



Financial Statements
June 30, 2023 and 2022

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, 2023 and 2022

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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 years ended June 30, 2023 and 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 business-type activities of the Authority, as of June 30, 2023 and 2022, and the respective changes in financial position, and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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.

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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplemental schedules of program net position, program revenues, expenses, changes in program net positions, 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 GAAS. In our opinion, the supplemental schedules of program net position, program revenues, expenses, changes in program net positions, and program cash flows are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Boise, Idaho
December 15, 2023

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, 2023 and 2022 (FY 2023 and FY 2022, 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 \$29.9 million and \$36.9 million were recognized as revenue in the fiscal years ended June 30, 2023 and 2022, 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 \$15.9 million and \$18.1 million were recorded as accrued TSR Receivable applicable to cigarette sales between January 1, 2023 and June 30, 2023 and January 1, 2022, and June 30, 2022, respectively.

Other significant changes as of June 30, 2023 or for the year then ended include:

- Funds requested for operations in the current fiscal year were \$254,400 in FY 2022. Sufficient funds were on hand to support operations for the coming fiscal year.
- A negative Non-Participating Manufacturer Adjustment stemming from calendar year 2004 was realized in FY 2023, and \$7,355,480 was applied against the allowance for uncollectible TSRs. No further negative adjustments are expected, and the remaining uncollectible allowance and corresponding expense were adjusted accordingly.
- Total bonds payable were \$35.5 million, net of premiums. This represents a decrease of \$27.8 million (43.9%) from the prior year resulting from principal payments on bonds from maturities and redemptions.
- Net position increased \$32.2 million (149.1%) over the prior year.
- Bond interest expense decreased \$1.7 million (41.6%) due to the continued decline in total bonds outstanding.
- Interest income increased by \$1.3 million (1,200.0%) as interest rates on deposited funds, which increased in the latter part of the prior fiscal year, continued to rise and remained high during the current 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.

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. According to data from industry sources, cigarette shipments during 2022 declined 9.7%. Authority staff consider the industry information available to them each year when accruing estimated TSRs to be received as revenue.

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Management's Discussion and Analysis
June 30, 2023 and 2022

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 2023 and FY 2022 (in millions):

	2023	2022	Change	
Assets				
Cash and cash equivalents	\$ 30.0	\$ 33.9	\$ (3.9)	(11.5%)
Accrued TSR and other receivables	16.0	18.2	(2.2)	(12.1%)
Allowance for Uncollectible TRS	-	(10.2)	10.2	100.0%
	<u>46.0</u>	<u>41.9</u>	4.1	9.8%
Total assets				
Deferred outflow of resources	<u>0.4</u>	<u>0.4</u>	-	-%
Total Assets And Deferred Outflow Of Resources	<u>\$ 46.4</u>	<u>\$ 42.3</u>	<u>\$ 4.1</u>	9.7%
Liabilities				
Accrued interest payable and other liabilities	\$ 0.2	\$ 0.3	\$ (0.1)	(33.3%)
Bonds payable, net	<u>35.5</u>	<u>63.3</u>	<u>(27.8)</u>	(43.9%)
Total liabilities	35.7	63.6	(27.9)	(43.9%)
Deferred inflow of resources	<u>0.1</u>	<u>0.3</u>	<u>(0.2)</u>	(66.7%)
Net position (deficit)	<u>10.6</u>	<u>(21.6)</u>	<u>32.2</u>	149.1%
Total Liabilities And Net Position	<u>\$ 46.4</u>	<u>\$ 42.3</u>	<u>\$ 4.1</u>	9.7%

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Management's Discussion and Analysis
June 30, 2023 and 2022

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, 2023 and 2022:

	2023	2022	Change	
Revenues				
Tobacco settlement revenues and other income	\$ 29.9	\$ 37.2	\$ (7.3)	(19.6%)
Interest income	1.3	0.1	1.2	1,200.0%
	<u>\$ 31.2</u>	<u>\$ 37.3</u>	<u>\$ (6.1)</u>	<u>(16.4%)</u>
Expenses				
Bond program interest expense	\$ 2.8	\$ 4.5	\$ (1.7)	(37.8%)
Other bond program expenses (Recovery) uncollectible TSR	(1.1) (2.8)	(2.1) 10.2	1.0 (13.0)	(47.6%) (127.5%)
General and administrative	0.1	0.4	(0.3)	(75.0%)
	<u>\$ (1.0)</u>	<u>\$ 13.0</u>	<u>\$ (14.0)</u>	<u>(107.7%)</u>
Change In Net Position	<u>\$ 32.2</u>	<u>\$ 24.3</u>	<u>\$ 7.9</u>	32.5%

TSRs of \$29.9 million, \$2.8 million of interest on debt, and a reversal of prior uncollectible TSR expense of \$2.9 million are the primary components of total revenues and expenses, respectively, for the Restricted Bond Program.

In the General Operating Fund FY 2023 revenue included other income of \$8.7 thousand. Expenses were \$74.7 thousand comprised of allocable salaries and wages, and other general and administrative expenses.

Debt Administration

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.

At June 30, 2023, the Authority has long-term debt obligations of \$33.5 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
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Management's Discussion and Analysis
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Comparison of Fiscal Years 2022 with 2021

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 TSR	(10.2)	-	(10.2)	-
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%)

During FY 2022, the Authority's combined total assets and deferred outflows of resources decreased by \$10.8 million partly due to the allowance for uncollectible TSRs from a negative ruling surrounding the Authority's 2004 Non-Participating Manufacturer adjustment. The Authority's total liabilities decreased by \$34.7 million, resulting from principal payments and maturities. The Authority's net position improved by \$24.2 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, 2023 and 2022

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:

	<u>2022</u>	<u>2021</u>	<u>Change</u>	
Revenues				
Tobacco settlement and other revenues	\$ 37.2	\$ 37.9	\$ (0.7)	(1.8%)
Interest and program revenue	<u>0.1</u>	<u>-</u>	<u>0.1</u>	--%
Total revenues	<u>\$ 37.3</u>	<u>\$ 37.9</u>	<u>\$ (0.6)</u>	(1.6%)
Expenses				
Bond program interest expense	\$ 4.5	\$ 6.3	\$ (1.8)	(28.6%)
Other bond program expenses	(2.1)	(2.9)	1	(27.6%)
Uncollectible TSR	10.2	-	10	--%
General and administrative	<u>0.4</u>	<u>0.2</u>	<u>0.2</u>	100.0%
Total expenses	<u>\$ 13.0</u>	<u>\$ 3.6</u>	<u>\$ 9.4</u>	261.1%
Change In Net Position	<u>\$ 24.3</u>	<u>\$ 34.3</u>	<u>\$ (10.0)</u>	(29.2%)

The change in net position of \$24.3 million for FY 2022 represents a decrease of \$10 million over the FY 2021 change of \$34.3 million. The increase is primarily attributable to aforementioned uncollectible TSR allowance.

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
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Statements of Net Position
June 30, 2023 and 2022

	2023	2022
Assets and Deferred Outflow of Resources		
Cash and cash equivalents	\$ 29,994,191	\$ 33,890,116
TSR receivable	15,901,114	18,148,988
Allowance for Uncollectible TSR	-	(10,220,000)
Prepaid fees and interest receivable	131,449	35,684
Total assets	46,026,754	41,854,788
Deferred Outflow of Resources		
Unamortized loss on refunded debt	359,477	441,653
Total Assets and Deferred Outflow of Resources	\$ 46,386,231	\$ 42,296,441
Liabilities, Deferred Inflow of Resources, and Net Position		
Accrued interest payable	\$ 141,377	\$ 252,773
Accounts payable and other liabilities	11,024	6,542
Bonds payable		
Interest bonds	33,340,000	60,075,000
Unamortized bond premium	2,132,987	3,229,689
Total bonds payable	35,472,987	63,304,689
Total liabilities	35,625,388	63,564,004
Deferred Inflow of Resources		
Unamortized gain on refunded debt	116,811	306,634
Total Net Position (Deficit)	10,644,032	(21,574,197)
Total Liabilities, Deferred Inflow of Resources, and Net Position	\$ 46,386,231	\$ 42,296,441

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2023 and 2022

	2023	2022
Revenues		
Tobacco settlement revenues and other income	\$ 29,877,431	\$ 37,196,646
Interest income	1,322,525	71,304
Total revenues	31,199,956	37,267,950
Expenses		
Interest on debt	2,814,234	4,537,027
Amortization of bond premium	(1,096,703)	(2,122,508)
(Recovery) uncollectible TSR	(2,864,520)	10,220,000
General and administrative	128,716	406,964
Total expenses	(1,018,273)	13,041,483
Change in Net Position	32,218,229	24,226,467
Net Position, Beginning of Year	(21,574,197)	(45,800,664)
Net Position, End of Year	\$ 10,644,032	\$ (21,574,197)

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Operating Activities		
Cash received from tobacco settlement and other revenues	\$ 24,769,824	\$ 36,925,448
Cash paid for bond program expenses	(54,000)	(308,400)
Cash paid for general and administrative expenses	(70,718)	(112,298)
Net Cash from Operating Activities	24,645,106	36,504,750
Investing Activities		
Cash received from interest income	1,227,242	46,100
Noncapital Financing Activities		
Principal repayment on bonds	(26,734,998)	(32,515,000)
Cash paid for bond interest expense	(3,033,275)	(4,677,538)
Net Cash used for Noncapital Financing Activities	(29,768,273)	(37,192,538)
Net Decrease In Cash And Cash Equivalents	(3,895,925)	(641,688)
Cash and Cash Equivalents, Beginning of Year	33,890,116	34,531,804
Cash and Cash Equivalents, End of Year	\$ 29,994,191	\$ 33,890,116
Reconciliation Of Changes In Net Position To Net Cash		
Cash from Operating Activities		
Excess (deficit) of revenues over expenses	\$ 32,218,229	\$ 24,226,467
Adjustments to reconcile operating income to net cash from operating activities		
Amortization of bond premium	(1,096,703)	(2,122,508)
Amortization of (gain) loss on refunded debt	(107,646)	(3,488)
Uncollectible TSR	(10,220,000)	10,220,000
Cash paid for bond interest expense	3,033,275	4,677,538
Cash received from interest income	(1,227,242)	(46,100)
Changes in assets and liabilities		
TSR receivable	2,247,874	(271,198)
Prepaid fees and other receivables	(95,767)	(26,083)
Accounts payable and other liabilities	4,482	(12,856)
Accrued interest payable	(111,396)	(137,022)
Net Cash from Operating Activities	\$ 24,645,106	\$ 36,504,750

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

Notes to Financial Statements
June 30, 2023 and 2022

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 4.

Tobacco Settlement Authority
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Notes to Financial Statements
June 30, 2023 and 2022

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 statements 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, 2023 and 2022, are:

	2023	2022
Cash and Cash Equivalents		
Restricted bond fund	\$ 29,753,075	\$ 33,586,996
General operating fund	241,116	303,120
Total Cash and Cash Equivalents	\$ 29,994,191	\$ 33,890,116

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, 2023 and 2022.

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Notes to Financial Statements
June 30, 2023 and 2022

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, 2023 and 2022.

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.

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 2022 totaling \$10,220,000. In 2023, the TSA’s portion valued \$7.355 million. Because this was the only reduction expected, TSA needed to reverse the remaining \$2.864 million allowance.

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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 2023 and 2022, the Authority delivered officer’s certificates to the Trustee requesting operating funds of \$0 and \$254,400, respectively, be disbursed which were received by the Authority prior to the fiscal years’ end.

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

Net position – The net position balances of \$10,644,032 at June 30, 2023, and (\$21,574,197) at June 30, 2022, reflect unrestricted net 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 \$240,489 at June 30, 2023, and \$306,492 at June 30, 2022. The restricted bond fund has a net position balance of \$10,403,543 at June 30, 2023, and \$21,880,689 at June 30, 2022. 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, 2023 and 2022.

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.

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Notes to Financial Statements
June 30, 2023 and 2022

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, 2023 and 2022, 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 \$31,808 and \$35,414 for the years ended June 30, 2023 and 2022, respectively. The Authority has no directly hired staff and as such has no pension obligations. The Authority had fees payable totaling \$7,722 and \$6,541 with the Washington State Housing Finance Commission at June 30, 2023 and 2022, 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.

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Notes to Financial Statements
June 30, 2023 and 2022

As of June 30, 2023, the Authority had outstanding bonds of approximately \$30.3 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
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	-	620,025	620,025
2029–2033	11,810,000	2,871,225	14,681,225
	<u>\$ 33,340,000</u>	<u>\$ 7,047,850</u>	<u>\$ 40,387,850</u>

Changes in bonds outstanding during the fiscal year ended June 30, 2023 and 2022, are summarized in the following table:

Balance at June 30, 2021	Issued	Redeemed	Balance at June 30, 2022
<u>\$ 92,590,000</u>	<u>\$ -</u>	<u>\$ 32,515,000</u>	<u>\$ 60,075,000</u>
Balance at June 30, 2022	Issued	Redeemed	Balance at June 30, 2023
<u>\$ 60,075,000</u>	<u>\$ -</u>	<u>\$ 26,735,000</u>	<u>\$ 33,340,000</u>

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.

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Notes to Financial Statements
June 30, 2023 and 2022

Management believes that the present value of the amount of TSRs that will be collected by the Authority over time is \$10,644,032, an amount equal to the net 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, 2023, and January 1 to June 30, 2022.

Note 7 - Contingencies

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



June 30, 2023

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, 2023 and 2022

	Restricted Bond Fund	General Operating Fund	2023	2022
Assets and Deferred Outflow of Resources of Resources				
Cash and cash equivalents	\$ 29,753,075	\$ 241,116	\$ 29,994,191	\$ 33,890,116
TSR receivable	15,901,114	-	15,901,114	18,148,988
Allowance for uncollectible accounts	-	-	-	(10,220,000)
Prepaid fees and interest receivable	121,052	10,397	131,449	35,684
Total assets	45,775,241	251,513	46,026,754	41,854,788
Deferred Outflow of Resources				
Unamortized loss on refunded debt	359,477	-	359,477	441,653
Total Assets and Deferred Outflow of Resources	\$ 46,134,718	\$ 251,513	\$ 46,386,231	\$ 42,296,441
Liabilities, Deferred Inflow Of Resources, And Net Position				
Accrued interest payable	\$ 141,377	\$ -	\$ 141,377	\$ 252,773
Accounts payable and other liabilities	-	11,024	11,024	6,542
Bonds payable				
Interest bonds	33,340,000	-	33,340,000	60,075,000
Unamortized bond premium	2,132,987	-	2,132,987	3,229,689
Total bonds payable	35,472,987	-	35,472,987	63,304,689
Total liabilities	35,614,364	11,024	35,625,388	63,564,004
Deferred Inflow Of Resources				
Unamortized gain on refunded debt	116,811	-	116,811	306,634
Total Net Position (Deficit)	10,403,543	240,489	10,644,032	(21,574,197)
Total Liabilities, Deferred Inflow of Resources and Net Position	\$ 46,134,718	\$ 251,513	\$ 46,386,231	\$ 42,296,441

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, 2023 and 2022

	Restricted Bond Fund	General Operating Fund	2023	2022
Revenues				
Tobacco settlement revenues and other income	\$ 29,877,431	\$ -	\$ 29,877,431	\$ 37,196,646
Interest income	1,313,812	8,713	1,322,525	71,304
Total revenues	31,191,243	8,713	31,199,956	37,267,950
Expenses				
Interest on debt	2,814,234	-	2,814,234	4,537,027
Amortization of bond premium	(1,096,703)	-	(1,096,703)	(2,122,508)
(Recovery) uncollectible TSR	(2,864,520)	-	(2,864,520)	10,220,000
General and administrative	54,000	74,716	128,716	406,964
Total expenses	(1,092,989)	74,716	(1,018,273)	13,041,483
Change in Net Position	32,284,232	(66,003)	32,218,229	24,226,467
Net Position, Beginning of Year	(21,880,689)	306,492	(21,574,197)	(45,800,664)
Net Position, End of Year	\$ 10,403,543	\$ 240,489	\$ 10,644,032	\$ (21,574,197)

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Schedules of Program Cash Flows
Years Ended June 30, 2023 and 2022

	Restricted Bond Fund	General Operating Fund	2023	2022
Operating Activities				
Cash received from tobacco settlement and other revenues	\$ 24,769,824	\$ -	\$ 24,769,824	\$ 36,925,448
Cash paid for bond program expenses	(54,000)	-	(54,000)	(308,400)
Cash paid general and administrative expenses	-	(70,718)	(70,718)	(112,298)
Net Cash from (used for) Operating Activities	24,715,824	(70,718)	24,645,106	36,504,750
Investing Activities				
Cash received from interest income	1,218,529	8,713	1,227,242	46,100
Noncapital Financing Activities				
Principal repayment on bonds	(26,734,998)	-	(26,734,998)	(32,515,000)
Cash paid for bond interest expense	(3,033,275)	-	(3,033,275)	(4,677,538)
Net Cash used for Noncapital Financing Activities	(29,768,273)	-	(29,768,273)	(37,192,538)
Net (Decrease) Increase In Cash and Cash Equivalents	(3,833,920)	(62,005)	(3,895,925)	(641,688)
Cash and Cash Equivalents, Beginning of Year	33,586,995	303,121	33,890,116	34,531,804
Cash and Cash Equivalents, End of Year	<u>\$ 29,753,075</u>	<u>\$ 241,116</u>	<u>\$ 29,994,191</u>	<u>\$ 33,890,116</u>
Reconciliation of Changes in Net Position to Net Cash from (used for) Operating Activities				
Excess of revenues over expenses	\$ 32,284,232	\$ (66,003)	\$ 32,218,229	\$ 24,226,467
Adjustments to reconcile operating income to net cash from (used for) operating activities				
Amortization of bond premium	(1,096,703)	-	(1,096,703)	(2,122,508)
Amortization of loss on refunded debt	(107,646)	-	(107,646)	(3,488)
Uncollectible TSR	(10,220,000)	-	(10,220,000)	10,220,000
Cash paid for bond interest expense	3,033,275	-	3,033,275	4,677,538
Cash received from interest income	(1,218,529)	(8,713)	(1,227,242)	(46,100)
Changes in assets and liabilities				
TSR receivable	2,247,874	-	2,247,874	(271,198)
Prepaid fees and other receivables	(95,283)	(484)	(95,767)	(26,083)
Accounts payable and other liabilities	-	4,482	4,482	(12,856)
Accrued interest payable	(111,396)	-	(111,396)	(137,022)
Net Cash from (used for) Operating Activities	\$ 24,715,824	\$ (70,718)	\$ 24,645,106	\$ 36,504,750