

TSA

TOBACCO SETTLEMENT AUTHORITY

**Tobacco Settlement
Authority**

Special Meeting

February 3, 2023

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TOBACCO SETTLEMENT AUTHORITY

Meeting Agenda - Revised on January 31, 2023

YOU ARE HEREBY NOTIFIED that the Tobacco Settlement Authority will hold a Special Meeting at 1:00 p.m. prevailing Pacific Time on Friday, February 3, 2023, in the Board Room at the Authority's offices located at 1000 2nd Ave., Suite 2800, Seattle, WA 98104 to consider the items in the agenda below.

Pursuant to RCW 42.30.030(2), which encourage public agencies to provide for public access to meetings, this meeting can also be viewed via Zoom or joined telephonically.

To join virtually, please go to www.zoom.us and enter:

Meeting ID: 824 6000 2158

Passcode: 068728

Participants using a computer without a microphone who wish to participate verbally, please dial: 1-(888) 788-0099 U.S. toll-free

Please note that the line will be muted to the public except during the public comment portions of the meeting.

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

II. APPROVAL OF THE AUGUST 2, 2022 SPECIAL MEETING

MINUTES: *Chair*

1

III. ACTION ITEMS:

A. Finance Report – *Fenice Taylor*

1. Consider and Act on acceptance of Final Audit Report

a. Presentation of Independent Auditor's Report – *Eide Bailly*

2

2. Consider and Act on acceptance of the current Financial Statement

3

3. Invoice for Services

4



IV. INFORMATION ITEMS

A. Trustee Report – *Christine Ok, U.S. Bank*

B. Status of Nonparticipating Manufacturer (NPM) Adjustment Arbitration

– *Cam Comfort, Senior Assistant Attorney General, Attorney General’s Office*

V. ADDITIONAL INFORMATION ITEMS

A. Executive Director’s Report – *Steve Walker*

B. Authority Meeting Schedule – *Steve Walker*

1. June 7, 2023

2. December 6, 2023 – *if necessary*

VI. PUBLIC COMMENT: Chair

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

VII. MISCELLANEOUS BUSINESS AND CORRESPONDENCE

VIII. EXECUTIVE SESSION *(if necessary)*

IX. ADJOURNMENT

PUBLIC ENGAGEMENT AT AUTHORITY MEETINGS

All Board meetings of the Tobacco Settlement Authority are open to the public. Our intention is to welcome all members of the public and to provide a clear and reasonable process through which they can share their thoughts with us.

Different ways to Join the Authority Meetings:

1. Meeting link:
<https://us02web.zoom.us/j/82460002158?pwd=UjJ0cXFLOHVzS05saDcvWFE5ZEk0dz09>
2. At www.zoom.us, go to “Join a Meeting,” and enter:
Meeting ID: 824 6000 2158
Passcode: 068728
3. To participate by phone, dial: 1-(888)-788-0099 or 1-(877)-853-5247
4. Members of the public can attend the 1:30 p.m. Special Meeting in-person in the 28th Floor Board Room, located at 1000 Second Avenue, Seattle, WA 98104-3601.

During Meetings: During board meetings, attendees can see and hear all presentations and business taking place. Microphones will be turned off except to receive comment during public hearings and the public comment period.

Public Hearings: Public hearings are generally held separately from Authority board meetings, but there may be exceptions. Please limit comments to those directly related to the public hearing topic.

Public Comment:

- **Purpose of Public Comment** - During this period, the Board members listen to public concerns and comments but do not generally engage in dialogue. Staff will follow up with commenters who request assistance or answers to questions, providing that contact information is shared. Anyone who wishes to speak during the public comment period can take this opportunity.
- **When to Comment** - The public comment period takes place after the executive director’s report. Typically, the public comment period is reached after about an hour but may be sooner or later.
- **Raising Your Hand in Zoom or Through Phone Participation** - To give us a sense of the number of people wishing to speak and help us call on you in an orderly fashion, the meeting Chair will ask you to use the Zoom “raise hand” feature to indicate you would like to speak. People participating on the telephone can press *9 to virtually “raise a hand.” Whether or not you are able to virtually raise a hand, the Chair will provide time and opportunity for all to share their comments before closing the public comment period.
- **Timing of Comments** - We ask that speakers keep their comments brief (2 to 3 minutes). The Chair may ask you to begin bringing your statement to a close after that time, especially if others are waiting to speak. Our intention is not to impose a specific time limit unless it seems necessary to ensure that a sufficient number of speakers have an equal opportunity to express their thoughts.

TAB 1

**TOBACCO SETTLEMENT AUTHORITY
Special Meeting**

Minutes

August 2, 2022

Board Chair, Ms. Carla DewBerry, called the meeting of the Tobacco Settlement Authority (the “Authority”) to order at 1:32 p.m.

All board members participated remotely. Board member, Mr. Wolfgang Opitz, was on the line. Board member, Mr. Ken Vyhmeister, joined the meeting at 1:50 p.m.

Authority staff joining via Zoom were Mr. Steve Walker, Executive Director; Ms. Carol Johnson, Assistant Director; and Ms. Fenice Taylor, Senior Finance Director. Staff present in-person were Mr. Lucas Loranger, Senior Controller; and Ms. Rona Monillas, Program Coordinator.

Also present on the line were Ms. Faith Pettis of Pacifica Law Group; Ms. Christine Ok of U.S. Bank; Mr. Nam Nguyen, Mr. Josh Weissman, and Mr. Scott Forbes from the Washington Attorney General’s Office; and Ms. Kym Arnone and Mr. Bill Bloom of Jefferies LLC.

Informational items were covered at the start of the meeting because there was no quorum. Discussion of action items began at 2:00 p.m. when a quorum was secured.

**Introductions and
Acknowledgements**

Mr. Walker introduced and welcomed the Authority’s new Assistant Attorney General, Nam Nguyen.

Mr. Walker introduced and welcomed the new Senior Finance Director, Ms. Fenice Taylor. He thanked Mr. Loranger for taking on the role while the Authority was searching for a new senior finance director.

**Executive
Director's
Report**

Mr. Walker gave a summary of relevant articles and correspondence in the board meeting packet.

**Tobacco
Securitization
Market Update**

Ms. DewBerry introduced Ms. Kym Arnone to present the Tobacco Securitization Market update, who asked Mr. Bloom to present the report.

Mr. Bloom reported a decrease in the domestic cigarette shipment volume. He stated that 2021 was a good year from a payment perspective.

Mr. Bloom discussed some regulatory developments, including the ban on menthol flavored cigarettes, nicotine reduction, and JUUL.

Trustee Report

Ms. DewBerry introduced Ms. Christine Ok, from U.S. Bank Trust Company, National Association, the Bond Trustee, to present the Trustee's Report.

Ms. Ok reported that annual receipts from the TSRs were received and applied to the upcoming principal and interest payment in June.

Ms. Ok reported that payments for interest due for both the 2013 series and 2018 series were received and will be paid to bond holders in December. Series 2013 bonds are outstanding in the amount of \$27,045,000 and Series 2018 bonds are outstanding in the amount of \$33,030,000, totaling \$60,075,000 in total bonds outstanding.

Ms. Ok said that payments continue to come in from the Lehman bankruptcy. She received a check totaling \$2,836 in June.

Ms. Ok stated that the required semi-annual report was submitted to the rating agency. She also reported that the total reserve was maintained at \$31,997,719.44.

**Status of
2004 NPM
Adjustment
Arbitration**

Ms. DewBerry introduced Mr. Josh Weissman from the Attorney General's Office to give a report on the status of the 2004 Nonparticipating Manufacturer (NPM)

adjustment arbitration.

Mr. Weissman stated that Washington State will be subject to the NPM adjustment for 2004 after being found to be non-diligent in September 2021. He said that Washington State has challenged the decision in court as well as other matters associated with that arbitration. He added that those issues are currently on appeal in the Washington State Court of Appeals. They are not expected to be resolved this year.

Mr. Weissman reported that the 2004 NPM adjustment hit to Washington State in April 2023 is estimated to be between \$33.8 and \$34.3 million.

Mr. Weissman stated that 2005-2007 arbitration has started, with nine states taking part. The hearings for these states are scheduled to occur in 2023 and 2024. He said that Washington State's hearing is tentatively scheduled for April and May 2023.

Approval of the Minutes

The minutes of the November 16, 2021, special meeting were approved as distributed.

Election of Secretary and Treasurer

Ms. DewBerry introduced Mr. Steve Walker to present staff recommendations for the election of Board Secretary and Treasurer.

Mr. Walker stated that each year the Board elects a Secretary and a Treasurer. He noted that the past year, Mr. Kerr served as Secretary and Mr. Opitz served as Treasurer. He added that Mr. Kerr served as Secretary until the end of his term in June.

Mr. Walker stated that Mr. Vyhmeister has offered to serve as Secretary and Mr. Opitz has offered to continue in the position of Treasurer if the board chooses to nominate and elect them.

The motion to elect Mr. Vyhmeister and Mr. Opitz as Secretary and Treasurer,

respectively, was made by Mr. Opitz. The motion was seconded by Ms. DewBerry. The motion was approved unanimously, 3-0.

**Action Item:
Approval of
the Annual
Budget**

Ms. DewBerry introduced Mr. Loranger to present the proposed annual budget for the fiscal year beginning July 1, 2022 thru June 30, 2023.

Mr. Loranger presented an overview of the expense budget for the fiscal year ending June 30, 2023. He stated that staff budgeted for two years' worth of operating expenses in order to account for a potential MSA revenue reduction in 2023 associated with the 2004 NPM arbitration ruling.

Mr. Loranger reminded the board that the Authority does not have direct employees and only contracts for staffing through the Washington State Housing Finance Commission. He added that the Authority is no longer contracting for a deputy director position. Mr. Walker described how staff arrived at that decision.

Mr. Vyhmeister said that the proposed budget is neutral from the previous budget. He asked if this is because of additional IT staff. Mr. Loranger confirmed that it was.

Mr. Loranger called the Board's attention to a more detailed breakdown of the expenses.

Ms. DewBerry asked for a motion to accept the budget for fiscal year 2022-2023. Mr. Opitz made the motion, and it was seconded by Mr. Vyhmeister. The motion was accepted unanimously, 3-0.

**Action Item:
Approval of
Current
Financial
Statement**

Mr. Loranger presented the unaudited, current financial statement of the Authority's General Operating Fund.

Mr. Loranger stated that the financial statements as of May 31, 2022, indicate assets of about \$330,000 and liabilities of \$21,000. To date, revenue has exceeded

expenses, leaving \$309,000 in net assets. He then referred to the detailed breakdown of expenses on the last page.

Mr. Vyhmeister asked the reason behind the 24% increase in insurance. Mr. Loranger said that insurance policy rates increase yearly. Mr. Opitz confirmed that their agency's insurance costs, which also cover liability and cyber security, increased by two digits.

Mr. Loranger stated that the invoice from the Housing Finance Commission covering October 2021 through March 2022, totaling over \$21,000, has been approved for payment by Board Treasurer, Mr. Opitz.

Ms. DewBerry asked for a motion to approve the current financial statement. Mr. Opitz made the motion, and it was seconded by Mr. Vyhmeister. The motion was approved unanimously, 3-0.

Mr. Walker said that the next Authority board meeting will be on December 7, 2022.

**Public
Comment**

Ms. DewBerry asked if there were any comments from the public. There were none.

Adjournment

Ms. DewBerry adjourned the meeting at 2:15 p.m.

Ms. Carla DewBerry, Chair

TAB 2



Financial Statements
June 30, 2022 and 2021

Tobacco Settlement Authority
(A Component Unit of the State of
Washington)

Tobacco Settlement Authority
(A Component Unit of the State of Washington)

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June 30, 2022 and 2021

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Independent Auditor's Report

To the Board of Directors
Tobacco Settlement Authority
Seattle, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business type activities of the Tobacco Settlement Authority (the Authority), a discretely presented component unit of the State of Washington, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2022, and the respective changes in financial position, and where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Notes 1 and 2 to the financial statements, the Authority's repayment of long-term debt is dependent on several factors, including the continued financial capability of participating cigarette manufacturers to pay tobacco settlement revenues and future cigarette consumption. Our opinion is not modified with respect to this matter.

Other Matter

The financial statements of the Authority for the year ended June 30, 2021, were audited by another auditor, who expressed an unmodified opinion on those statements on November 16, 2021.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management’s discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority’s basic financial statements. The supplemental schedules of program net position, program revenues, expenses, and changes in program net position, and program cash flows 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with 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 basic financial statements as a whole.



Boise, Idaho
December 19, 2022

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, 2022 and 2021 (FY 2022 and FY 2021, 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 \$36.9 million and \$37.9 million were recognized as revenue in the fiscal years ended June 30, 2022 and 2021, 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 \$18.1 million and \$17.9 million were recorded as accrued TSR Receivable applicable to cigarette sales between January 1, 2022 and June 30, 2022 and January 1, 2021, and June 30, 2021, respectively.

Other significant changes as of June 30, 2022 or for the year then ended include:

- Funds requested for operations in the current fiscal year were \$254,400. This represents an increase of \$165.4 thousand (186.0%) to assure there would be sufficient operating revenues in light of the 2004 Non-Participating Manufacturer (NPM) adjustment discussed further in Note 8.
- An uncollectible allowance and corresponding expense totaling \$10,220,000 was recorded in the current fiscal year recognizing the likelihood of an NPM adjustment discussed further in Note 8.
- Total bonds payable were \$63.3 million, net of premiums. This represents a decrease of \$34.6 million (35.3%) from the prior year resulting from principal payments on bonds from maturities and redemptions.
- Net position increased \$24.2 million (52.9%) over the prior year.
- Bond interest expense decreased \$1.8 million (28.6%) due to the continued decline in total bonds outstanding.
- Interest income increased by \$58 thousand as interest rates on deposited funds increased in the latter part of the fiscal year.

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 \$21.6 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. 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.

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Management's Discussion and Analysis
June 30, 2022 and 2021

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 2022 and FY 2021 (in millions):

	2022	2021	Change	
Assets				
Cash and cash equivalents	\$ 33.9	\$ 34.5	\$ (0.6)	(1.7%)
Accrued TSR and other receivables	18.2	17.9	0.3	1.7%
Allowance for Uncollectible TRS	(10.2)	-	(10.2)	100.0%
Total assets	41.9	52.4	(10.5)	(20.0%)
Deferred outflow of resources	0.4	0.7	(0.3)	(42.9%)
Total Assets And Deferred Outflow Of Resources	\$ 42.3	\$ 53.1	\$ (10.8)	(20.3%)
Liabilities				
Accrued interest payable and other liabilities	\$ 0.3	\$ 0.4	\$ (0.1)	(25.0%)
Bonds payable, net	63.3	97.9	(34.6)	(35.3%)
Total liabilities	63.6	98.3	(34.7)	(35.3%)
Deferred inflow of resources	0.3	0.6	(0.3)	(50.0%)
Net deficit position	(21.6)	(45.8)	24.2	52.8%
Total Liabilities And Net Position	\$ 42.3	\$ 53.1	\$ (10.8)	(20.3%)

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Management's Discussion and Analysis
June 30, 2022 and 2021

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, 2022 and 2021:

	2022	2021	Change	
Revenues				
Tobacco settlement revenues and other income	\$ 37.2	\$ 37.9	\$ (0.7)	(1.8%)
Interest income	0.1	-	0.1	100.0%
	<u>\$ 37.3</u>	<u>\$ 37.9</u>	<u>\$ (0.6)</u>	<u>(1.6%)</u>
Expenses				
Bond program interest expense	\$ 4.5	\$ 6.3	\$ (1.8)	(28.6%)
Other bond program expenses	(2.1)	(2.9)	0.8	(27.6%)
Uncollectible TSR	10.2	-	10.2	#DIV/0!
General and administrative	0.4	0.2	0.2	100.0%
	<u>\$ 13.0</u>	<u>\$ 3.6</u>	<u>\$ 9.4</u>	<u>261.1%</u>
Change In Net Position	<u>\$ 24.3</u>	<u>\$ 34.3</u>	<u>\$ (10.0)</u>	<u>(29.2%)</u>

TSRs of \$36.9 million, \$4.5 million of interest on debt, and the uncollectible TSR expense of \$10.2 million are the primary components of total revenues and expenses, respectively, for the Restricted Bond Program.

In the General Operating Fund FY 2022 revenue included other income of \$254.4 thousand representing a draw from TSRs. Expenses were \$98.6 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.

At June 30, 2022, the Authority has long-term debt obligations of \$63.3 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 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 of Washington. 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 of Washington 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.

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Management's Discussion and Analysis
June 30, 2022 and 2021

Comparison of Fiscal Years 2021 with 2020

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	<u>\$ 53.1</u>	<u>\$ 53.6</u>	<u>\$ (0.5)</u>	(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	<u>(45.8)</u>	<u>(80.1)</u>	<u>34.3</u>	(42.8%)
Total Liabilities And Net Position	<u>\$ 53.1</u>	<u>\$ 53.6</u>	<u>\$ (0.5)</u>	(0.9%)

During FY 2021, the Authority's combined total assets and deferred outflows of resources decreased by \$0.5 million partly due to the decrease in cash and equivalents held in reserve (\$1.4 million). The Authority's total liabilities decreased by \$34.6 million, resulting from principal payments and maturities. The Authority's net position improved by \$34.3 million, primarily due to the decrease in total liabilities.

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Management's Discussion and Analysis
June 30, 2022 and 2021

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:

	<u>2021</u>	<u>2020</u>	<u>Change</u>	
Revenues				
Tobacco settlement and other revenues	\$ 37.9	\$ 34.4	\$ 3.5	10.2%
Interest and program revenue	-	0.9	<u>(0.9)</u>	(100.0%)
Total revenues	<u>\$ 37.9</u>	<u>\$ 35.3</u>	<u>\$ 2.6</u>	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	<u>\$ 3.6</u>	<u>\$ 5.0</u>	<u>\$ (1.4)</u>	(28.0%)
Change In Net Position	<u>\$ 34.3</u>	<u>\$ 30.3</u>	<u>\$ 4.0</u>	13.2%

The change in net position of \$34.3 million for FY 2021 represents an increase of \$4.0 million over the FY 2020 change of \$30.3 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.

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Statements of Net Position
June 30, 2022 and 2021

	2022	2021
Assets and Deferred Outflow of Resources		
Cash and cash equivalents	\$ 33,890,116	\$ 34,531,804
TSR receivable	18,148,988	17,877,790
Allowance for Uncollectible TSR	(10,220,000)	-
Prepaid fees and interest receivable	35,684	9,601
Total assets	41,854,788	52,419,195
Deferred Outflow of Resources		
Unamortized loss on refunded debt	441,653	691,168
Total Assets and Deferred Outflow of Resources	\$ 42,296,441	\$ 53,110,363
Liabilities, Deferred Inflow of Resources, and Net Position		
Accrued interest payable	\$ 252,773	\$ 389,795
Accounts payable and other liabilities	6,542	19,398
Bonds payable		
Interest bonds	60,075,000	92,590,000
Unamortized bond premium	3,229,689	5,352,197
Total bonds payable	63,304,689	97,942,197
Total liabilities	63,564,004	98,351,390
Deferred Inflow of Resources		
Unamortized gain on refunded debt	306,634	559,637
Total Net Deficit Position	(21,574,197)	(45,800,664)
Total Liabilities, Deferred Inflow of Resources, and Net Position	\$ 42,296,441	\$ 53,110,363

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2022 and 2021

	2022	2021
Revenues		
Tobacco settlement revenues and other income	\$ 37,196,646	\$ 37,878,203
Interest income	71,304	12,835
Total revenues	37,267,950	37,891,038
Expenses		
Interest on debt	4,537,027	6,320,249
Amortization of bond premium	(2,122,508)	(2,946,475)
Bad debt expense	10,220,000	-
General and administrative	406,964	219,645
Total expenses	13,041,483	3,593,419
Change in Net Position	24,226,467	34,297,619
Net Position, Beginning of Year	(45,800,664)	(80,098,283)
Net Position, End of Year	\$ (21,574,197)	\$ (45,800,664)

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	2022	2021
Operating Activities		
Cash received from tobacco settlement and other revenues	\$ 36,925,448	\$ 36,599,432
Cash paid for bond program expenses	(308,400)	(142,970)
Cash paid for general and administrative expenses	(112,298)	(82,590)
Net Cash from Operating Activities	36,504,750	36,373,872
Investing Activities		
Cash received from interest income	46,100	13,870
Noncapital Financing Activities		
Principal repayment on bonds	(32,515,000)	(31,435,000)
Cash paid for bond interest expense	(4,677,538)	(6,293,175)
Net Cash used for Financing Activities	(37,192,538)	(37,728,175)
Net Decrease In Cash And Cash Equivalents	(641,688)	(1,340,433)
Cash and Cash Equivalents, Beginning of Year	34,531,804	35,872,237
Cash and Cash Equivalents, End of Year	\$ 33,890,116	\$ 34,531,804
Reconciliation Of Changes In Net Position To Net Cash		
Cash from Operating Activities		
Excess (deficit) of revenues over expenses	\$ 24,226,467	\$ 34,297,619
Adjustments to reconcile operating income to net cash from operating activities		
Amortization of bond premium	(2,122,508)	(2,946,475)
Amortization of (gain) loss on refunded debt	(3,488)	161,710
Cash paid for bond interest expense	4,677,538	6,293,175
Cash received from interest income	(46,100)	(13,870)
Changes in assets and liabilities		
TSR receivable	(271,198)	(1,278,771)
Uncollectible TSR	10,220,000	-
Prepaid fees and other receivables	(26,083)	(715)
Accounts payable and other liabilities	(12,856)	(4,164)
Accrued interest payable	(137,022)	(134,637)
Net Cash from Operating Activities	\$ 36,504,750	\$ 36,373,872

Tobacco Settlement Authority
(A Component Unit of the State of Washington)

Notes to Financial Statements
June 30, 2022 and 2021

Note 1 - Principal Business Activity

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 Annual Comprehensive 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 of Washington. 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 5.

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, 2022 and 2021, are:

	2022	2021
Cash and Cash Equivalents		
Restricted bond fund	\$ 33,586,996	\$ 34,370,945
General operating fund	303,120	160,859
Total Cash and Cash Equivalents	\$ 33,890,116	\$ 34,531,804

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, 2022 and 2021.

Tobacco Settlement Authority
(A Component Unit of the State of Washington)

Notes to Financial Statements
June 30, 2022 and 2021

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, 2022 and 2021.

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 2022 and 2021 included an accrual of \$18,148,988 and \$17,877,790, 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 2022 and 2021, the Authority delivered officer’s certificates to the Trustee requesting operating funds of \$254,400 and \$88,970, respectively, be disbursed which were received by the Authority prior to the fiscal years’ end.

Tobacco Settlement Authority
(A Component Unit of the State of Washington)

Notes to Financial Statements
June 30, 2022 and 2021

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 \$21,574,197 at June 30, 2022, and \$45,800,664 at June 30, 2021, 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 \$306,492 at June 30, 2022, and \$150,497 at June 30, 2021. The restricted bond fund has a net deficit balance of \$21,880,689 at June 30, 2022, and \$45,951,161 at June 30, 2021. 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, 2022 and 2021.

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.

The Authority measures investments at fair value on a recurring 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

Tobacco Settlement Authority
(A Component Unit of the State of Washington)

Notes to Financial Statements
June 30, 2022 and 2021

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, 2022 and 2021, 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 \$35,414 and \$40,559 for the years ended June 30, 2022 and 2021, respectively. The Authority has no directly hired staff and as such has no pension obligations. The Authority had fees payable totaling \$6,541 and \$8,503 with the Washington State Housing Finance Commission at June 30, 2022 and 2021, 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.

As of June 30, 2022, the Authority had outstanding bonds of approximately \$60.1 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
2023	\$ 26,735,000	\$ 3,033,275	\$ 29,768,275
2024	21,530,000	1,696,525	23,226,525
2025	-	620,025	620,025
2026	-	620,025	620,025
2027	-	620,025	620,025
2028–2032	4,360,000	3,100,125	7,460,125
2033–2037	7,450,000	391,125	7,841,125
	<u>\$ 60,075,000</u>	<u>\$ 10,081,125</u>	<u>\$ 70,156,125</u>

Tobacco Settlement Authority
(A Component Unit of the State of Washington)

Notes to Financial Statements
June 30, 2022 and 2021

Changes in bonds outstanding during the fiscal year ended June 30, 2022 and 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
Balance at June 30, 2021	Issued	Redeemed	Balance at June 30, 2022
\$ 92,590,000	\$ -	\$ 32,515,000	\$ 60,075,000

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 \$21,574,197, 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, 2022, and January 1 to June 30, 2021.

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

Tobacco Settlement Authority
(A Component Unit of the State of Washington)

Notes to Financial Statements
June 30, 2022 and 2021

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 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. 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.

Note 8 - Subsequent Events

On September 1, 2021, the Washington State Office of the Attorney General (the “AG”) notified the TSA 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 and NPM Adjustment pursuant to Section IX(d)(2)(B) of the Master Settlement Agreement.”

On August 1, 2022, the AG reported at the Authority’s board meeting that the estimated future potential impact of the 2004 NPM Adjustment to the State’s 2023 TSRs as approximately \$33.8 to \$34.3 million. As such, a proportional share has been recorded as an allowance against the Authority’s TSR receivable for Fiscal Year 2023 totaling \$10,220,000.



June 30, 2022

Supplementary Information Tobacco Settlement Authority

**(A Component Unit of the State of
Washington)**

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Schedules of Program Net Position
June 30, 2022 and 2021

	Restricted Bond Fund	General Operating Fund	2022	2021
Assets and Deferred Outflow of Resources of Resources				
Cash and cash equivalents	\$ 33,586,996	\$ 303,120	\$ 33,890,116	\$ 34,531,804
TSR receivable	18,148,988	-	18,148,988	17,877,790
Allowance for uncollectible accounts	(10,220,000)	-	(10,220,000)	-
Prepaid fees and interest receivable	25,770	9,914	35,684	9,601
Total assets	41,541,754	313,034	41,854,788	52,419,195
Deferred Outflow of Resources				
Unamortized loss on refunded debt	441,653	-	441,653	691,168
Total Assets and Deferred Outflow of Resources	\$ 41,983,407	\$ 313,034	\$ 42,296,441	\$ 53,110,363
Liabilities, Deferred Inflow Of Resources, And Net Position				
Accrued interest payable	\$ 252,773	\$ -	\$ 252,773	\$ 389,795
Accounts payable and other liabilities	-	6,542	6,542	19,398
Bonds payable				
Interest bonds	60,075,000	-	60,075,000	92,590,000
Unamortized bond premium	3,229,689	-	3,229,689	5,352,197
Total bonds payable	63,304,689	-	63,304,689	97,942,197
Total liabilities	63,557,462	6,542	63,564,004	98,351,390
Deferred Inflow Of Resources				
Unamortized gain on refunded debt	306,634	-	306,634	559,637
Total Net Deficit Position	(21,880,689)	306,492	(21,574,197)	(45,800,664)
Total Liabilities, Deferred Inflow of Resources and Net Position	\$ 41,983,407	\$ 313,034	\$ 42,296,441	\$ 53,110,363

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Schedules of Program Revenues, Expenses, and Changes in Program Net Position
Years Ended June 30, 2022 and 2021

	Restricted Bond Fund	General Operating Fund	2022	2021
Revenues				
Tobacco settlement revenues and other income	\$ 36,942,246	\$ 254,400	\$ 37,196,646	\$ 37,878,203
Interest income	71,145	159	71,304	12,835
Total revenues	<u>37,013,391</u>	<u>254,559</u>	<u>37,267,950</u>	<u>37,891,038</u>
Expenses				
Interest on debt	4,537,027	-	4,537,027	6,320,249
Amortization of bond premium	(2,122,508)	-	(2,122,508)	(2,946,475)
Bad debt expense	10,220,000	-	10,220,000	-
General and administrative	308,400	98,564	406,964	219,645
Total expenses	<u>12,942,919</u>	<u>98,564</u>	<u>13,041,483</u>	<u>3,593,419</u>
Change in Net Position	24,070,472	155,995	24,226,467	34,297,619
Beginning of Year	<u>(45,951,161)</u>	<u>150,497</u>	<u>(45,800,664)</u>	<u>(80,098,283)</u>
End of Year	<u>\$ (21,880,689)</u>	<u>\$ 306,492</u>	<u>\$ (21,574,197)</u>	<u>\$ (45,800,664)</u>

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Schedules of Program Cash Flows
Years Ended June 30, 2022 and 2021

	Restricted Bond Fund	General Operating Fund	2022	2021
Operating Activities				
Cash received from tobacco settlement and other revenues	\$ 36,671,048	\$ 254,400	\$ 36,925,448	\$ 36,599,432
Cash paid for bond program expenses	(308,400)	-	(308,400)	(142,970)
Cash paid general and administrative expenses	-	(112,298)	(112,298)	(82,590)
Net Cash from Operating Activities	36,362,648	142,102	36,504,750	36,373,872
Investing Activities				
Cash received from interest income	45,942	158	46,100	13,870
Noncapital Financing Activities				
Principal repayment on bonds	(32,515,000)	-	(32,515,000)	(31,435,000)
Cash paid for bond interest expense	(4,677,538)	-	(4,677,538)	(6,293,175)
Net Cash used for Financing Activities	(37,192,538)	-	(37,192,538)	(37,728,175)
Net (Decrease) Increase In Cash and Cash Equivalents	(783,948)	142,260	(641,688)	(1,340,433)
Cash and Cash Equivalents, Beginning of Year	34,370,944	160,860	34,531,804	35,872,237
Cash and Cash Equivalents, End of Year	<u>\$ 33,586,996</u>	<u>\$ 303,120</u>	<u>\$ 33,890,116</u>	<u>\$ 34,531,804</u>
Reconciliation Of Changes in Net Position to Net Cash from Operating Activities				
Excess of revenues over expenses	\$ 24,070,472	\$ 155,995	\$ 24,226,467	\$ 34,297,619
Adjustments to reconcile operating income to net cash from operating activities				
Amortization of bond premium	(2,122,508)	-	(2,122,508)	(2,946,475)
Amortization of loss on refunded debt	(3,488)	-	(3,488)	161,710
Cash paid for bond interest expense	4,677,538	-	4,677,538	6,293,175
Cash received from interest income	(45,942)	(158)	(46,100)	(13,870)
Changes in assets and liabilities				
TSR receivable	(271,198)	-	(271,198)	(1,278,771)
Uncollectible TSR	10,220,000	-	10,220,000	-
Prepaid fees and other receivables	(25,204)	(879)	(26,083)	(715)
Accounts payable and other liabilities	-	(12,856)	(12,856)	(4,164)
Accrued interest payable	(137,022)	-	(137,022)	(134,637)
Net Cash from Operating Activities	<u>\$ 36,362,648</u>	<u>\$ 142,102</u>	<u>\$ 36,504,750</u>	<u>\$ 36,373,872</u>

TAB 3

TOBACCO SETTLEMENT AUTHORITY

January 19, 2023

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 November 30, 2022, 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: Shirleen Noonan
Shirleen Noonan
General Operations Manager

Approved by: Lucas Loranger
Lucas Loranger
Senior Controller

TOBACCO SETTLEMENT AUTHORITY
GENERAL OPERATING FUND

November 30, 2022
Unaudited

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(See Accountant's Compilation Report)

Accountant's Report

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Tobacco Settlement Authority
Statement of Net Position
Fund: General Operating Fund
Division: All
November 30, 2022
(See Accountant's Compilation Report)

	Current Year	Prior Year	Variance	
			Amount	%
ASSETS				
Cash and Cash Equivalents:	\$ 289,236	\$ 108,482	\$ 180,754	(1) 167%
Prepaid Expenses & Other Receivable	5,782	5,271	511	(2) 10%
<i>Total Assets</i>	\$ 295,018	\$ 113,753	\$ 181,265	159%
LIABILITIES				
Accounts Payable and Other Liabilities	\$ 24,810	\$ 30,028	\$ (5,218)	(3) -17%
<i>Total Liabilities</i>	24,810	30,028	(5,218)	-17%
NET POSITION				
Unrestricted	270,208	83,725	186,483	223%
Total Net Position	270,208	83,725	186,483	223%
<i>Total Liabilities and Net Position</i>	\$ 295,018	\$ 113,753	\$ 181,265	159%

- (1) The current year's balance reflects the receipt of \$254,400 in May 2022 requested from the Tobacco Settlement Revenue to support budgeted operating expenditures. Prior year's request of \$88,970 was received in April 2021.
- (2) The higher prepaid expense balance is due to the increased cost of the annual insurance premium prepaid each June and amortized monthly.
- (3) Accounts payables and other liabilities consist mostly of vendor payables and interagency charges, primarily for salaries and benefit expenses allocated based on Commission staff working on TSA matters. The decrease is primarily due to higher legal payables in the prior year related to the EMMA filing.

Tobacco Settlement Authority
Statement of Activities and Changes in Net Position
Fund: General Operating Fund

Division: All

For The Year To Date Ending: November 30, 2022

(See Accountant's Compilation Report)

	<u>Current Period</u>	<u>Current Year to Date</u>	<u>Prior Year to Date</u>	<u>Variance</u>	
				Amount	%
<i>Revenues:</i>					
Interest Earned and Realized Gain	\$ 689	\$ 2,381	\$ 3	\$ 2,378	(1) 79267%
<i>Total Unadjusted Revenues</i>	<u>689</u>	<u>2,381</u>	<u>3</u>	<u>2,378</u>	<u>79267%</u>
<i>Expenses:</i>					
Salaries, Wages, and Employee Benefits	2,326	12,826	18,646	(5,820)	(2) -31%
Professional Fees	10,956	20,440	41,650	(21,210)	(3) -51%
Office Expense	1,009	5,400	6,481	(1,081)	(4) -17%
<i>Total Expenses</i>	<u>14,291</u>	<u>38,666</u>	<u>66,776</u>	<u>(28,110)</u>	<u>-42%</u>
<i>Adjustments</i>					
(Deficit) Excess of Revenues over Expenses	<u>(13,602)</u>	<u>(36,285)</u>	<u>(66,773)</u>	<u>30,488</u>	<u>-46%</u>
<i>Net Position</i>					
Total net position, beginning of period	283,810	306,493	150,498	155,995	104%
Current Increase (Decrease) to Net Position	<u>(13,602)</u>	<u>(36,285)</u>	<u>(66,773)</u>	<u>30,488</u>	<u>-46%</u>
Total net position, end of year	<u>\$ 270,208</u>	<u>\$ 270,208</u>	<u>\$ 83,725</u>	<u>\$ 186,483</u>	<u>223%</u>

- (1) The interest income increase is primarily due to a higher market yield in the current period of 3.67% compared to the same period in the prior year of .01%.
- (2) The decrease in salaries and benefits is due to reduced allocation of WSHFC staff hours in the current fiscal year compared to the same period in the prior year.
- (3) The decrease in professional fees is attributable to greater legal fees in the prior year related to the EMMA notice.
- (4) The decrease in office expense is primarily due to lower allocated overhead expenses from WSHFC. The allocation is based on TSA hours worked as a percentage of total WSHFC staff hours. In the prior year there were additional TSA hours allocated due to work related to the EMMA notice.

Tobacco Settlement Authority
Detailed Statement of Activities
Fund: General Operating Fund
Division: All

For The Year To Date Ending: November 30, 2022
(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 Earned and Realized Gain	79266.7%	\$ 2,378	\$ 3	\$ 2,381	\$ 275	\$ 2,106	765.8%
Total Unadjusted Revenues	79267%	2,378	3	2,381	275	2,106	766%
Expenses:							
Salaries & Wages - Staff & Temp. Svcs	-33.4%	(4,905)	14,704	9,799	23,219	(13,420)	-57.8%
Employee Benefits - Staff	-23.2%	(914)	3,942	3,028	6,359	(3,331)	-52.4%
Travel in state - Staff	NA	-	-	-	208	(208)	-100.0%
Accounting Fees	-39.4%	(6,900)	17,500	10,600	12,645	(2,045)	-16.2%
Legal Fees	-59.3%	(14,310)	24,150	9,840	20,833	(10,993)	-52.8%
Financial Advisor Fees	NA	-	-	-	1,250	(1,250)	-100.0%
Office Rent/Conf. Room Rentals	-47.6%	(418)	879	461	1,095	(634)	-57.9%
Advertising	-100.0%	(103)	103	-	-	-	NA
Deliveries	-100.0%	(139)	139	-	125	(125)	-100.0%
Insurance	9.7%	367	3,765	4,132	4,167	(35)	-0.8%
Meeting Expense	NA	-	-	-	125	(125)	-100.0%
Software Maint. Support & Other Info Svcs	-52.2%	(443)	848	405	845	(440)	-52.1%
Postage	-7.7%	(5)	65	61	42	19	45.2%
Printing	5.1%	5	99	104	250	(146)	-58.4%
Supplies	-18.5%	(15)	81	66	537	(471)	-87.7%
Telephone	-92.7%	(228)	246	18	205	(187)	-91.2%
Other Office Expenses	-40.6%	(104)	256	152	297	(145)	-48.8%
Total Expenses	-42%	(28,112)	66,777	38,666	72,202	(33,536)	-46%
Adjustments							
Revenues:							
Gains/(Loss) on Investments-Unrealized	NA	-	-	-	-	-	NA
Total Adjustments	NA	-	-	-	-	-	NA
(Deficit) Excess of Revenues over Expenses	-45.7%	\$ 30,489	\$ (66,774)	\$ (36,285)	\$ (71,927)	\$ 35,642	-49.6%

TAB 4

Statement of Account

Tobacco Settlement Authority
Proration of costs between TSA and WSHFC
For the period July 2022 - Sept 2022

Month	Salaries & Benefits	Office Expenses (1)	Overhead (2)	Invoice Amount
July	\$ 2,353.45	\$ 319.02	\$ 3.85	\$ 2,676.32
August	1,791.29	260.30	4.03	2,055.62
September	2,954.25	198.10	2.51	3,154.86
Total Per Category	\$ 7,098.99	\$ 777.42	\$ 10.39	\$ 7,886.80
Previous Balance at June 30, 2022				6,541.40
Payments & Credit Memos (through September 30, 2022)				(6,541.40)
Due to WSHFC:				<u>\$ 7,886.80</u>

Please make checks payable to:

Washington State Housing Finance Commission
1000 Second Avenue, Suite 2700
Seattle, Washington 98104-1046

(1) Office Expenses are expenses paid by WSHFC on behalf of TSA and allocation of certain HFC expenses based on TSA salary hours as a percentage of total HFC salary hours.

(2) Overhead is the allocation of HFC's depreciation expense based on TSA salary hours as a percentage of total HFC salary hours.

Approval for Payment

DocuSigned by:

5D56152CCCE5472

Authority Board Member

Statement of Account

Tobacco Settlement Authority
Proration of costs between TSA and WSHFC
For the period April 2022 - June 2022

Month	Salaries & Benefits	Office Expenses (1)	Overhead (2)	Invoice Amount
April	\$ 1,742.45	\$ 125.47	\$ 1.74	\$ 1,869.66
May	2,134.04	211.85	3.25	2,349.14
June	2,049.86	271.01	1.73	2,322.60
Total Per Category	\$ 5,926.35	\$ 608.33	\$ 6.72	\$ 6,541.40
Previous Balance at March 31, 2022				5,928.83
Payments & Credit Memos (through June 30, 2022)				(5,928.83)
Due to WSHFC:				<u>\$ 6,541.40</u>

Please make checks payable to:

Washington State Housing Finance Commission
1000 Second Avenue, Suite 2700
Seattle, Washington 98104-1046

(1) Office Expenses are expenses paid by WSHFC on behalf of TSA and allocation of certain HFC expenses based on TSA salary hours as a percentage of total HFC salary hours.

(2) Overhead is the allocation of HFC's depreciation expense based on TSA salary hours as a percentage of total HFC salary hours.

Approval for Payment

DocuSigned by:

5056152CCCE5472

Authority Board Member

TAB 5

TOBACCO SETTLEMENT BONDS

Trustee Update December 2022

Structure:

2018 Serial maturities from June 1, 2022 through 2024:

2013 Series maturities from June 1, 2019 through 2022, 2023, and 2027 and 2033

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	3,450,343.75	1,090,750.00	13,665,000		12,750,000
12/1/2019	2,774,031.25	1,090,750.00	-	-	-
6/1/2020	2,774,031.25	1,090,750.00	13,970,000		14,055,000
12/1/2020	2,055,837.50	1,090,750.00	-	-	-
6/1/2021	2,055,837.50	1,090,750.00	13,880,000		17,557,417
12/1/2021	1,248,018.75	1,090,750.00			
6/1/2022	1,248,018.75	1,090,750.00	14,510,000	10,600,000.00	7,405,000
12/1/2022	690,887.50	825,750.00			
	25,289,406.56	9,436,615.28	69,240,000.00	10,600,000.00	111,917,417.19

Total Bonds Outstanding = \$60,075,000

Series 2013: \$27,045,000 and Series 2018: \$33,030,000

Date	Projected TSR	Actual TSR	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	40,778,814.00	34,319,420.34	6,459,394	12,277
12/1/2019	-	-	-	33,523
6/1/2020	40,000,073.00	34,049,268.16	5,950,804.84	9,592
12/1/2020	-	-	-	4,731
6/1/2021	39,241,014.00	36,485,284.51	2,755,729.49	20,447
12/1/2021	-	-	-	3,590
6/1/2022	38,501,302.00	36,664,622.21	1,836,679.79	2,836
12/1/2022	-	-	-	-
	199,355,690	176,772,507.77	22,583,182.23	508,093

Compliance:

Report to Rating Agency on Debt Service Dates: Report to be submitted 12-1-2022

Disclosure Reporting:

Series 2013 and 2018 Continuing Disclosure Agreements:

EMMA Posting on 12-28-22 of Voluntary Disclosure

Total Reserve maintained at requirement = \$31,997,719.44

Series 2013: \$23,214,164.29 and Series 2018: \$8,783,555.15

