



Financial Statements
June 30, 2024 and 2023

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, 2024 and 2023

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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, 2024 and 2023, 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, 2024 and 2023, 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 Note 8 to the financial statements, On June 24, 2024, the Authority board voted on and unanimously approved Resolution #24-01, approving the Agreement, which dissolved the Authority effective June 28, 2024. The Agreement transferred the ongoing TSR stream to the State. The remaining assets of the Authority were transferred to the State and Authority operations ceased on June 28, 2024. 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
November 11, 2024

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, 2024 and 2023 (FY 2024 and FY 2023, 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

During Fiscal Year 2024, Tobacco Settlement Revenues (TSRs) of \$27.5 million were received under the Master Settlement Agreement ("MSA"), with \$11.7 recognized as revenue in the current year. These funds, in conjunction with reserve funds on hand, provided sufficient capital to fully redeem the outstanding bonds on May 15, 2024. Subsequently, the Authority entered into a Sale, Assumption, and Dissolution Agreement (the "Agreement") dated June 28, 2024, with the State of Washington (the "State") and the Washington State Housing Finance Commission (the "Commission"), transferring future TSRs and excess funds to the State, providing for payment to the Commission for limited administrative services, and dissolving the Authority as a state agency (see Note 8).

Other significant changes as of June 30, 2024 or for the year then ended include:

- Change in net position decreased \$42.9 million (132.8%) over the prior year, as there was a distribution of any remaining equity to the State upon dissolution of the Authority.
- Bond interest expense decreased \$1.1 million (39.3%) due to the continued decline in total bonds outstanding.
- Interest income increased by \$0.3 million (23.1%) as interest rates on deposited funds, which were increasing in the prior fiscal year, remained elevated and stable during the current fiscal year.
- There was a loss on the Disposal of Operations of \$166 thousand as funds were distributed to the Washington State Housing Finance Commission to be held on deposit to respond to any emergent obligations of the Authority after dissolution, such as audit or legal costs.

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

With the transfer of the ongoing TSRs and excess funds, and official dissolution of the Authority under the Agreement effective June 28, 2024, the Authority is no longer in operation.

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Management's Discussion and Analysis
June 30, 2024 and 2023

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 2024 and FY 2023 (in millions):

	<u>2024</u>	<u>2023</u>	<u>Change</u>	
Assets				
Cash and cash equivalents	\$ -	\$ 30.0	\$ (30.0)	(100.0%)
Accrued TSR and other receivables	-	16.0	(16.0)	(100.0%)
Total assets	-	46.0	(46.0)	(100.0%)
Deferred outflow of resources	-	0.4	(0.4)	(100.0%)
Total Assets And Deferred Outflow Of Resources	<u>\$ -</u>	<u>\$ 46.4</u>	<u>\$ (46.4)</u>	(100.0%)
Liabilities				
Accrued interest payable and other liabilities	\$ -	\$ 0.2	\$ (0.2)	(100.0%)
Bonds payable, net	-	35.5	(35.5)	(100.0%)
Total liabilities	-	35.7	(35.7)	(100.0%)
Deferred inflow of resources	-	0.1	(0.1)	(100.0%)
Net Position	-	10.6	(10.6)	100.0%
Total Liabilities And Net Position	<u>\$ -</u>	<u>\$ 46.4</u>	<u>\$ (46.4)</u>	(100.0%)

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Management's Discussion and Analysis
June 30, 2024 and 2023

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, 2024 and 2023:

	<u>2024</u>	<u>2023</u>	<u>Change</u>	
Revenues				
Tobacco settlement revenues and other income	\$ 11.7	\$ 29.9	\$ (18.2)	(60.9%)
Interest income	1.6	1.3	0.3	23.1%
Total revenues	<u>\$ 13.3</u>	<u>\$ 31.2</u>	<u>\$ (17.9)</u>	<u>(57.4%)</u>
Expenses				
Bond program interest expense	\$ 1.7	\$ 2.8	\$ (1.1)	(39.3%)
Other bond program expenses (Recovery) uncollectible TSR	(2.1)	(1.1)	(1.0)	90.9%
General and administrative	0.1	(2.9)	3.0	(103.4%)
	0.1	0.1	-	-%
Total expenses	<u>\$ (0.2)</u>	<u>\$ (1.1)</u>	<u>\$ 0.9</u>	<u>(81.8%)</u>
Transfer to State	<u>(24.1)</u>	<u>-</u>	<u>(24.1)</u>	100.0%
Change In Net Position	<u>\$ (10.6)</u>	<u>\$ 32.3</u>	<u>\$ (42.9)</u>	<u>(132.8%)</u>

TSRs of \$11.7 million, \$1.7 million of interest on debt, and a reversal of a prior year 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 2024 revenue included interest income of \$18.1 thousand. Expenses were \$258.6 thousand comprised of allocable salaries and wages, and other general and administrative expenses, and a loss on the disposal of operations.

Debt Administration

On May 15, 2024, the Authority repaid in full its long-term debt obligations in the principal amount of \$33.340 million.

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 Series 2002 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 were solely secured by the "right to receive" TSRs from major tobacco companies under the Master Settlement Agreement. All outstanding Series 2013 and Series 2018 Bonds were fully redeemed on May 15, 2024, when TSRs, coupled with funds held in reserve, were sufficient to pay down the remaining principal plus accrued interest.

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, 2024 and 2023

Comparison of Fiscal Years 2023 with 2022

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 TSR	-	(10.2)	10.2	-%
Total assets	46.0	41.9	4.1	9.8%
Deferred Outflow Of Resources	0.4	0.4	-	-%
Total Assets And Deferred Outflow Of Resources	\$ 46.4	\$ 42.3	\$ 4.1	9.7%
Liabilities				
Accrued interest payable and other liabilities	\$ 0.2	\$ 0.3	\$ (0.1)	(33.3%)
Bonds payable, net	35.5	63.3	(27.8)	(43.9%)
Total liabilities	35.7	63.6	(27.9)	(43.9%)
Deferred Inflow Of Resources	0.1	0.3	(0.2)	(66.7%)
Net (Deficit) Position	10.6	(21.6)	32.2	(149.1%)
Total Liabilities And Net Position	\$ 46.4	\$ 42.3	\$ 4.1	9.7%

During FY 2023, the Authority's combined total assets and deferred outflows of resources increased by \$4.1 million primarily due to an allowance for uncollectible TSRs from a negative ruling surrounding the Authority's 2004 Non-Participating Manufacturer adjustment. The Authority's total liabilities decreased by \$27.9 million, resulting from principal payments and maturities. The Authority's net position improved by \$32.2 million, primarily due to the decrease in total liabilities, offset by the decrease in total assets.

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Management's Discussion and Analysis
June 30, 2024 and 2023

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:

	<u>2023</u>	<u>2022</u>	<u>Change</u>	
Revenues				
Tobacco settlement and other revenues	\$ 29.9	\$ 37.2	\$ (7.3)	(19.6%)
Interest and program revenue	1.3	0.1	1.2	--%
	<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	(1.1)	(2.1)	1	(47.6%)
Uncollectible TSR	(2.9)	10	(13)	--%
General and administrative	0.1	0.4	(0.3)	(75.0%)
	<u>\$ (1.1)</u>	<u>\$ 13.0</u>	<u>\$ (14.1)</u>	<u>(108.5%)</u>
Change In Net Position	<u>\$ 32.3</u>	<u>\$ 24.3</u>	<u>\$ 8.0</u>	<u>32.9%</u>

The change in net position of \$32.3 million for FY 2023 represents an increase of \$8.0 million over the FY 2022 change of \$24.3 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, c/o Washington State Housing Finance Commission, 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, 2024 and 2023

	2024	2023
Assets and Deferred Outflow of Resources		
Cash and cash equivalents	\$ -	\$ 29,994,191
TSR receivable	-	15,901,114
Prepaid fees and interest receivable	-	131,449
Total assets	-	46,026,754
Deferred Outflow of Resources		
Unamortized loss on refunded debt	-	359,477
Total Assets and Deferred Outflow of Resources	\$ -	\$ 46,386,231
Liabilities, Deferred Inflow of Resources, and Net Position		
Accrued interest payable	\$ -	\$ 141,377
Accounts payable and other liabilities	-	11,024
Bonds payable		
Interest bonds	-	33,340,000
Unamortized bond premium	-	2,132,987
Total bonds payable	-	35,472,987
Total liabilities	-	35,625,388
Deferred Inflow of Resources		
Unamortized gain on refunded debt	-	116,811
Total Net Position	-	10,644,032
Total Liabilities, Deferred Inflow of Resources, and Net Position	\$ -	\$ 46,386,231

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2024 and 2023

	2024	2023
Revenues		
Tobacco settlement revenues and other income	\$ 11,673,472	\$ 29,877,431
Interest income	1,618,168	1,322,525
Total revenues	13,291,640	31,199,956
Expenses		
Interest on debt	1,722,412	2,814,234
Amortization of bond premium	(2,132,987)	(1,096,703)
(Recovery) uncollectible TSR	-	(2,864,520)
General and administrative	128,994	128,716
Expenses related to dissolution	166,169	-
Total expenses	(115,412)	(1,018,273)
Operating Revenues in Excess of Expenses	13,407,052	32,218,229
Transfer to State	(24,051,084)	-
Change in Net Position	(10,644,032)	32,218,229
Net Position, Beginning of Year	10,644,032	(21,574,197)
Net Position, End of Year	\$ -	\$ 10,644,032

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	2024	2023
Operating Activities		
Cash received from tobacco settlement and other revenues	\$ 27,574,587	\$ 24,769,824
Cash paid for bond program expenses	(29,000)	(54,000)
Cash paid for general and administrative expenses	(259,206)	(70,718)
Net Cash from Operating Activities	27,286,381	24,645,106
Investing Activities		
Cash received from interest income	1,731,636	1,227,242
Noncapital Financing Activities		
Principal repayment on bonds	(33,340,000)	(26,734,998)
Cash paid for bond interest expense	(1,621,124)	(3,033,275)
Transfer to state	(24,051,084)	-
Net Cash used for Noncapital Financing Activities	(59,012,208)	(29,768,273)
Net Decrease In Cash And Cash Equivalents	(29,994,191)	(3,895,925)
Cash and Cash Equivalents, Beginning of Year	29,994,191	33,890,116
Cash and Cash Equivalents, End of Year	\$ -	\$ 29,994,191
Reconciliation of Changes In Net Position to Net Cash		
Cash from Operating Activities		
Excess of revenues over expenses	\$ 13,407,052	\$ 32,218,229
Adjustments to reconcile operating income to net cash from operating activities		
Amortization of bond premium	(2,132,987)	(1,096,703)
Amortization of (gain) loss on refunded debt	242,665	(107,646)
Uncollectible TSR	-	(10,220,000)
Cash paid for bond interest expense	1,621,124	3,033,275
Cash received from interest income	(1,731,636)	(1,227,242)
Changes in assets and liabilities		
TSR receivable	15,901,115	2,247,874
Prepaid fees and other receivables	131,449	(95,767)
Accounts payable and other liabilities	(11,024)	4,482
Accrued interest payable	(141,377)	(111,396)
Net Cash from Operating Activities	\$ 27,286,381	\$ 24,645,106

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

Notes to Financial Statements
June 30, 2024 and 2023

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. On June 24, 2024, the Authority board voted on and unanimously approved Resolution #24-01, approving the Agreement, which dissolved the Authority effective June 28, 2024. See note 8 for details.

The Authority board consisted of five directors, each appointed by the governor. The chair of the Authority served at the pleasure of the governor while the remaining directors served 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 Series 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. Both the Series 2013 and Series 2018 were fully redeemed in 2024. 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
(A Component Unit of the State of Washington)

Notes to Financial Statements
June 30, 2024 and 2023

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, 2024 and 2023, are:

	2024	2023
Cash and Cash Equivalents		
Restricted bond fund	\$ -	\$ 29,753,075
General operating fund	-	241,116
Total cash and cash equivalents	\$ -	\$ 29,994,191

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, 2024 and 2023.

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

Notes to Financial Statements
June 30, 2024 and 2023

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, 2024 and 2023.

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 2024 and 2023, included an accrual of \$0 and \$15,901,144, 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 2024 and 2023, the Authority delivered officer’s certificates to the Trustee requesting operating funds of \$7,584 and \$0, respectively, be disbursed which were received by the Authority prior to the fiscal years’ end.

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Notes to Financial Statements
June 30, 2024 and 2023

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 \$0 at June 30, 2024, and \$10,644,032 at June 30, 2023, 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 \$0 at June 30, 2024, and \$240,489 at June 30, 2023. The restricted bond fund has a net position balance of \$0 at June 30, 2024, and \$10,403,543 at June 30, 2023. Management believes that the present value of future TSRs allocated to the Authority approximates the net position.

Arbitrage rebate – No arbitrage rebate is owed to the United States Treasury for the years ended June 30, 2024 and 2023.

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, 2024 and 2023

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, 2024 and 2023, 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 \$31,426 and \$31,808, for the years ended June 30, 2024 and 2023, respectively. The Authority has no directly hired staff and as such has no pension obligations. The Authority had fees payable totaling \$0 and \$7,722, with the Washington State Housing Finance Commission at June 30, 2024 and 2023, 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, 2024, the Authority had paid down all outstanding bonds and had a \$0 balance remaining.

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Notes to Financial Statements
June 30, 2024 and 2023

Changes in bonds outstanding during the fiscal years ended June 30, 2024 and 2023, are summarized in the following table:

Balance at June 30, 2022	Issued	Redeemed	Balance at June 30, 2023
\$ 60,075,000	\$ -	\$ 26,735,000	\$ 33,340,000
Balance at June 30, 2023	Issued	Redeemed	Balance at June 30, 2024
\$ 33,340,000	\$ -	\$ 33,340,000	\$ -

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.

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.

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Notes to Financial Statements
June 30, 2024 and 2023

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 - Dissolution of the Authority

In 2002 and under RCW 43.340.005 and .020, the Washington State Legislature established the Authority and described its purpose as having "the power to purchase certain rights of the state under the master settlement agreement and to issue nonrecourse revenue bonds to pay outstanding obligations of the state in order to make funds available for increased costs of health care, long-term care, and other programs of the state."

Under a Purchase and Sale Agreement between the Authority and the State, dated October 1, 2002 (the "Sale Agreement"), the Authority purchased certain Tobacco Assets from the State, which purchase was financed through the sale of bonds by the Authority.

During the current year, RCW 43.340.110 provides that the Authority "shall dissolve no later than two years from the date of final payment of all of its outstanding bonds and the satisfaction of all outstanding obligations of the authority, except to the extent necessary to remain in existence to fulfill any outstanding covenants or provisions with bondholders or third parties made in accordance with this chapter."

On May 15, 2024, the Authority effected the mandatory redemption of all of its outstanding bonds in whole.

On June 24, 2024, the Authority board voted on and unanimously approved Resolution #24-01, approving the Agreement, which dissolved the Authority effective June 28, 2024. The Agreement transferred the ongoing TSR stream to the State. The remaining cash of the Authority was transferred to the State and Authority operations ceased on June 28, 2024.



June 30, 2024

Supplementary Information

Tobacco Settlement Authority
(A Component Unit of the State of
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Tobacco Settlement Authority
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Schedules of Program Net Position
June 30, 2024 and 2023

	Restricted Bond Fund	General Operating Fund	2024	2023
Assets and Deferred Outflow of Resources of Resources				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 29,994,191
TSR receivable	-	-	-	15,901,114
Prepaid fees and interest receivable	-	-	-	131,449
Total assets	-	-	-	46,026,754
Deferred Outflow of Resources				
Unamortized loss on refunded debt	-	-	-	359,477
Total Assets and Deferred Outflow of Resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,386,231</u>
Liabilities, Deferred Inflow of Resources, And Net Position				
Accrued interest payable	\$ -	\$ -	\$ -	\$ 141,377
Accounts payable and other liabilities	-	-	-	11,024
Bonds payable				
Interest bonds	-	-	-	33,340,000
Unamortized bond premium	-	-	-	2,132,987
Total bonds payable	-	-	-	35,472,987
Total liabilities	-	-	-	35,625,388
Deferred Inflow of Resources				
Unamortized gain on refunded debt	-	-	-	116,811
Total Net Position	-	-	-	10,644,032
Total Liabilities, Deferred Inflow of Resources and Net Position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,386,231</u>

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, 2024 and 2023

	Restricted Bond Fund	General Operating Fund	2024	2023
Revenues				
Tobacco settlement revenues and other income	\$ 11,673,472	\$ -	\$ 11,673,472	\$ 29,877,431
Interest income	1,600,078	18,090	1,618,168	1,322,525
Total revenues	13,273,550	18,090	13,291,640	31,199,956
Expenses				
Interest on debt	1,722,412	-	1,722,412	2,814,234
Amortization of bond premium	(2,132,987)	-	(2,132,987)	(1,096,703)
(Recovery) uncollectible TSR	-	-	-	(2,864,520)
General and administrative	36,584	92,410	128,994	128,716
Expenses related to dissolution	-	166,169	166,169	-
Total expenses	(373,991)	258,579	(115,412)	(1,018,273)
Operating Revenues in Excess of Expenses	13,647,541	(240,489)	13,407,052	32,218,229
Transfer to State	(24,051,084)	-	(24,051,084)	-
Change in Net Position	(10,403,543)	(240,489)	(10,644,032)	32,218,229
Net Position, Beginning of Year	10,403,543	240,489	10,644,032	(21,574,197)
Net Position, End of Year	\$ -	\$ -	\$ -	\$ 10,644,032

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Schedules of Program Cash Flows
Years Ended June 30, 2024 and 2023

	Restricted Bond Fund	General Operating Fund	2024	2023
Operating Activities				
Cash received from tobacco settlement and other revenues	\$ 27,574,587	\$ -	\$ 27,574,587	\$24,769,824
Cash paid for bond program expenses	(29,000)	-	(29,000)	(54,000)
Cash paid general and administrative expenses	(7,584)	(251,622)	(259,206)	(70,718)
Net Cash from (used for) Operating Activities	27,538,003	(251,622)	27,286,381	24,645,106
Investing Activities				
Cash received from interest income	1,721,131	10,505	1,731,636	1,227,242
Noncapital Financing Activities				
Principal repayment on bonds	(33,340,000)	-	(33,340,000)	(26,734,998)
Cash paid for bond interest expense	(1,621,124)	-	(1,621,124)	(3,033,275)
Transfer to state	(24,051,084)	-	(24,051,084)	-
Net Cash used for Noncapital Financing Activities	(59,012,208)	-	(59,012,208)	(29,768,273)
Net Decrease In Cash and Cash Equivalents	(29,753,074)	(241,117)	(29,994,191)	(3,895,925)
Cash and Cash Equivalents, Beginning of Year	29,753,074	241,117	29,994,191	33,890,116
Cash and Cash Equivalents, End of Year	\$ -	\$ -	\$ -	\$29,994,191
Reconciliation of Changes in Net Position to Net Cash from (used for) Operating Activities				
Excess (deficit) of revenues over expenses	\$ 13,647,541	\$ (240,489)	\$ 13,407,052	\$32,218,229
Adjustments to reconcile operating income to net cash from (used for) operating activities				
Amortization of bond premium	(2,132,987)	-	(2,132,987)	(1,096,703)
Amortization of loss on refunded debt	242,665	-	242,665	(107,646)
Uncollectible TSR	1,621,124	-	1,621,124	(10,220,000)
Cash paid for bond interest expense	(1,721,131)	(10,505)	(1,731,636)	3,033,275
Cash received from interest income	-	-	-	(1,227,242)
Changes in assets and liabilities				
TSR receivable	15,901,115	-	15,901,115	2,247,874
Prepaid fees and other receivables	121,053	10,395	131,448	(95,767)
Accounts payable and other liabilities	-	(11,023)	(11,023)	4,482
Accrued interest payable	(141,377)	-	(141,377)	(111,396)
Net Cash from (used for) Operating Activities	\$ 27,538,003	\$ (251,622)	\$ 27,286,381	\$24,645,106