REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS WITH
SUPPLEMENTAL INFORMATION

TOBACCO SETTLEMENT AUTHORITY

(A Component Unit of the State of Washington)

June 30, 2021 and 2020

MOSSADAMS

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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, 2021 and 2020, 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, 2021 and 2020, 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 16, 2021

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, 2021 and 2020 (FY 2021 and FY 2020, respectively). This discussion 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 $37.9 million and $34.4 million were recognized as revenue in the fiscal years ended June 30, 2021 and 2020, respectively. In accordance with GASB 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, TSRs of $17.9 million and $16.6 million were recorded as accrued TSR Receivable applicable to cigarette sales between January 1, 2021 and June 30, 2021 and January 1, 2020, and June 30, 2020 respectively.

Other significant changes as of June 30, 2021 or for the year then ended include:

- Total bonds payable were $97.9 million, net of premiums. This represents a decrease of $34.4 million (26.0%) from the prior year resulting from principal payments on bonds from maturities and redemptions.

- Net position increased $34.3 million (42.8%) over the prior year.

- Bond interest expense decreased $1.4 million (18.2%) due to the continued decline in total bonds outstanding.

- Interest income decreased by $860 thousand due to a decline in the interest rates available on deposited funds.

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 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.

The financial statements of the Authority have been prepared in accordance 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 and the Authority has applied all its applicable 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 $45.8 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. Authority staff consider the industry information available to them each year when accruing estimated TSRs to be received. Factors influencing demand since the Authority's bonds were issued in 2002 have been significant increases in state and federal tobacco excise taxes, greater restrictions on public smoking, and the rise in popularity of e-Cigarettes. Shipments of cigarettes have generally declined more rapidly than originally predicted, however there was little change in calendar year 2020 as compared to the prior year.

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 FY 2021 and FY 2020 (in millions):

	2021	2020	Change	
Assets				
Cash and cash equivalents	$ 34.5	$ 35.9	$ (1.4)	(3.9%)
Accrued TSR and other receivables	17.9	16.6	1.3	7.8%
Total assets	52.4	52.5	(0.1)	(0.2%)
Deferred outflow of resources	0.7	1.1	(0.4)	(36.4%)
Total assets and deferred outflow of resources	$ 53.1	$ 53.6	$ (0.5)	(0.9%)
Liabilities				
Accrued interest payable and other liabilities	$ 0.4	$ 0.6	$ (0.2)	(33.3%)
Bonds payable, net	97.9	132.3	(34.4)	(26.0%)
Total liabilities	98.3	132.9	(34.6)	(26.0%)
Deferred inflow of resources	0.6	0.8	(0.2)	(25.0%)
Net deficit position	(45.8)	(80.1)	34.3	42.8%
Total liabilities and net position	$ 53.1	$ 53.6	$ (0.5)	(0.9%)

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, 2021 and 2020:

	2021	2020	Change	
Revenues				
Tobacco settlement revenues and other income	$ 37.9	$ 34.4	$ 3.5	10.2%
Interest income	-	0.9	(0.9)	(100.0%)
Total revenues	$ 37.9	$ 35.3	$ 2.6	7.4%
Expenses				
Bond program interest expense	$ 6.3	$ 7.7	$ (1.4)	(18.2%)
Other bond program expenses	(2.9)	(2.9)	-	- %
General and administrative	0.2	0.2	-	- %
Total expenses	$ 3.6	$ 5.0	$ (1.4)	(28.0%)
Change in net position	$ 34.3	$ 30.3	$ 4.0	13.2%

Financial Analysis of the Authority (continued)

TSRs of $37.9 million and $6.3 million of interest on debt are the primary components of total revenues and expenses, respectively, for the Restricted Bond Program.

In the General Operating Fund FY 2021 revenue included other income of $89.0 thousand representing a draw from TSRs. Expenses were $76.7 thousand comprised of allocable salaries and wages, and other general and administrative expenses.

Debt Administration

At June 30, 2021, the Authority has long-term debt obligations of $97.9 million, net of bond premium. The 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. Amounts held by the trustee and future receipts of TSRs represent full funding of these requirements.

In 2002, a Purchase and Sale Agreement between the Authority and the State of Washington (the State) was executed 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. The Authority issued its 2002 series bonds to fund this payment. 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 whose 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 covenanted to do and perform all acts and take all actions 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 2020 with 2019

Statements of Net Position

The following table summarizes the changes in assets and deferred outflows, liabilities and deferred inflows, and net position between FY 2020 and FY 2019 (in millions):

	2020	2019	Change	
Assets				
Cash and cash equivalents	$ 35.9	$ 36.7	$ (0.8)	(2.2%)
Accrued TSR and other receivables	16.6	16.4	0.2	1.2%
Total assets	52.5	53.1	(0.6)	(1.1%)
Deferred outflow of resources	1.1	1.5	(0.4)	(26.7%)
Total assets and deferred outflow of resources	$ 53.6	$ 54.6	$ (1.0)	(1.8%)
Liabilities				
Accrued interest payable and other liabilities	$ 0.6	$ 0.7	$ (0.1)	(14.3%)
Bonds payable, net	132.3	163.2	(30.9)	(18.9%)
Total liabilities	132.9	163.9	(31.0)	(18.9%)
Deferred inflow of resources	0.8	1.1	(0.3)	(27.3%)
Net deficit position	(80.1)	(110.4)	30.3	(27.4%)
Total liabilities and net position	$ 53.6	$ 54.6	$ (1.0)	(1.8%)

During FY 2020, the Authority's combined total assets and deferred outflows of resources decreased by $1.0 million partly due to the decrease in cash and equivalents held in reserve ($0.8 million). The Authority's total liabilities decreased by $31.0 million, resulting from principal payments and maturities. The Authority's net position improved by $30.3 million, primarily due to the decrease in total liabilities.

Comparison of Fiscal Years 2020 with 2019 (continued)

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, 2020 and 2019:

	2020	2019	Change	
Revenues				
Tobacco settlement and other revenues	$ 34.4	$ 34.4	$ -	- %
Interest and program revenue	0.9	1.0	(0.1)	(10.0%)
Total revenues	$ 35.3	$ 35.4	$ (0.1)	(0.3%)
Expenses				
Bond program interest expense	$ 7.7	$ 9.1	$ (1.4)	(15.4%)
Other bond program expenses	(2.9)	(3.1)	0.2	(6.5%)
General and administrative	0.2	0.2	-	- %
Total expenses	$ 5.0	$ 6.2	$ (1.2)	(19.4%)
Change in net position	$ 30.3	$ 29.2	$ 1.1	3.8%

The change in net position of $30.3 million for FY 2020 represents an increase of $1.1 million over the FY 2019 change of $29.2 million. The increase is primarily attributable to 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, 2021	June 30, 2020
ASSETS AND DEFERRED OUTFLOW OF RESOURCES		
CASH AND CASH EQUIVALENTS	$ 34,531,804	$ 35,872,237
TSR RECEIVABLE	17,877,790	16,599,019
PREPAID FEES AND INTEREST RECEIVABLE	9,601	8,885
TOTAL ASSETS	52,419,195	52,480,141
DEFERRED OUTFLOW OF RESOURCES		
Unamortized loss on refunded debt	691,168	1,111,110
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$ 53,110,363	$ 53,591,251
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION		
ACCRUED INTEREST PAYABLE	$ 389,795	$ 524,431
ACCOUNTS PAYABLE AND OTHER LIABILITIES	19,398	23,562
BONDS PAYABLE		
Interest bonds	92,590,000	124,025,000
Unamortized bond premium	5,352,197	8,298,672
	97,942,197	132,323,672
TOTAL LIABILITIES	98,351,390	132,871,665
DEFERRED INFLOW OF RESOURCES		
Unamortized gain on refunded debt	559,637	817,869
TOTAL NET DEFICIT POSITION	(45,800,664)	(80,098,283)
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION	$ 53,110,363	$ 53,591,251

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,	
	2021	2020
REVENUES		
Tobacco settlement revenues and other income	$ 37,878,203	$ 34,429,824
Interest income	12,835	873,315
	37,891,038	35,303,139
EXPENSES		
Interest on debt	6,320,249	7,756,995
Amortization of bond premium	(2,946,475)	(2,877,664)
General and administrative	219,645	163,083
	3,593,419	5,042,414
CHANGE IN NET POSITION	34,297,619	30,260,725
NET POSITION		
Beginning of year	(80,098,283)	(110,359,008)
End of year	$ (45,800,664)	$ (80,098,283)

See accompanying notes.

Statements of Cash Flows

	Years Ended June 30,	
	2021	2020
OPERATING ACTIVITIES		
Cash received from tobacco settlement and other revenues	$ 36,599,432	$ 34,132,529
Cash paid for bond program expenses	(142,970)	(94,145)
Cash paid for general and administrative expenses	(82,590)	(53,994)
Net cash provided by operating activities	36,373,872	33,984,390
INVESTING ACTIVITIES		
Cash received from interest income	13,870	957,275
NONCAPITAL FINANCING ACTIVITIES		
Principal repayment on bonds	(31,435,000)	(28,025,000)
Cash paid for bond interest expense	(6,293,175)	(7,729,562)
Net cash used for financing activities	(37,728,175)	(35,754,562)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,340,433)	(812,897)
CASH AND CASH EQUIVALENTS		
Beginning of year	35,872,237	36,685,134
End of year	$ 34,531,804	$ 35,872,237
RECONCILIATION OF CHANGES IN NET POSITION TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Excess (deficit) of revenues over expenses	$ 34,297,619	$ 30,260,725
Adjustments to reconcile operating income to net cash used in operating activities		
Amortization of bond premium	(2,946,475)	(2,877,664)
Amortization of loss on refunded debt	161,710	147,132
Cash paid for bond interest expense	6,293,175	7,729,562
Cash received from interest income	(13,870)	(957,275)
Changes in assets and liabilities		
Increase in TSR receivable	(1,278,771)	(297,294)
(Increase) decrease in prepaid fees and other receivables	(715)	83,219
Decrease in accounts payable and other liabilities	(4,164)	(104,015)
Decrease in accrued interest payable	(134,637)	-
Net cash from operating activities	$ 36,373,872	$ 33,984,390

See accompanying notes.

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.

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 (the 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 the 2013 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. Neither the faith and credit nor the taxing power of the State 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 July 1 and ends 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, see Note 4.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the Authority have been prepared in accordance 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, 2021 and 2020, are:

	2021	2020
Cash and cash equivalents		
Restricted Bond Fund	$ 34,370,945	$ 35,717,765
General Operating Fund	160,859	154,472
Total cash and cash equivalents	$ 34,531,804	$ 35,872,237

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 investments in the name of the Authority, however, there were no investments outstanding at June 30, 2021 or 2020.

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, 2021 and 2020.

Tobacco settlement revenues – The purchase and sale agreement between the Authority and the State 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 2021 and 2020 included an accrual of $17,877,790 and $16,599,019, 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 2021 and 2020, the Authority delivered officer's certificates to the Trustee requesting operating funds of $88,970 and $40,145, 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 deficit position – The net deficit position balances of $45,800,664 at June 30, 2021, and $80,098,283 at June 30, 2020, 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 $150,497 at June 30, 2021, and $138,194 at June 30, 2020. The restricted bond fund has a net deficit balance of $45,951,161 at June 30, 2021, and $80,236,477 at June 30, 2020. Management believes that the present value of future 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, 2021 and 2020.

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, 2021 and 2020, 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 $40,559 and $37,030 for the years ended June 30, 2021 and 2020, respectively. The Authority has no directly hired staff and as such has no pension obligations. The Authority had fees payable totaling $8,503 and $20,068 with the Washington State Housing Finance Commission at June 30, 2021 and 2020, respectively.

Note 5 – Bonds Payable

The bonds are limited obligations of the Authority, publicly traded, and 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.

Events of default on the bonds include failure of the Authority to pay, when due, any interest on the bonds, principal maturity, or sinking fund installment, to observe or perform any other provision of the indenture not corrected within 60 days of written notice by the bond indenture Trustee, or a material breach by the State of its covenants. If any of these occur, the Trustee may, and upon written request of holders of at least 25% in the principal amount of the bonds outstanding shall, enforce the rights of the Bondholders and require the Issuer and the State to carry out their respective agreements with the Bondholders.

Note 5 – Bonds Payable (continued)

As of June 30, 2021, the Authority had outstanding bonds of approximately $92.6 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
2022	$ 25,110,000	$ 4,677,538	$ 29,787,538
2023	26,735,000	3,422,038	30,157,038
2024	21,530,000	2,085,288	23,615,288
2025	-	1,008,788	1,008,788
2026	-	1,008,788	1,008,788
2027–2031	-	5,043,938	5,043,938
2032–2033	19,215,000	1,399,913	20,614,913
	$ 92,590,000	$ 18,646,291	$ 111,236,291

Changes in bonds outstanding during the fiscal year ended June 30, 2021, are summarized in the following table:

Balance at June 30, 2020	Issued	Redeemed	Balance at June 30, 2021
$ 124,025,000	$ -	$ 31,435,000	$ 92,590,000

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 (the OPMs) and was entered into by the parties on November 23, 1998. Additional manufactures known as Subsequent Participating Manufacturers (the SPMs) joined in the MSA, and together with the OPMs are the Participating Manufacturers (the PMs). Tobacco Settlement Revenues consist of the amounts to be received under the terms of the MSA. It requires the PMs make annual TSR payments to the Settling States. In the first 25 years of the agreement, up to $206 billion was to be received by the Settling States and approximately $4 billion by the State.

The MSA also provides for certain mechanisms by which payments from the OPMs can be reduced or disputed subject to arbitration and other legal actions. Resolution of these matters can result in an increase or decrease in TSRs received.

Management believes that the present value of the amount of TSRs that will be collected by the Authority over time is $45,800,664, 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, 2021, and January 1 to June 30, 2020.

Note 7 – Contingencies

Many parties have filed actions against some, and in certain cases all, of the signatories to the MSA. In them, they have alleged that the MSA and related legislation are void or unenforceable under certain provisions of law. To date, no such lawsuits have been successful.

Each MSA Annual Payment is subject to certain adjustments, such as an adjustment for inflation and an adjustment for the volume of cigarettes sold. Another adjustment, the Non-Participating Manufacturer Adjustment (the NPM Adjustment) is intended to compensate the PMs for any loss in market share and disadvantage as a result of the terms of the MSA relative to those cigarette manufacturers which do not participate in the MSA, referred to as Non-Participating Manufacturers (the NPMs). The NPM Adjustment is calculated by the Independent Auditor. An NPM Adjustment has been alleged each year by the PMs beginning in sales year 2003.

The enforcement of the terms of the MSA may 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.

Note 8 – Subsequent Events

On September 1, 2021, the Washington State Office of the Attorney General (the AG) notified the Authority of the "Common Case Findings and State Specific Finding and Interim Award for the State of Washington" (the Interim Award) regarding the 2004 Non-Participating Manufacturer (the NPM) Adjustment Proceedings. In it, the arbitration panel found that "Washington failed to diligently enforce its Qualifying Statute during calendar year 2004 and, therefore, is subject to a NPM Adjustment pursuant to Section IX(d)(2)(B) of the Master Settlement Agreement."

The result of the arbitration means the State (the State) may have a reduced TSR distribution in the future. On November 3, 2021, Authority staff and other relevant parties met with the AG to discuss the possible impact of the decision on the State's TSR. The grounds for vacating the Arbitration Finding are extremely limited. However, due to several uncertainties associated with other legal proceedings associated with the MSA and how the NPM Adjustment would be applied, the extent and timing of a future TSR disruption is not able to be reasonably estimated.

Supplemental Information

ASSETS AND DEFERRED OUTFLOW OF RESOURCES	Restricted Bond Fund	General Operating Fund	June 30, 2021	June 30, 2020
CASH AND CASH EQUIVALENTS	$ 34,370,945	$ 160,859	$ 34,531,804	$ 35,872,237
TSR RECEIVABLE	17,877,790	-	17,877,790	16,599,019
PREPAID FEES AND INTEREST RECEIVABLE	565	9,036	9,601	8,885
TOTAL ASSETS	52,249,300	169,895	52,419,195	52,480,141
DEFERRED OUTFLOW OF RESOURCES				
Unamortized loss on refunded debt	691,168	-	691,168	1,111,110
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$ 52,940,468	$ 169,895	$ 53,110,363	$ 53,591,251
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION				
ACCRUED INTEREST PAYABLE	$ 389,795	$ -	$ 389,795	$ 524,431
ACCOUNTS PAYABLE AND OTHER LIABILITIES	-	19,398	19,398	23,562
BONDS PAYABLE				
Interest bonds	92,590,000	-	92,590,000	124,025,000
Unamortized bond premium	5,352,197	-	5,352,197	8,298,672
	97,942,197	-	97,942,197	132,323,672
TOTAL LIABILITIES	98,331,992	19,398	98,351,390	132,871,665
DEFERRED INFLOW OF RESOURCES				
Unamortized Gain on refunded debt	559,637	-	559,637	817,869
TOTAL NET DEFICIT POSITION	(45,951,161)	150,497	(45,800,664)	(80,098,283)
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	$ 52,940,468	$ 169,895	$ 53,110,363	$ 53,591,251

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, 2021	2020
REVENUES				
Tobacco settlement revenues and other income	$ 37,789,233	$ 88,970	$ 37,878,203	$ 34,429,824
Interest income	12,827	8	12,835	873,315
	37,802,060	88,978	37,891,038	35,303,139
EXPENSES				
Interest on debt	6,320,249	-	6,320,249	7,756,995
Amortization of bond premium	(2,946,475)	-	(2,946,475)	(2,877,664)
General and administrative	142,970	76,675	219,645	163,083
	3,516,744	76,675	3,593,419	5,042,414
CHANGE IN NET POSITION	34,285,316	12,303	34,297,619	30,260,725
Beginning of year	(80,236,477)	138,194	(80,098,283)	(110,359,008)
End of year	$ (45,951,161)	$ 150,497	$ (45,800,664)	$ (80,098,283)

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Schedule of Program Cash Flows

	Restricted Bond Fund	General Operating Fund	Years Ended June 30, 2021	2020
OPERATING ACTIVITIES				
Cash received from tobacco settlement and other revenues	$ 36,510,462	$ 88,970	$ 36,599,432	$ 34,132,529
Cash paid for bond program expenses	(142,970)	-	(142,970)	(94,145)
Cash paid for general and administrative expenses	-	(82,590)	(82,590)	(53,994)
Net cash provided by (used for) operating activities	36,367,492	6380	36,373,872	33,984,390
INVESTING ACTIVITIES				
Cash received from interest income	13,862	8	13,870	957,275
NONCAPITAL FINANCING ACTIVITIES				
Principal repayment on bonds	(31,435,000)	-	(31,435,000)	(28,025,000)
Cash paid for bond interest expense	(6,293,175)	-	(6,293,175)	(7,729,562)
Net cash provided by (used for) financing activities	(37,728,175)	-	(37,728,175)	(35,754,562)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,346,821)	6,388	(1,340,433)	(812,897)
CASH AND CASH EQUIVALENTS				
Beginning of year	35,717,765	154,472	35,872,237	36,685,134
End of year	$ 34,370,944	$ 160,860	$ 34,531,804	$ 35,872,237
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES				
Excess (deficit) of revenues over expenses	$ 34,285,316	$ 12,303	$ 34,297,619	$ 30,260,725
Adjustments to reconcile operating income to net cash provided by (used for) operating activities				
Amortization of bond premium	(2,946,475)	-	(2,946,475)	(2,877,664)
Amortization of loss on refunded debt	161,710	-	161,710	147,132
Cash paid for bond interest expense	6,293,175	-	6,293,175	7,729,562
Cash received from interest income	(13,862)	(8)	(13,870)	(957,275)
Changes in assets and liabilities				
Increase in TSR receivable	(1,278,771)	-	(1,278,771)	(297,294)
(Increase) decrease in prepaid fees and other receivables	1,036	(1,751)	(715)	83,219
Decrease in accounts payable and other liabilities	-	(4,164)	(4,164)	(104,015)
Decrease in accrued interest payable	(134,637)	-	(134,637)	-
Net cash provided by (used for) operating activities	$ 36,367,492	$ 6,380	$ 36,373,872	$ 33,984,390

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