion of those who vape will probably end up smoking more-dangerous conventional cigarettes. He said a crackdown on sales to minors will continue.

"We're all standing on this burning platform, and we all need to figure out what to do," he told an audience of industry and public health representatives.

Gottlieb announced in September that preliminary federal data suggests that underage vaping increased 77 percent this year over last year among high school students. Use increased almost 50 percent among middle school students in the same period. He directed several e-cigarette manufacturers, including Altria, to provide plans on how they would keep their products out of the hands of minors.

Altria, in a letter responding to Gottlieb, also said it will limit the flavors used for a different kind of e-cigarette — called "cig-a-likes" — to tobacco, menthol and mint, which are thought to be less appealing to children. It will discontinue the sale of other flavors until it gets approval from the FDA. And it said it will support federal legislation to establish 21 as the minimum age for the purchase of any tobacco product. The current federal minimum age is 18, though some states and cities have set higher ages.

https://www.washingtonpost.com/health/2018/10/25/marlboro-maker-altria-halt-sales-flavored-e-cigarettes-amid-concerns-about-youth-vaping-surge/?noredirect=on&utm_term=.c712778ae630

From: Creedon, Paul T [mailto:paul.t.creedon@citi.com]
Sent: Friday, October 26, 2018 2:14 PM
Cc: *MSD US PFD Tobacco <cititobacco@citi.com>
Subject: Tobacco Securitization Market Update - Altria 10Q and E-Cigarette Announcement

All,

Yesterday, Altria (Philip Morris USA's Parent) reported in its 10-Q filing for the nine months ended September 30, 2018 that its domestic cigarette shipment volume declined by 5.5%, when adjusted for trade inventories. PM USA estimates that total cigarette industry volume declined by 4.5% for the nine months ended September 30th , 2018, compared to the same period last year. Altria cited several causes for third quarter volume weakness primarily driven by the industry's rate of decline and retail share losses.

Also yesterday, Altria announced that it would discontinue most of its flavored e-cigarettes and stop selling some brands altogether. Altria will sell only its tobacco, menthol and mint varieties of its "cig-a-like" products until other flavor variants receive a market order from the U.S. Food and Drug Administration (FDA) or the youth issue is addressed. The company also said, for the first time, that it would support federal legislation to raise the age to 21 for the purchase of any tobacco and vaping product.

If you have any questions regarding this email, do not hesitate to contact any member of the Citi Tobacco Team.

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