

**STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY**

**COMPLIANCE EXAMINATION**

For the Two Years Ended June 30, 2020

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
STATE COMPLIANCE EXAMINATION  
For the Two Years Ended June 30, 2020

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
Agency Officials	1
Management Assertion Letter	2
Compliance Report	
Summary	4
Independent Accountant’s Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes	6
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	10
Schedule of Findings	
Current Finding – <i>Government Auditing Standards</i>	12
Prior Finding Not Repeated	15
Supplementary Information for State Compliance Purposes	
Analysis of Operations (Unaudited)	
Analysis of Operations (Functions and Planning)	16
Analysis of Significant Variations in Account Balances	18
Other Report Issued Under a Separate Cover	
The State of Illinois, Railsplitter Tobacco Settlement Authority’s financial statements as of and for the years ended June 30, 2019 and June 30, 2020, have been issued under a separate cover.	

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
STATE COMPLIANCE EXAMINATION  
For the Two Years Ended June 30, 2020

**AGENCY OFFICIALS**

Chairman of the Board (1/14/19 – Present)	Alexis Sturm
Chairman of the Board (12/7/18 – 1/13/19)	Hans Zigmund
Chairman of the Board (7/1/18 – 12/6/18)	Vacant
Board Member (1/14/19 – Present)	Alexis Sturm
Board Member (7/1/18 – 1/13/19)	Hans Zigmund
Board Member (7/1/18 – Present)	Elizabeth Weber
Board Member (7/1/18 – Present)	William O’Connell
Chief Financial Officer (12/5/19 – Present)	Paul Chatalas
Chief Financial Officer (5/7/19 – 12/4/19)	Vacant
Chief Financial Officer (7/1/18 – 5/6/19)	Kelly Hutchinson
Secretary (12/5/19 – Present)	Courtney Peterson
Secretary (12/7/18 – 12/4/19)	Charlie Salmans
Secretary (7/1/18 – 12/6/18)	Vacant

The Authority’s offices are located at:

James R. Thompson Center  
100 West Randolph St., Suite 15-100  
Chicago, Illinois 60601

603 Stratton Office Building  
401 South Spring St.  
Springfield, Illinois 62706



**RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
C/O THE GOVERNOR'S OFFICE OF MANAGEMENT AND**

100 W Randolph St.  
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Chicago, IL 60601  
(312) 814-0023  
Fax: (312) 814-5104

February 25, 2021

Honorable Frank J. Mautino  
Auditor General  
State of Illinois  
740 East Ash Street  
Springfield, Illinois 62703-3154

Auditor General Mautino:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the State of Illinois, Railsplitter Tobacco Settlement Authority (Authority). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Authority's compliance with the following specified requirements during the two-year period ended June 30, 2020. Based on this evaluation, we assert that during the years ended June 30, 2019, and June 30, 2020, the Authority has materially complied with the specified requirements listed below.

- A. The Authority has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Authority has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. The Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Authority on behalf of the State or held in trust by the Authority have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Yours truly,

Railsplitter Tobacco Settlement Authority

**SIGNED ORIGINAL ON FILE**

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Alexis Sturm, Chairman

**SIGNED ORIGINAL ON FILE**

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Paul Chatalas, Chief Financial Officer

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
STATE COMPLIANCE EXAMINATION  
For the Two Years Ended June 30, 2020

**COMPLIANCE REPORT**

**SUMMARY**

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and the Illinois State Auditing Act.

**ACCOUNTANT’S REPORT**

The Independent Accountant’s Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations or disclaimers, but does contain a modified opinion on compliance and identifies a material weakness in internal control over compliance.

**SUMMARY OF FINDINGS**

<u>Number of</u>	<u>Current</u>	<u>Prior</u>
	<u>Report</u>	<u>Report</u>
Findings	1	1
Repeated Findings	0	0
Prior Recommendations Implemented or Not Repeated	1	0

**SCHEDULE OF FINDINGS**

<u>Item No.</u>	<u>Page</u>	<u>Last/First</u> <u>Reported</u>	<u>Description</u>	<u>Finding Type</u>
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FINDINGS (*GOVERNMENT AUDITING STANDARDS*)

2020-001	12	New	Lack of Adequate Controls Over the Review of Internal Controls Over Service Providers	Material Weakness and Noncompliance
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STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
STATE COMPLIANCE EXAMINATION  
For the Two Years Ended June 30, 2020

FINDINGS (STATE COMPLIANCE)

In addition, the following finding which is reported as a current finding relating to *Government Auditing Standards* also meets the reporting requirements for State Compliance.

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
2020-001	12	New	Lack of Adequate Controls Over the Review of Internal Controls Over Service Providers	Material Weakness and Material Noncompliance

PRIOR FINDINGS NOT REPEATED

A	15	2018	Inaccurate Financial Statement Preparation
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**EXIT CONFERENCE**

The Authority waived an exit conference in a correspondence from Courtney Peterson, Authority Secretary, on February 17, 2021. The response to the recommendation was provided by Courtney Peterson, Authority Secretary, in a correspondence dated February 25, 2021.

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Office Of The Auditor General  
**Frank Mautino**

**INDEPENDENT ACCOUNTANT’S REPORT  
ON STATE COMPLIANCE, ON INTERNAL CONTROL OVER COMPLIANCE, AND  
ON SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES**

Honorable Frank J. Mautino  
Auditor General  
State of Illinois

and

Board of Directors  
Railsplitter Tobacco Settlement Authority

**Compliance**

We have examined compliance by the State of Illinois, Railsplitter Tobacco Settlement Authority (Authority) with the specified requirements listed below, as more fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide)* as adopted by the Auditor General, during the two years ended June 30, 2020. Management of the Authority is responsible for compliance with the specified requirements. Our responsibility is to express an opinion on the Authority’s compliance with the specified requirements based on our examination.

The specified requirements are:

- A. The Authority has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Authority has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. The Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.



- D. State revenues and receipts collected by the Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Authority on behalf of the State or held in trust by the Authority have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Illinois State Auditing Act (Act), and the *Audit Guide*. Those standards, the Act, and the *Audit Guide* require that we plan and perform the examination to obtain reasonable assurance about whether the Authority complied with the specified requirements in all material respects. An examination involves performing procedures to obtain evidence about whether the Authority complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance with the specified requirements, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our modified opinion.

Our examination does not provide a legal determination on the Authority's compliance with the specified requirements.

Our examination disclosed material noncompliance with the following specified requirement applicable to the Authority during the two years ended June 30, 2020.

As described in the accompanying Schedule of Findings as item 2020-001, the Authority had not complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

In our opinion, except for the material deviation from the specified requirement described in the preceding paragraph, the Authority complied with the specified requirements during the two years ended June 30, 2020, in all material respects.

The Authority's response to the compliance finding identified in our examination is described in the accompanying Schedule of Findings. The Authority's response was not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the response.

The purpose of this report is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

## Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the specified requirements (internal control). In planning and performing our examination, we considered the Authority's internal control to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Authority's compliance with the specified requirements and to test and report on the Authority's internal control in accordance with the *Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the specified requirements on a timely basis. *A material weakness in internal control* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that material noncompliance with the specified requirements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings as item 2020-001 that we consider to be a material weakness.

There were no immaterial findings that have been excluded from this report.

The Authority's response to the internal control finding identified in our examination is described in the accompanying Schedule of Findings. The Authority's response was not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the response.

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing based on the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

## **Supplementary Information for State Compliance Purposes**

Our examination was conducted for the purpose of forming an opinion on the Authority's compliance with the specified requirements. The Analysis of Operations section is presented for purposes of additional analysis. Such information is the responsibility of Authority management. We have not applied procedures to the Analysis of Operations section. We do not express an opinion, a conclusion, nor provide any assurance on the Analysis of Operations section.

**SIGNED ORIGINAL ON FILE**

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JANE CLARK, CPA  
Director of Financial and Compliance Audits

Springfield, Illinois  
February 25, 2021

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Office Of The Auditor General  
**Frank Mautino**

**INDEPENDENT AUDITOR’S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Frank J. Mautino  
Auditor General  
State of Illinois

and

Board of Directors  
Railsplitter Tobacco Settlement Authority

**Report on the Financial Statements**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and major fund of the State of Illinois, Railsplitter Tobacco Settlement Authority (Authority), as of and for the years ended June 30, 2019, and June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and we have issued our report thereon dated February 25, 2021.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as item 2020-001.

## **Internal Control Over Financial Reporting**

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting (internal control).

In planning and performing our audit of the financial statements, we considered the Authority's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as item 2020-001 that we consider to be a material weakness.

### **Authority's Response to the Finding**

The Authority's response to the finding identified in our audit is described in the accompanying Schedule of Findings. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**SIGNED ORIGINAL ON FILE**

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JANE CLARK, CPA  
Director of Financial and Compliance Audits

Springfield, Illinois  
February 25, 2021

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS**  
For the Two Years Ended June 30, 2020

2020-001.     **FINDING**     (Lack of Adequate Controls Over the Review of Internal Controls Over Service Providers)

The Railsplitter Tobacco Settlement Authority (Authority) did not obtain or conduct an independent internal control review over its service provider.

The Authority utilized a service provider to serve as the trustee of the Authority’s funds. The service provider is responsible for making financial transactions on behalf of the Authority.

During our testing, we noted the Authority did not obtain a System and Organization Control (SOC) report or conduct an independent internal control review of the service provider.

The Authority is responsible for the design, implementation, and maintenance of internal controls related to information systems and transaction processing to assure its critical and confidential data are adequately safeguarded. This responsibility is not limited due to the processes being outsourced.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State’s resources. The National Institute of Standards and Technology, Maintenance and System and Service Acquisition sections requires entities outsourcing IT environment or operations to obtain assurance over the entities internal controls related to the services provided. Such assurance may be obtained via System and Organization Control reports or independent reviews.

Authority management indicated they relied on federal regulation and strong reputation of the service provider, the legal protections of the Trust Indenture Agreement with the service provider, and routine transactional reporting for assurance that controls were sufficient.

Without having obtained and reviewed a SOC report or another form of independent internal controls review, the Authority does not have assurance the service provider’s internal controls are adequate to ensure proper accounting and safekeeping of assets and data. (Finding Code No. 2020-001)

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS**  
For the Two Years Ended June 30, 2020

2020-001.     **FINDING**     (Lack of Adequate Controls Over the Review of Internal Controls Over Service Providers) - Continued

**RECOMMENDATION**

We recommend the Authority obtain a SOC report or perform independent reviews of internal controls of service providers at least annually.

In addition, upon receipt of a SOC report, the Authority should:

- Monitor and document the operation of the Complementary User Entity Controls (CUECs) relevant to operations.
- Either obtain and review SOC reports for subservice organizations or perform alternative procedures to satisfy itself the usage of the subservice organizations would not impact the internal control environment.
- Document its review of the SOC reports and review all significant issues with subservice organizations to ascertain if a corrective action plan exists and when it will be implemented, any impacts to the Authority, and any compensating controls.

**AUTHORITY RESPONSE**

The Authority accepts the Auditor’s finding and recommendations. The Authority obtained the Trustee’s SOC 1 report in fiscal year 2021 and will continue to comply with the Auditor’s recommendation by obtaining SOC 1 reports from, or performing independent reviews of internal controls of, its service providers on an annual basis.

While the Authority agrees that its failure during the audited period to obtain SOC reports or perform independent reviews may be a significant deficiency in internal control meriting attention and corrective action, we do not agree that it constituted a material weakness in its internal control such that there was ever a reasonable possibility that a material misstatement of its financial statements would not be prevented, or detected and corrected, on a timely basis.

During the audited period, and continuing today, the Authority has ensured the accuracy of the transactions handled by its service provider through a close working relationship and at least monthly review of all transactions. All transactions handled by the service provider are either at the immediate direction of the Authority or as authorized in the governing Trust Indenture. The Authority obtains and reviews

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS**  
For the Two Years Ended June 30, 2020

2020-001.     **FINDING**     (Lack of Adequate Controls Over the Review of Internal Controls Over Service Providers) - Continued

monthly bank statements on a monthly basis to verify the accuracy of reporting. Transactions are minimal; only a few occur each month, so they are easily tracked.

The Authority reviews all transactions such as deposits of tobacco settlement revenues, payments of debt service, payments to the State and payments to vendors and matches them with the Authority’s internal records, calculations and expectations.

We do not believe there was ever a reasonable possibility that a material misstatement of its financial statements would not be prevented, or detected and corrected, on a timely basis. There have been no errors in the Trustee’s reporting according to the Authority’s knowledge that have not been corrected by the Authority’s staff.



STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**SCHEDULE OF FINDINGS – PRIOR FINDING NOT REPEATED**  
For the Two Years Ended June 30, 2020

A.            **FINDING**            (Inaccurate Financial Statement Preparation)

During the prior examination, the Railsplitter Tobacco Settlement Authority (Authority) did not ensure its financial reports were accurate and prepared in conformity with U.S. generally accepted accounting principles (GAAP). We noted the Authority did not perform a sufficient review of all accounts and amounts recorded within its financial statements and related footnotes.

During the current examination, we noted the Authority implemented procedures to ensure financial statements were reviewed for potential errors and misstatements and agreed to underlying accounting records. As a result, this finding is not repeated. (Finding Code No. 2018-001)

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**ANALYSIS OF OPERATIONS**  
For the Two Years Ended June 30, 2020

(UNAUDITED)

**Functions**

The Railsplitter Tobacco Settlement Authority (Authority) was created by the Railsplitter Tobacco Settlement Authority Act (Act) (30 ILCS 171) on July 1, 2010, as a special purpose corporation which is legally independent of, and separate from, the State of Illinois (State).

The Authority is governed by a three-member board consisting of the State's Budget Director and two other members appointed by the Governor. The Authority has also appointed Paul Chatalas as Chief Financial Officer. The Authority's board meets annually to review the financial statements, developments in the tobacco bond market, and various other topics relevant to the operations of the Authority. Meeting minutes are taken and retained.

In December 2010, the Authority issued \$1,503,460,000 in Tobacco Settlement Revenue Bonds (Series 2010 Bonds) pursuant to a purchase and sale agreement between the Authority and the State. Of the total \$1.51 billion in bond proceeds, \$1.35 billion was paid to the State in Fiscal Year 2011. The remaining bond proceeds were deposited into four accounts held by the bond trustee (Trustee), the Bank of New York Mellon, and are generally restricted for the payment of debt issuance costs, interest, and principal.

In exchange for the \$1.35 billion in bond proceeds, the State sold to the Authority its rights to substantially all Tobacco Settlement Revenues (TSRs) received pursuant to the Master Settlement Agreement (MSA) entered into with participating tobacco product manufacturers. The TSRs have been pledged to pay principal and interest on the Series 2010 Bonds and are received by the Trustee in April each year. The Trustee uses the TSRs received for the payment of fees, operating expenses, and debt service on the Series 2010 Bonds and the replenishment of the Debt Service Reserve Account. TSRs received in excess of a specified formula are defined as "residual revenues" and are paid back to the State. The residual revenues are then remitted to the State for deposit into the State Treasury. TSRs collected in Fiscal Year 2019 and Fiscal Year 2020 exceeded amounts needed to pay current costs and debt service requirements on the Series 2010 Bonds. As a result, residual revenues of \$134.9 million and \$125.7 million were then remitted to the State during Fiscal Year 2019 and Fiscal Year 2020, respectively.

In December 2017, the Authority issued \$670,965,000 Tobacco Settlement Revenue Bonds (Series 2017 Bonds) to currently refund \$104.9 million and advance refund \$577.4 million of the Series 2010 Bonds and to pay the issuance costs. The Series 2017 Bonds were issued at a premium of \$90.8 million. As a result of the Series 2017 Bonds issuance, \$757.0 million was deposited in an escrow account. Excess funds in the reserve account (\$6.4 million) and excess funds in the cost of issuance account (\$18 thousand) were paid to the State during Fiscal Year 2018.

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**ANALYSIS OF OPERATIONS**  
For the Two Years Ended June 30, 2020

(UNAUDITED)

The Trustee also maintains various cash equivalent accounts, established in accordance with the trust indenture, for specific purposes. As of June 30, 2020, all the Authority's cash equivalents were invested in a money market portfolio comprised of U.S. Treasury securities.

In short, the Authority's two main functions are the issuance of bonds and the annual direction of TSRs according to the indenture.

Since the Authority's operations are financial in nature, its financial statements provide a nearly comprehensive picture of the Authority's activities.

**Planning**

The Authority was designed as a single purpose entity to securitize the MSA payments. As a result, the Authority does not have formal written goals and objectives, but instead operates to fulfill its statutory responsibilities.

**Significant Challenges**

The Authority has not faced any significant challenges during the examination period. As noted in the narrative submitted in this audit, the COVID-19 pandemic did not suspend any of the Authority's operations.

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN ACCOUNT BALANCES**  
For the Two Years Ended June 30, 2020

(UNAUDITED)

**Fiscal Year 2020 Compared to Fiscal Year 2019**

The State of Illinois, Railsplitter Tobacco Settlement Authority's (Authority) Fiscal Year 2020 Statement of Net Position and Governmental Fund Balance Sheet and Statement of Activities and Governmental Revenues, Expenditures, and Changes in Fund Balance can be found on page 15 and 19, respectively, within its separately released Fiscal Year 2019 and Fiscal Year 2020 Financial Audit Report. Additionally, the Authority's Fiscal Year 2019 Statement of Net Position and Governmental Fund Balance Sheet and Statement of Activities and Governmental Revenues, Expenditures, and Changes in Fund Balance can be found on page 16 and 20, respectively, within its separately released Fiscal Year 2019 and Fiscal Year 2020 Financial Audit Report.

**Statement of Net Position and Governmental Fund Balance Sheet**

Assets account

The Tobacco Assets Account decreased by 91.6% year-over-year as a result of the investment income received at the end of the fiscal year. In May of each fiscal year, all moneys in the account were expended. Expenditures in May in each fiscal year were transfers to the Authority Operating and State Attorney General Operating Subaccounts and to the Residual and Debt Service Accounts and the payment of unsold assets to the State. In June of each fiscal year, the only activity in the account was revenue from investment income. Therefore, the ending account balance is driven entirely by investment income received in June.

Residual account

The Residual Account decreased by almost 100% as a result of the investment income received at the end of the fiscal year. In May of each fiscal year, all moneys in the account were expended. Expenditures in May in each fiscal year were a transfer to the Debt Service Account and the payment of residual revenues to the State. In June of each fiscal year, the only activity in the account was revenue from investment income. Therefore, the ending account balance is driven entirely by investment income received in June.

Deferred outflows of resources

Deferred outflows of resources decreased by \$114.4 million primarily due to the amortization of the payment to the State of \$94.6 million and amortization of the deferred refunding relating to the 2017 bond series in the amount of \$19.8 million.

**Statement of Activities and Governmental Revenues, Expenditures, and Changes in Fund Balance**

Investment income

Investment income decreased by 36.2% primarily due to fluctuations in the market and the amount invested during the fiscal year.

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN ACCOUNT BALANCES**  
For the Two Years Ended June 30, 2020

(UNAUDITED)

Change in net position

Governmental activities change in net position improved by \$8.3 million (38.8%) year-over-year primarily due to a \$9.2 million decrease in total expenses. The decrease in expenses was primarily due to a \$4.6 million decline in excess residuals payments to the State and a \$4.8 million decline in interest payments.

**Fiscal Year 2019 Compared to Fiscal Year 2018**

The Authority's Fiscal Year 2019 Statement of Net Position and Governmental Fund Balance Sheet and Statement of Activities and Governmental Revenues, Expenditures, and Changes in Fund Balance can be found on page 16 and 20, respectively, within its separately released Fiscal Year 2019 and Fiscal Year 2020 Financial Audit Report. Additionally, the Authority's Fiscal Year 2018 Statement of Net Position and Governmental Fund Balance Sheet and Statement of Activities and Governmental Revenues, Expenditures, and Changes in Fund Balance can be found on page 28 and 32, respectively, within its previously released Fiscal Year 2017 and Fiscal Year 2018 Financial Audit Report.

**Statement of Net Position and Governmental Fund Balance Sheet**

Assets account

The Tobacco Assets Account increased by 61.5% year-over-year as a result of the investment income received at the end of the fiscal year. In May of each fiscal year, all moneys in the account were expended. Expenditures in May in each fiscal year were transfers to the Authority Operating and State Attorney General Operating Subaccounts and to the Residual and Debt Service Accounts and the payment of unsold assets to the State. In June of each fiscal year, the only activity in the account was revenue from investment income. Therefore, the ending account balance is driven entirely by investment income received in June.

Deferred outflows of resources

Deferred outflows of resources decreased by \$114.3 million primarily due to the amortization of the payment to the State totaling \$94.4 million and the amortization of the deferred refunding relating to the 2017 bond series in the amount of \$19.8 million.

**Statement of Activities and Governmental Revenues, Expenditures, and Changes in Fund Balance**

Revenues

Total revenues decreased by \$74.0 million (22.0%) primarily due to a \$75.4 million decrease in tobacco settlement revenues.

STATE OF ILLINOIS  
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN ACCOUNT BALANCES**  
For the Two Years Ended June 30, 2020

(UNAUDITED)

Expenses

Total expenses decreased by \$87.9 million (23.6%) primarily due to a \$52.1 million decrease in excess residuals payments to the State. Additionally, the amortization payment to the State decreased by \$27.5 million due to the decline in tobacco settlement revenues.

Change in net position

Governmental activities change in net position improved by \$13.9 million (39.4%) year-over-year primarily due to the decline in total expenses.