

TOBACCO SETTLEMENT FINANCING CORPORATION  
STATE OF LOUISIANA



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FINANCIAL STATEMENT AUDIT  
ISSUED DECEMBER 14, 2005

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**LEGISLATIVE AUDITOR  
1600 NORTH THIRD STREET  
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Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

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STEVE J. THERIOT, CPA  
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October 24, 2005

Independent Auditor's Report  
on the Financial Statements

**TOBACCO SETTLEMENT FINANCING CORPORATION**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the debt service fund and governmental activities of the Tobacco Settlement Financing Corporation (Corporation), a blended component unit of the State of Louisiana, as of and for the year ended June 30, 2005, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management of the Corporation. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the debt service fund and governmental activities of the Corporation as of June 30, 2005, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

During August and September of 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area. Because of the severity of these two separate events and the resulting losses sustained, it is unknown exactly what economic impact recovery will have on state and local governmental operations in Louisiana. While the Tobacco Settlement Financing Corporation did not directly suffer any major effects of these two hurricanes, the long-term effects of these events directly on the Corporation cannot be determined at this time.

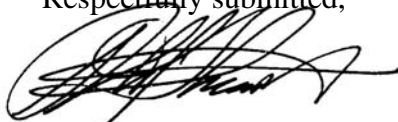
## TOBACCO SETTLEMENT FINANCING CORPORATION \_\_\_\_\_

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2005, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 5 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The accompanying supplementary information, Annual Fiscal Report to the Office of the Governor, Division of Administration, Office of Statewide Reporting and Accounting Policy, listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



Steve J. Theriot, CPA  
Legislative Auditor

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[TSFC05]

This section of the Tobacco Settlement Financing Corporation's (Corporation) annual financial report represents management's analysis of the Corporation's financial performance during the year ended June 30, 2005, in comparison to that of the previous fiscal year. Please read it in conjunction with the financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

- The Corporation's net asset deficit decreased \$24,267,294 (or 2.67%).
- The revenues of the Corporation decreased \$1,978,947 (or 2.15%).
- The expenses of the Corporation decreased \$1,137,705 (or 1.70%).

The Corporation was formed to purchase Pledged Tobacco Settlement Revenues (TSRs) from the State of Louisiana. This purchase was financed by the issuance of bonds. The TSRs consist of amounts to be collected as part of a Master Settlement Agreement (MSA) between cigarette manufacturers (PMs) and 46 states and other U.S. jurisdictions (Settling States). Under the MSA, the PMs are required to pay the Settling States annual payments in perpetuity.

Much of the TSRs represent a portion of future sales of tobacco products, and under generally accepted accounting principles (GAAP), such contingent amounts can be recognized as a receivable and revenue when the domestic sale of tobacco products is known. Under the modified accrual basis of accounting, revenue should be recognized to the extent that the event occurs and resources become available.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

These financial statements consist of two sections--Management's Discussion and Analysis (this section) and the basic financial statements (including the notes to the financial statements).

### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The Statement of Net Assets and the Statement of Activities are two basic financial statements that report information about the Corporation as a whole. The data are reported using the accrual basis of accounting, which provides insight as to the Corporation's total financial position and whether or not the Corporation's total financial position has improved as a result of the current year's activities.

The Governmental Fund Balance Sheet and Statement of Net Assets (page 9) presents the current and long-term portions of assets and liabilities separately.

The Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance and Statement of Activities (page 11) presents information on how the Corporation's assets changed as a result of current period operations.

## TOBACCO SETTLEMENT FINANCING CORPORATION

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Comparative condensed Statements of Net Assets and Activities for fiscal years 2005 and 2004 are as follows:

### Statement of Net Assets June 30, 2005 and 2004

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current assets	\$226,438	\$194,006
Noncurrent assets	206,267,974	209,160,403
Total assets	<u>206,494,412</u>	<u>209,354,409</u>
Current liabilities	38,507,364	34,464,655
Noncurrent liabilities	1,052,855,000	1,084,025,000
Total liabilities	<u>1,091,362,364</u>	<u>1,118,489,655</u>
Net assets - restricted for debt service	178,778,491	180,798,333
Net assets (deficit) - unrestricted	<u>(1,063,646,443)</u>	<u>(1,089,933,579)</u>
Total net assets (deficit)	<u><u>(\$884,867,952)</u></u>	<u><u>(\$909,135,246)</u></u>

### Summary of Changes in Net Assets For the Years Ended June 30, 2005 and 2004

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Revenues	\$90,186,833	\$92,165,781
Expenses	<u>(65,919,539)</u>	<u>(67,057,244)</u>
Increase in net assets	<u><u>\$24,267,294</u></u>	<u><u>\$25,108,537</u></u>

The net asset deficit is a result of bonds payable and other liabilities exceeding recognized assets. The bonds are recognized as a liability, while the resources to repay the bonds, consisting of future TSRs, are not all recognized as assets until the underlying sales of tobacco products are known.

Revenues of the Corporation decreased because of a decline in sales volume of tobacco products by the PMs. Expenses of the Corporation decreased because of a decreased interest expense as the bonds pay-down.

## FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the Corporation as a debt service fund. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Corporation uses to keep track of specific sources of funding and spending for a particular purpose.

As a debt service fund, all of the Corporation's activity is reported in the Governmental Fund Financial Statements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements focus on near-term inflows and outflows of spendable resources. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Corporation's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Corporation.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between the governmental funds and the governmental activities. These reconciliations are presented in the adjustment column in each of the financial statements.

### **BUDGET ANALYSIS**

The Corporation's original budget for the year ending June 30, 2005, was approved on October 21, 2004, by the Corporation's Board and on February 25, 2005, by the Joint Legislative Committee on the Budget. Budget amendments for the fiscal year ending June 30, 2005, were not required. Differences between budgeted and actual amounts were not material.

### **LONG-TERM DEBT ACTIVITY**

At June 30, 2005, the Corporation has \$1,083,505,000 in outstanding debt. The Corporation made bond payments totaling \$26,805,000 during the year ended June 30, 2005. A description of this long-term debt activity is located at note 4. The Corporation's bonds carry a BBB- rating from Standard & Poors as of June 30, 2005.

### **CONTACTING THE TOBACCO SETTLEMENT FINANCING CORPORATION'S MANAGEMENT**

This financial report is designed to provide a general overview of the Corporation's finances and to demonstrate the Corporation's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Tobacco Settlement Financing Corporation, Post Office Box 44154, Baton Rouge, Louisiana 70804.

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**TOBACCO SETTLEMENT FINANCING CORPORATION**  
**STATE OF LOUISIANA**

**Governmental Fund Balance Sheet and**  
**Statement of Net Assets, June 30, 2005**

	DEBT SERVICE FUND	ADJUSTMENTS (NOTE 1-D)	STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES
<b>ASSETS</b>			
Current Assets:			
Cash (note 2)	\$226,438		\$226,438
Investments (note 3)	134,422,101	(\$134,422,101)	
Receivables (note 8)	172,018	(172,018)	
Total current assets	<u>134,820,557</u>	<u>(134,594,119)</u>	<u>226,438</u>
Noncurrent Assets:			
Unamortized bond issue cost		27,489,483	27,489,483
Restricted assets:			
Investments (note 3)		134,422,101	134,422,101
Tobacco settlement receivable (note 8)		44,184,372	44,184,372
Interest receivable (note 8)		172,018	172,018
Total noncurrent assets	<u>NONE</u>	<u>206,267,974</u>	<u>206,267,974</u>
Total Assets	<u>\$134,820,557</u>	<u>71,673,855</u>	<u>206,494,412</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Fees payable	\$8,000		8,000
Accounts payable - State of Louisiana	10,000		10,000
Accrued interest payable		7,839,364	7,839,364
Bonds payable (note 4)		30,650,000	30,650,000
Total current liabilities	<u>18,000</u>	<u>38,489,364</u>	<u>38,507,364</u>
Noncurrent liabilities - bonds payable (note 4)	<u>NONE</u>	<u>1,052,855,000</u>	<u>1,052,855,000</u>
Total Liabilities	<u>18,000</u>	<u>1,091,344,364</u>	<u>1,091,362,364</u>
<b>FUND BALANCE/NET ASSETS</b>			
Fund balance - reserved for debt service	<u>134,802,557</u>	<u>(134,802,557)</u>	<u>NONE</u>
Total Liabilities and Fund Balance	<u>\$134,820,557</u>		
Net Assets (Deficit):			
Restricted for debt service (note 5)		178,778,491	178,778,491
Unrestricted (note 6)		<u>(1,063,646,443)</u>	<u>(1,063,646,443)</u>
Total Net Assets (Deficit)		<u>(\$884,867,952)</u>	<u>(\$884,867,952)</u>

The accompanying notes are an integral part of this statement.

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**TOBACCO SETTLEMENT FINANCING CORPORATION  
STATE OF LOUISIANA**

**Statement of Governmental Fund Revenues, Expenditures,  
and Changes in Fund Balance and Statement of Activities  
For the Year Ended June 30, 2005**

	DEBT SERVICE FUND	ADJUSTMENTS (NOTE 1-D)	STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
<b>REVENUES</b>			
Tobacco settlement revenues (note 8)	\$85,298,610	\$575,639	\$85,874,249
Investment income	5,341,613		5,341,613
Net (decrease) in fair value of investments	(1,029,029)		(1,029,029)
Total revenues	<u>89,611,194</u>	<u>575,639</u>	<u>90,186,833</u>
<b>EXPENDITURES/EXPENSES</b>			
Bank fees	56,072		56,072
Professional services	57,570		57,570
Amortization of bond issue cost		587,898	587,898
Debt service:			
Principal retirement	26,805,000	(26,805,000)	
Interest and fiscal charges	<u>65,255,290</u>	<u>(37,291)</u>	<u>65,217,999</u>
Total expenditures/expenses	<u>92,173,932</u>	<u>(26,254,393)</u>	<u>65,919,539</u>
<b>EXCESS (Deficiency) OF REVENUES OVER (Under) EXPENDITURES/EXPENSES</b>	(2,562,738)	26,830,032	24,267,294
<b>FUND BALANCE/NET ASSETS (Deficit) AT BEGINNING OF YEAR (Restated) (note 7)</b>	<u>137,365,295</u>	<u>(1,046,500,541)</u>	<u>(909,135,246)</u>
<b>FUND BALANCE/NET ASSETS (Deficit) AT END OF YEAR</b>	<u><u>\$134,802,557</u></u>	<u><u>(\$1,019,670,509)</u></u>	<u><u>(\$884,867,952)</u></u>

The accompanying notes are an integral part of this statement.

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## INTRODUCTION

The Tobacco Settlement Financing Corporation (Corporation) was created by Act 1145 of the 2001 Regular Session of the Louisiana State Legislature codified under the provisions of Louisiana Revised Statutes (R.S.) 39:99.1 through 39:99.20. The Corporation is a special purpose, public corporate entity, an instrumentality independent of the state.

On November 23, 1998, the State of Louisiana entered into a Master Settlement Agreement with the major United States tobacco product manufacturers that should result in Louisiana receiving substantial monies in perpetuity. The Corporation is authorized and empowered to, among other things, (1) purchase the state's allocation of monies to be received as a result of the Master Settlement Agreement and receive, or authorize the indenture trustee to receive, the tobacco settlement payments when they become due; (2) issue bonds; (3) determine the amounts of the residual interests and pay and transfer such residual interests to the state treasurer, semiannually, in accordance with the provisions of the Louisiana Revised Statutes noted above; and (4) do any and all other acts and things necessary, convenient, appropriate or incidental in carrying out the provisions of the Louisiana Revised Statutes noted above.

Income of the Corporation, and bond proceeds, if any, not previously paid to the state, that are in excess of the Corporation's requirements to pay its operating expenses, debt service, sinking fund requirements, reserve fund requirements, and any other contractual obligations to the holders or that may be incurred in connection with the issuance of the bonds, the amounts of which shall be determined by the board on or before January 1 and July 1 of each year for the next twelve months, and which, within 10 days after each such determination, shall be transferred and paid by the Corporation to the state treasurer for deposit in and credit to the Millennium Trust.

The Corporation shall have perpetual existence; provided, however, the board shall dissolve and terminate the existence of the Corporation no later than two years after the date of final payment of all outstanding bonds and the payments or satisfaction of all other outstanding obligations and liabilities of the Corporation. Upon dissolution of the Corporation, title to all assets and properties of the Corporation shall vest in and become the property of the State of Louisiana and shall be deposited in and credited to the Millennium Trust.

The Corporation is governed by a board consisting of 13 members as follows: (i) the Governor or her designee; (ii) the State Treasurer or his designee; (iii) the Attorney General or his designee; (iv) the President of the Senate or his designee; (v) the Speaker of the House of Representatives or his designee; (vi) seven members appointed by the Governor from each of the seven congressional districts; and (vii) one additional member appointed from the state. The State Treasurer serves as the secretary-treasurer of the Corporation and the board. The Corporation is a blended component unit of the state and is included in the state's financial statements.

Operations of the Corporation were funded initially with a portion of bond proceeds and in subsequent years will be funded with Corporation investment income. The Corporation has no employees. R.S. 39:99.8(A) states the staff of the Department of the Treasury, including that of

the State Bond Commission, may, pursuant to a cooperative endeavor agreement, serve as staff to the Corporation under the supervision of the state treasurer.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **A. REPORTING ENTITY**

Using the criteria in Governmental Accounting Standards Board (GASB) Codification Section 2100, the Division of Administration, Office of Statewide Reporting and Accounting Policy, has defined the governmental reporting entity to be the State of Louisiana. The Office of Statewide Reporting and Accounting Policy considers the Corporation to be a blended component unit of the State of Louisiana because the state has financial accountability for fiscal matters as follows: (1) a majority of the members of the governing board are appointed by the governor; (2) the state has control and exercises authority over budget matters; (3) no later than two years after the full payment of tobacco settlement asset-backed bonds principal and interest, the board shall dissolve and terminate the existence of the Corporation; and (4) services are provided entirely to the primary government. Annually, the State of Louisiana issues financial statements, which include the activity contained in the accompanying financial statements. Those basic financial statements are audited by the Louisiana Legislative Auditor.

### **B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. GASB is the accepted standard setting body for establishing governmental accounting principles and reporting standards.

The accompanying governmental fund financial statements (Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance) are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available to fund current operations. Expenditures are recognized when the related fund liability is incurred, except for principal and interest on long-term debt, which is recognized when due.

The accompanying government-wide statements (Statement of Net Assets and Statement of Activities) are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when the related liability is incurred, regardless of the timing of related cash flows.

The Corporation applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. In accordance with the State of Louisiana's Division of Administration, the board has elected to follow GASB statements issued after November 30, 1989, rather than the FASB statements and interpretations.

**C. FUND ACCOUNTING**

Fund level activities of the Corporation are accounted for in the Debt Service Fund. The Debt Service Fund accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest. The Debt Service Fund consists of the current assets and liabilities of the Corporation with the difference being fund balance reserved for debt service.

**D. ADJUSTMENTS**

The adjustments column represents the recording of bonds payable liabilities and unamortized bond issue cost on the Statement of Net Assets and the related effect of these transactions on the Statement of Activities. Governmental fund statements do not reflect bonds payable. This column is also used to record full accrual revenues and receivables and to reclassify current assets as restricted assets on the Statement of Net Assets.

**E. BUDGET PRACTICES**

Annually, the Corporation is required under R.S. 39.99.6 (C) to submit an operating budget for approval to the State Bond Commission and to the Joint Legislative Committee on the Budget. The Corporation's original budget for the year ending June 30, 2005, was approved on October 21, 2004, by the Corporation's Board and was submitted for approval to the State Bond Commission and the Joint Legislative Committee on the Budget.

**F. CASH AND INVESTMENTS**

Cash consists of demand deposits. Investments consist of direct investments in commercial paper and money market funds. Under state law, the Corporation may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States.

Under state law, any funds held by the Corporation or by the indenture trustee may be invested and reinvested in investments and securities that are legal investments under the laws of the State of Louisiana for the funds of the state, funds of political subdivisions of the state, or tax exempt bonds as defined in R.S. 49:342(C). Investments are stated at fair value, as determined by quoted market values, in accordance with GASB Statement No. 31.

**G. RESTRICTED ASSETS**

Restricted assets represent resources set aside for the purpose of funding debt service payments in accordance with bond resolutions.

**H. CAPITAL ASSETS**

The Corporation has no capital assets at June 30, 2005.

**I. LONG-TERM OBLIGATIONS**

Long-term obligations are reported at face value.

**J. COMPENSATED ABSENCES, PENSION  
BENEFITS AND POSTEMPLOYMENT  
HEALTH CARE AND LIFE INSURANCE  
BENEFITS**

The Corporation has no employees. Therefore, no compensated absences, pension benefits, or postretirement benefits are provided by the Corporation.

**K. NET ASSETS**

Net assets comprise the various net earnings from revenues and expenses. Net assets generally are classified in the following components:

Restricted net assets consist of net assets subject to external constraints placed on net asset use by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of all other net assets that are not included in restricted net assets.

**L. ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

## 2. CASH

At June 30, 2005, the Corporation has cash (book balances) totaling \$226,438, which is held in a demand deposit account, as presented on Statement A. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Corporation has \$100,000 in deposits (collected bank balances) that are secured from risk by federal deposit insurance. The remaining \$126,438 is uninsured and uncollateralized. The Corporation does not have a formal policy for custodial credit risk for cash.

## 3. INVESTMENTS

At June 30, 2005, investments of \$134,422,101, as presented on Statement A, consist of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>*Credit Quality Rating</u>	<u>Percentage of Investments</u>	<u>Maturity - Less Than One Year</u>
JPMorgan Federal Money Market	\$29,537,813	AAAm	21.97%	\$29,537,813
Societe Generale - Commercial Paper	90,116,909	A-1+	67.04%	90,116,909
Briarwood Commercial Paper Trust - Commercial Paper	14,606,969	A-1+	10.87%	14,606,969
General Electric Capital Corporation - Commercial Paper	<u>160,410</u>	A-1+	<u>0.12%</u>	<u>160,410</u>
Total investments	<u>\$134,422,101</u>		<u>100.00%</u>	<u>\$134,422,101</u>

\*Credit quality ratings obtained from Standard & Poor's Investor Services.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investment that are in the possession of an outside party. The Corporation does not have a formal investment policy for custodial credit risk. As of June 30, 2005, an amount of \$104,884,288 of the Corporation's total investments of \$134,422,101 was exposed to custodial credit risk since these investments were uninsured, unregistered, and held by the counterparty in the Corporation's name.

*Credit Risk:* This risk is defined as the risk that an issuer or other counterparty to an investment transaction will not fulfill its obligations. The Corporation's bond indenture restricts the Corporation to investments rated A-1 or higher by Standard & Poor's, P-1 by Moody's Investor's Service, and F-1 by Fitch.

*Concentration of Credit Risk:* The Corporation does not have a policy for this type of risk, which is defined as the risk of loss attributed to the magnitude of the Corporation's investment in a single issuer.

## TOBACCO SETTLEMENT FINANCING CORPORATION

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*Interest Rate Risk:* This risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. To minimize this risk, the Corporation has entered into a reserve fund agreement with Lehman Brothers Special Financing Inc., that guarantees an annual investment rate of return of 4.36% on the 2001-A Liquidity Reserve Requirement balance and has entered into an agreement with Bayerische Hypo-Und Vereinsbank AG, New York Branch that guarantees an annual investment rate of return of 4.63% on the 2001-B Liquidity Reserve Requirement balance. These two investments account for 78.03% of total investments.

*Reserve Requirements:* Of the total investment balance of \$134,422,101, an amount of \$103,920,481 consists of the Liquidity Reserve Requirement provided for by the bond indenture. The 2001-A bond series reserve requirement is \$14,764,534 and for the 2001-B bond series, the reserve requirement is \$89,155,947. The Corporation met its reserve balance requirements at June 30, 2005.

### 4. LONG-TERM DEBT

Long-term debt is composed of the following:

Series 2001A (Taxable) Term Bonds due May 15, 2025, with interest of 6.36% due semiannually on May 15 and November 15, commencing on May 15, 2002	\$163,710,000
Series 2001B (Tax Exempt) Term Bonds due May 15, 2030, with interest of 5.50% due semiannually on May 15 and November 15, commencing on May 15, 2002	230,390,000
Series 2001B (Tax Exempt) Term Bonds due May 15, 2039, with interest of 5.875% due semiannually on May 15 and November 15, commencing on May 15, 2002	<u>689,405,000</u>
Total long-term debt	<u><u>\$1,083,505,000</u></u>

The following is a summary of the debt obligation transactions for the year ended June 30, 2005:

	Long-Term Debt Payable at June 30, 2004	Additions	Deductions	Long-Term Debt Payable at June 30, 2005
Tobacco Settlement Asset-Backed bonds:				
Series 2001A (Taxable) due May 15, 2025	\$190,515,000		\$26,805,000	\$163,710,000
Series 2001B (Tax Exempt) due May 15, 2030	230,390,000			230,390,000
Series 2001B (Tax Exempt) due May 15, 2039	<u>689,405,000</u>			<u>689,405,000</u>
Total	<u><u>\$1,110,310,000</u></u>	<u><u>NONE</u></u>	<u><u>\$26,805,000</u></u>	<u><u>\$1,083,505,000</u></u>

On November 7, 2001, the Corporation issued \$1,202,770,000 in Tobacco Settlement Asset-Backed Bonds. The bonds were issued to finance the Corporation's purchase of 60% of the

## NOTES TO THE FINANCIAL STATEMENTS

state's future receipts from the MSA with participating cigarette manufacturers. The bonds are secured by the Corporation's claim to 60% of these future receipts. The claim is on parity with the claim of the state to the ownership of the remaining 40% of all amounts expected to be paid to the state under the MSA. In addition, the bonds are secured by all earnings on amounts on deposit in certain accounts pledged under the indenture and the amounts held in certain accounts established under the indenture.

The bond indenture states that the Series 2001 Bonds shall not be deemed to be nor constitute a debt or obligation of the state or a pledge of the full faith or credit of the state or any political subdivision thereof. The Corporation has no taxing power. No assets or revenues of the state or any political subdivision thereof is or shall be obligated or pledged to the payment of the principal of or interest on the bonds.

The proceeds of this issue were used for the following:

Payment to the state for 60% of expected MSA proceeds	\$1,069,510,895
Liquidity reserve accounts	103,920,481
Capitalized operating expenses	75,000
Costs of Issuance Account	2,274,000
Underwriters' discount	9,294,328
Original issue discount	<u>17,695,296</u>
Total Bond Proceeds	<u><u>\$1,202,770,000</u></u>

Debt service requirements, including interest to maturity, are as follows:

Fiscal Year	Term Bond Maturities		Sinking Fund Maturities		Turbo Maturities	
	Principal	Interest	Principal	Interest	Principal	Interest
2006		\$63,585,950		\$63,585,950	\$30,650,000	\$63,585,950
2007		63,585,950		63,585,950	34,390,000	61,636,610
2008		63,585,950		63,585,950	53,175,000	59,449,406
2009		63,585,950		63,585,950	58,125,000	56,067,476
2010		63,585,950		63,585,950	63,045,000	52,479,344
2011-2015		317,929,748		317,929,749	398,865,000	203,664,425
2016-2020		317,929,748	\$25,245,000	317,552,919	445,255,000	68,172,619
2021-2025	\$163,710,000	317,929,748	138,465,000	294,221,578		
2026-2030	230,390,000	265,869,970	230,390,000	242,595,069		
2031-2035		202,512,719	344,845,000	165,171,513		
2036-2039	689,405,000	162,010,175	344,560,000	50,535,869		
Total	<u>\$1,083,505,000</u>	<u>\$1,902,111,858</u>	<u>\$1,083,505,000</u>	<u>\$1,705,936,447</u>	<u>\$1,083,505,000</u>	<u>\$565,055,830</u>

Term bond maturities represent the minimum amount of principal that the Corporation must pay as of specific distribution dates to avoid an event of default under the indenture.

Sinking fund maturities represent the amount of principal that the Corporation will pay according to the terms of the indenture. The Corporation is required to make these payments to the extent that funds are available for payment. Failure by the Corporation to make a sinking fund

## TOBACCO SETTLEMENT FINANCING CORPORATION \_\_\_\_\_

installment according to the terms of the indenture will not constitute an event of default under the terms of the indenture. The amount of any sinking fund installments made will be credited against term maturities in ascending chronological order.

Turbo maturities represent the requirement contained in the indenture to apply 100% of all collections that are in excess of the funding requirements of the indenture to redemption of the Series 2001 Term Bonds. The amount of any turbo redemption made will be credited against both sinking fund installments and term bond maturities in ascending chronological order.

### **5. RESTRICTED NET ASSETS**

Restricted net assets represent the assets restricted for debt service. The composition of restricted net assets is as follows:

Investments	\$134,422,101
Tobacco settlement receivable	44,184,372
Interest receivable	<u>172,018</u>
Net assets restricted for debt service	<u><u>\$178,778,491</u></u>

### **6. UNRESTRICTED NET ASSETS (DEFICIT)**

On November 7, 2001, the Corporation issued \$1,202,770,000 in Tobacco Settlement Asset-Backed Bonds. During the fiscal year ended June 30, 2002, a total of \$1,069,510,895 was transferred to other funds of the State of Louisiana in accordance with state law. Of the remaining assets related to the bond issuance and other operations of the Corporation at June 30, 2005, a total of \$178,778,491 is restricted for debt service, resulting in a deficit for unrestricted net assets of \$1,063,646,443, as presented on Statement A.

### **7. RESTATEMENT OF PRIOR YEAR FUND BALANCE**

A prior period adjustment was made to the prior year governmental fund financial statements to remove accrued interest payable incorrectly recorded at the fund level. The adjustment had the following effects on fund balance:

Debt service fund balance previously reported	\$129,203,951
Prior period adjustment	<u>8,161,344</u>
Debt service fund balance as restated	<u><u>\$137,365,295</u></u>

**8. TOBACCO SETTLEMENT REVENUES AND RECEIVABLE**

Tobacco Settlement Revenues (TSRs) consist of the amounts to be received under the terms of an MSA among participating cigarette manufacturers and 46 states and six other U.S. jurisdictions (Settling States). The MSA is an industry wide settlement of litigation between the Settling States and the Original Participating Manufacturers (OPMs) and was entered into between the attorneys general of the Settling States and the OPMs on November 23, 1998. The MSA provides for other tobacco companies, referred to as Subsequent Participating Manufacturers (SPMs), to become parties to the MSA. The four OPMs together with the 30+ SPMs are referred to as the Participating Manufacturers (PMs). The settlement represents the resolution of a large potential financial liability of the PMs for smoking-related injuries, the cost of which has been borne and will likely to continue to be borne by cigarette consumers. Pursuant to the MSA, the Settling States agreed to settle all their past and future smoking-related claims against the PMs in exchange for agreements and undertakings by the PMs concerning a number of issues. These issues include, among other things, making payments to the Settling States, abiding by more stringent advertising restrictions and funding educational programs, all in accordance with the terms and conditions set forth in the MSA. Distributors of the PMs are also covered by the settlement of such claims to the same extent as the PMs.

Under the MSA, the PMs are required to pay to the Settling States (i) five initial payments, the first of which was due on November 12, 1999, with the remaining four due on January 10, 2000 through 2003 (Initial Payments); (ii) annual payments required to be made on April 15, commencing April 15, 2000, and continuing in perpetuity (Annual Payments) and (iii) ten annual payments required to be made on each April 15, commencing April 15, 2008, and continuing through April 15, 2017 (Strategic Contribution Payments). Before forming the Corporation, the PMs made the first of the three required Initial Payments and the Annual Payments due April 15, 2000 and 2001, none of which the Corporation had any right to receive.

The TSRs due under the MSA are subject to numerous adjustments, some of which are material. Such adjustments include, among others, reductions for decreased domestic cigarette shipments, reductions for amounts paid by PMs to four states that had previously settled their claims independently of the MSA, and in the case of Annual Payments and Strategic Contribution Payments, increases related to inflation of not less than 3% per annum.

Much of the TSRs represent a portion of future sales of tobacco products. Technical Bulletin No. 2004-1 clarified guidance relating to the recognition of revenues and receivables. Specifically, the bulletin allows for the recognition of revenue to be received based on the shipment of domestic cigarettes. The amount recognized is estimated to be 50% of the next projected payment due from the MSA. Accordingly, the Statement of Net Assets includes an estimated receivable of \$44,184,372.

The composition of accounts receivable is as follows:

Estimated tobacco settlement receivable	\$44,184,372
Interest receivable	<u>172,018</u>
Total accounts receivable	<u><u>\$44,356,390</u></u>

**9. ADMINISTRATIVE EXPENSES**

The State of Louisiana performs certain accounting, legal, and administrative services for the Corporation for which it receives no compensation. The value of such services was immaterial to the Corporation's financial statements.

**10. CONTINGENCIES**

Certain smokers, consumer groups, cigarette manufacturers, cigarette importers, cigarette distributors, native American tribes, taxpayers, taxpayers' groups, and other parties have instituted litigation against various tobacco manufacturers, including the PMs, as well as certain Settling States and other public entities. The lawsuits allege, among other things, that the MSA violates certain provisions of the United States Constitution, state constitutions, the federal antitrust laws, federal civil rights laws, state consumer protection laws and unfair competition laws, certain of which actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. The lawsuits seek, among other things, an injunction against one or more of the Settling States from collecting any monies under the MSA and barring the PMs from collecting cigarette price increases related to the MSA and/or a determination that the MSA is void or unenforceable. 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 Corporation may not have adequate financial resources to make payment on the Series 2001 Term Bonds.

See note 11 for a case filed in Louisiana on August 2, 2005.

The Corporation is also exposed to various risks of loss related to torts, theft of assets, and errors and omissions that could occur in the normal course of business. The Corporation retains the risk of loss in the event of any judgments against it. As of June 30, 2005, no known asserted or unasserted claims or judgments were against the Corporation.

Members of the board and persons acting on the Corporation'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 pursuant to R.S. 39:99.5 and shall have the indemnification rights provided in R.S. 13:5108.1 with respect to such actions.

**11. SUBSEQUENT EVENTS**

A case challenging the Master Settlement Agreement was filed in federal court in Shreveport, Louisiana, on August 2, 2005. This case (A.B. Coker, et al. v. Charles C. Foti, Jr., CV-05-1372 S) raises a multitude of constitutional challenges in an attempt to overturn the Master Settlement Agreement. On October 31, 2005, the State of Louisiana filed a motion to dismiss this case.

**ANNUAL FISCAL REPORT TO THE OFFICE OF THE GOVERNOR,  
DIVISION OF ADMINISTRATION,  
OFFICE OF STATEWIDE REPORTING AND ACCOUNTING POLICY**

The following supplementary information presents the financial position of the Tobacco Settlement Financing Corporation as of June 30, 2005, and the results of its operations for the year then ended. The information is presented in the format requested by the Office of Statewide Reporting and Accounting Policy for consolidation into the Louisiana Comprehensive Annual Financial Report.

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Tobacco Settlement Financing Corporation  
STATE OF LOUISIANA  
Annual Financial Statements  
June 30, 2005

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TRANSMITTAL LETTER

AFFIDAVIT

MD&A

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Schedule Number

STATE OF LOUISIANA  
Annual Fiscal Reports  
Fiscal Year Ending June 30, 20\_\_

TOBACCO SETTLEMENT FINANCING CORPORATION  
(Agency Name)

Send to:  
Division of Administration  
Office of Statewide Reporting  
and Accounting Policy  
P. O. Box 94095  
Baton Rouge, Louisiana 70804-9095

Send to:  
Legislative Auditor  
P. O. Box 94397  
Baton Rouge, Louisiana 70804-9397

AFFIDAVIT

Personally came and appeared before the undersigned authority, Barbara Goodson (Name)  
Asst. Commissioner (Title) of TOBACCO Settlement Fin Corp (Agency)  
who duly sworn, deposes and says, that the financial reports herewith given present fairly financial  
information of TOBACCO SETTLEMENT FINANCING CORP (agency) at June 30, 2005  
and the results of operations for the year then ended in accordance with policies and practices  
established by the Division of Administration or in accordance with Generally Accepted Accounting  
Principles as prescribed by the Governmental Accounting Standards Board. Sworn and subscribed  
before me, this 24th day of October, 2005.

Barbara Goodson  
Signature of Agency Official

Pamela Bartley Rice  
NOTARY PUBLIC  
Pamela Bartley Rice  
#23272

Prepared by: Barbara Goodson  
Title: <sup>BOA</sup> Assistant Commissioner/Management & Finance  
Telephone No.: 342-7085  
Date: 10-24-05

My commission is for 1/1/05

This section of the Tobacco Settlement Financing Corporation's (TSFC) annual financial report represents management's analysis of the TSFC's financial performance during the fiscal year ended June 30, 2005 in comparison to that of the previous fiscal year. Please read it in conjunction with the financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

- The TSFC's net asset deficit decreased \$24,267,294 (or 2.67%).
- The revenues of the TSFC decreased \$1,978,948 (or 2.15%).
- The expenses of the TSFC decreased \$1,137,705 (or 1.70%).

The TSFC was formed in order to purchase Pledged Tobacco Settlement Revenues (TSFRs) from the State of Louisiana. This purchase was financed by the issuance of bonds. The TSRs consist of amounts to be collected as part of a Master Settlement Agreement (MSA) between cigarette manufacturers (PMs) and 46 states and other U.S. jurisdictions (Settling States). Under the MSA, the PMs are required to pay the Settling States annual payments in perpetuity.

Much of the TSRs represent a portion of future sales of tobacco products, and under generally accepted accounting principles (GAAP), such contingent amounts can be recognized as a receivable and revenue when the domestic sale of tobacco products is known. Under the modified accrual basis of accounting, revenue should be recognized to the extent that the event occurs and resources become available.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

These financial statements consist of two sections – Management's Discussion and Analysis (this section) and the basic financial statements (including the notes to the financial statements).

### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The Statement of Net Assets and the Statement of Activities are two basic financial statements that report information about the TSFC as a whole using a long-term economic resources focus. The data is reported using the accrual basis of accounting, and provides insight as to the TSFC's total financial position and whether or not the TSFC's total financial position has improved as a result of the current year's activities.

Comparative condensed Statements of Net Assets and Activities for 2005 and 2004 are as follows:

STATE OF LOUISIANA  
Tobacco Settlement Financing Corporation  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF JUNE 30, 2005

**Statement of Net Assets  
June 30, 2005 and 2004**

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current assets	\$ 226,438	\$ 194,006
Noncurrent assets	206,267,974	209,160,403
Total assets	<u>206,494,412</u>	<u>209,354,409</u>
Current liabilities	38,507,364	34,464,655
Noncurrent liabilities	1,052,855,000	1,084,025,000
Total liabilities	<u>1,091,362,364</u>	<u>1,118,489,655</u>
Net assets - restricted for debt service	178,778,491	180,798,333
Net assets (deficit) - unrestricted	<u>(1,063,646,443)</u>	<u>(1,089,933,579)</u>
Total net assets (deficit)	<u>\$ (884,867,952)</u>	<u>\$ (909,135,246)</u>

**Statement of Activities  
For the Years Ended June 30, 2005 and 2004**

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Revenues	\$ 90,186,833	\$ 92,165,781
Expenses	<u>(65,919,539)</u>	<u>(67,057,244)</u>
Increase in net assets (deficit)	<u>\$ 24,267,294</u>	<u>\$ 25,108,537</u>

The net asset deficit is a result of bonds payable and other liabilities exceeding recognized assets. The bonds are recognized as a liability, while the resources to repay the bonds, consisting of future TSR's, are not recognized as assets until the underlying sales of tobacco products are known.

Revenues of the Corporation decreased due to a decline in sales volume of tobacco products by the PM's. Expenses of the Corporation decreased due to decreased interest expense as the bonds pay-down.

**FUND FINANCIAL STATEMENTS**

The fund financial statements provide detailed information about the TSFC as a debt service fund. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the TSFC uses to keep track of specific sources of funding and spending for a particular purpose.

STATE OF LOUISIANA  
Tobacco Settlement Financing Corporation  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF JUNE 30, 2005

As a debt service fund, all of the TSFC's transactions are reported in the Governmental Fund Financial Statements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements focus on near-term inflows and outflows of spendable resources. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the TSFC's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the TSFC.

Because the focus of governmental funds is narrower than that of the governmental-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the governmental-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance provide a reconciliation to facilitate this comparison between the governmental funds and the governmental activities. These reconciliations are presented in the adjustment column in each of the financial statements.

#### **BUDGET ANALYSIS**

The TSFC's original budget for the year ending June 30, 2005 was approved on October 21, 2004 by the TSFC Board and again on February 25, 2005 by the Joint Legislative Committee on the Budget. Budget amendments for the fiscal year ending June 30, 2005 were not required. Differences between budgeted and actual amounts were not material.

#### **LONG-TERM DEBT ACTIVITY**

At June 30, 2005, the TSFC has \$1,083,505,000 in outstanding debt. The TSFC made bond payments totaling \$26,805,000 during the year ended June 30, 2005. A description of this long-term debt activity is located at note 4. The TSFC's bonds carry a BBB rating from Standard & Poors as of June 30, 2005.

#### **CONTACTING THE TOBACCO SETTLEMENT FINANCING CORPORATION'S MANAGEMENT**

This financial report is designed to provide a general overview of the TSFC finances and to demonstrate the TSFC's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Tobacco Settlement Financing Corporation, P.O. Box 44154, Baton Rouge LA 70804.

STATE OF LOUISIANA  
Tobacco Settlement Financing Corporation  
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET  
AS OF JUNE 30, 2005

	<u>Debt Service Fund</u> (modified accrual)	<u>Adjustments</u> (Note B)	<u>Statement of Net Assets</u> (full accrual)
<b>ASSETS:</b>			
Current Assets:			
Cash and cash equivalents (Note C1)	\$ 226,438	\$ -	\$ 226,438
Investments (Note C2)	134,422,101	-134,422,101	
Receivables (net) (Note M)	172,018	-172,018	
Due from other funds (Note P)			
Other current assets			
Total current assets	134,820,557	-134,594,119	226,438
Non-current Assets:			
Restricted assets:			
Cash and cash equivalents (Note C1)			
Investments (Note C2)		134,422,101	134,422,101
Receivables (net) (Note M)		44,356,390	44,356,390
Other non-current assets		27,489,483	27,489,483
Total non-current assets		206,267,974	206,267,974
<b>TOTAL ASSETS</b>	<b>\$ 134,820,557</b>	<b>\$ 71,673,855</b>	<b>\$ 206,494,412</b>
<b>LIABILITIES:</b>			
Current liabilities:			
Accounts payable and accruals (Note N)	\$ 18,000	\$ -	\$ 18,000
Contracts and retainage payable			
Due to other funds (Note P)			
Bonds payable	-	30,650,000	30,650,000
Other current liabilities		7,839,364	7,839,364
Total current liabilities	18,000	38,489,364	38,507,364
Non-current liabilities: (Note F)			
Contracts payable			
Bonds payable	-	1,052,855,000	1,052,855,000
Other non-current liabilities			
Total non-current liabilities			
<b>TOTAL LIABILITIES</b>	<b>18,000</b>	<b>1,091,344,365</b>	<b>1,091,362,364</b>
<b>FUND BALANCE/NET ASSETS:</b>			
Fund Balance:			
Reserved	134,802,557	(134,802,557)	-
Designated			
Unreserved, undesignated			
<b>TOTAL FUND BALANCE</b>			
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 134,820,557</b>		
Net Assets:			
Restricted for:			
Debt service		178,778,491	178,778,491
Other specific purposes			
Unrestricted		(1,063,646,443)	(1,063,646,443)
<b>Total net assets</b>		<b>\$ (884,867,952)</b>	<b>\$ (884,867,952)</b>

The accompanying notes are an integral part of this statement

STATE OF LOUISIANA  
Tobacco Settlement Financing Corporation  
STATEMENT OF REVENUES EXPENDITURES, AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Debt Service</u> <u>Fund</u> (modified accrual)
<u>REVENUES:</u>	
Intergovernmental revenues	\$ _____
Taxes	_____
Tobacco settlement	<u>85,298,610</u>
Use of money and property	_____
Licenses, permits, and fees	_____
Sales of commodities and services	_____
Other	<u>4,312,584</u>
Total revenues	<u>89,611,194</u>
<u>EXPENDITURES:</u>	
Intergovernmental	_____
Capital outlay	_____
Debt service:	_____
Principal retirement	<u>26,805,000</u>
Interest and fiscal charges	<u>65,255,290</u>
Amortization	_____
Other	<u>113,642</u>
Total expenditures	<u>92,173,932</u>
Excess (deficiency) of revenues over expenditures	<u>(2,562,738)</u>
<u>Other financing sources(uses):</u>	
Payments to refunded bond escrow agent	_____
Proceeds from issuance of long-term debt	_____
Other	_____
Transfers from other funds	_____
Transfers to other funds	_____
Total other financing sources(uses)	_____
Net change in fund balances	<u>(2,562,738)</u>
Fund Balance at beginning of year as restated (Note R1)	<u>137,365,295</u>
Fund Balance at end of year	<u>\$ 134,802,557</u>

The accompanying notes are an integral part of this statement

STATE OF LOUISIANA  
Tobacco Settlement Financing Corporation  
SIMPLIFIED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005

(full accrual)

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Entity	\$ 65,919,539	\$ _____	\$ _____	\$ _____	(65,919,539)
General revenues:					
Taxes					
State appropriations					
Grants and contributions not restricted to specific programs					
Interest					5,341,613
Tobacco Settlement Revenue					85,874,249
Change in investment unrealized gain/loss					(1,029,029)
Other					
Special items					
Transfers					
Total general revenues, special items, and transfers					24,267,294
Change in net assets					(909,135,246)
Net assets – beginning (Note R2)					(884,867,952)
Net assets – ending					\$ (884,867,952)

The accompanying notes are an integral part of this statement

STATE OF LOUISIANA  
Tobacco Settlement Financing Corporation  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

**INTRODUCTION**

The Tobacco Settlement Financing Corporation was created by the Louisiana State Legislature under the provisions of Louisiana Revised Statute 39:99.20. The following is a brief description of the operations of Tobacco Settlement Financing Corporation:

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Basis of Accounting**

In April of 1984, the Financial Accounting Foundation established the Governmental Accounting Standards Board (GASB) to promulgate generally accepted accounting principles and reporting standards with respect to activities and transactions of state and local governmental entities. The GASB has issued a Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). This codification and subsequent GASB pronouncements are recognized as generally accepted accounting principles for state and local governments. The accompanying financial statements have been prepared in accordance with such principles.

The accompanying financial statements of Tobacco Settlement Financing Corporation present information only as to the transactions of the programs of the Tobacco Settlement Financing Corporation as authorized by Louisiana statutes and administrative regulations. The accounts of the Tobacco Settlement Financing Corporation are maintained in accordance with applicable statutory provisions and the regulations of the Division of Administration – Office of Statewide Reporting and Accounting Policy.

Basis of accounting refers to when revenues and expenses are recognized and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The accompanying government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The accompanying governmental funds financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting.

**B. ADJUSTMENTS**

The adjustments column represents the changes necessary to convert a Governmental Fund's Balance Sheet, reported on the modified accrual basis of accounting, to its Government-Wide Statement of Net Assets required by GASB Statement 34 and reported on the full accrual basis of accounting. The Statement of Revenue, Expenditures, and Changes in Fund Balances (modified accrual) does not contain an adjustments column showing the conversion of the fund level to the government-wide level because of the differences between it and the Simplified Statement of Activities (full accrual).

Schedule 5, "SCHEDULE OF ADJUSTING ENTRIES, Modified Accrual to Full Accrual Basis Reporting" provides a complete list of adjustments necessary to convert to the full accrual basis of accounting from the modified accrual basis of accounting.

**C. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (If all agency cash and investments are deposited in the State Treasury, disregard Note C.)**

**1. Deposits with Financial Institutions**

For reporting purposes, deposits with financial institutions include savings, demand deposits, time deposits, and certificates of deposit. Further, the Tobacco Settlement Financing Corporation may invest in time certificates of deposit in any bank domiciled or having a branch office in the state of Louisiana; savings accounts or shares of savings and loan associations and savings banks; and in share accounts and share certificate accounts of federally or state chartered credit unions.

As reflected on the Statement of Net Assets, the institution had deposits in bank accounts totaling \$226,438 at June 30, 2005. Deposits in bank accounts are stated at cost, which approximates market. Under state law these deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These pledged securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank in the form of safekeeping receipts held by the state treasurer.

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**GASB Statement 40 amended GASB Statement 3 to eliminate the requirement to disclose all deposits by the 3 categories of risk. GASB Statement 40 requires only the disclosure of deposits that are considered to be exposed to custodial credit risk. An entity's deposits are exposed to custodial credit risk if the deposit balances are either 1) uninsured and uncollateralized, 2) uninsured and collateralized with securities held by the pledging financial institution, or 3) uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the entity's name.**

The deposits at June 30, 2005, consisted of the following:

	<u>Cash</u>	<u>Certificates of Deposit</u>	<u>Other (Describe)</u>	<u>Total</u>
Deposits per Statement of Net Assets (SNA)	\$ 226,438	\$	\$	\$ 226,438
Bank Balances of Deposits Exposed to Custodial Credit Risk:				
a. Uninsured and uncollateralized	126,438	_____	_____	126,438
b. Uninsured and collateralized with securities held by the pledging institution	_____	_____	_____	-
c. Uninsured and collateralized with securities held by the pledging institution's trust department or agent, <u>but not in the entity's name</u>	_____	_____	_____	-
Total Bank Balances of All Deposits Regardless of Custodial Credit Risk	\$ 226,438	\$	\$	\$ 226,438

Note: The "Total Bank Balances - All Deposits:" will not necessarily equal the "Cash and cash equivalents" per the Statement of Net Assets (SNA) due to outstanding items.

Cash in State Treasury and petty cash must not be reported in the note disclosure. However, to aid in reconciling amounts reported on the Statement of Net Assets to amounts reported in this note, list below any cash in treasury and petty cash that are included in the Statement of Net Assets.

Cash in State Treasury	\$ <u>N/A</u>
Petty cash	\$ <u>N/A</u>

The following is a breakdown by banking institution, program, \*account number, and amount of the total bank balances shown above:

	<u>Banking institution</u>	<u>Program</u>	<u>Amount</u>
1.	Chase Bank	None	\$ 226,438
2.	_____	_____	_____
3.	_____	_____	_____
4.	_____	_____	_____
Total			\$ 226,438

\*(Account numbers are not required. However, if you have more than one account at a single institution, you should identify each account separately, such as "Account A", "Account B", or some similar designation that does not involve the actual account number.)

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2. Investments

The Tobacco Settlement Financing Corporation does maintain investment accounts as authorized by R.S. 39:99.6(E).

**Custodial Credit Risk**

Investments can be exposed to custodial credit risk if the securities underlying the investment are uninsured, not registered in the name of the entity, and are held by either the counterparty or the counterparty's trust department or agent but not in the entity's name. Using the table below, list each type of investment disclosing the carrying amount, market value, and applicable category of risk.

**GASB Statement 40 amended GASB Statement 3 to eliminate the requirement to disclose all investments by the 3 categories of risk. GASB Statement 40 requires only the separate disclosure of investments that are considered to be exposed to custodial credit risk. Those investments exposed to custodial credit risk are reported by type in one of two separate columns depending upon whether they are held by a counterparty, or held by a counterparty's trust department or agent not in the entity's name. In addition, the total reported amount and fair value columns must be reported for total investments regardless of exposure to custodial credit risk. Using the table below, list each type of investment disclosing the carrying amount, market value, and applicable category of risk.**

Type of Investment	Investments Exposed to Custodial Credit Risk		All Investments Regardless of Custodial Credit Risk Exposure	
	Uninsured, *Unregistered, and Held by Counterparty	Uninsured, *Unregistered, and Held by Counterparty's Trust Dept. or Agent not in Entity's Name	Reported Amount	Fair Value
Repurchase agreements	\$ _____	\$ _____	\$ _____	\$ _____
U.S. Government Securities	_____	_____	_____	_____
U.S. Agency Obligations	_____	_____	_____	_____
Common & preferred stock	_____	_____	_____	_____
Commercial paper	104,884,288	_____	104,884,288	104,884,288
Corporate bonds	_____	_____	_____	_____
Other: (identify)	_____	_____	_____	_____
Money Market Mutual Funds	_____	_____	29,537,813	29,537,813
	_____	_____	_____	_____
	_____	_____	_____	_____
	_____	_____	_____	_____
Total investments	\$ 104,884,288	\$ -	\$ 134,422,101	\$ 134,422,101

\*unregistered – not registered in the name of the government or entity

3. Derivatives

The institution does/does not (circle one) invests in derivatives as part of its investment policy. Accordingly, the exposure to risks from these investments is as follows:

credit risk \_\_\_\_\_ N/A \_\_\_\_\_  
market risk \_\_\_\_\_ N/A \_\_\_\_\_  
legal risk \_\_\_\_\_ N/A \_\_\_\_\_

4. Credit Risk, Concentration of Credit Risk, Interest Rate Risk, and Foreign Currency Risk Disclosures

A. Credit Risk of Debt Investments

Disclose the credit risk of debt investments: by credit quality ratings as described by rating agencies as of the fiscal year end. All debt investments regardless of type can be aggregated by credit quality rating (if any are un-rated, disclose that amount).

<u>Rating</u>	<u>Fair Value</u>
AAA	\$ 29,537,813
A-1 +	195,001,197
Total	\$ 224,539,010

B. Interest rate Risk

Disclose the interest rate risk of debt investments by listing the investment type, total fair value, and breakdown of maturity in years for each debt investment type.

<u>Type of Debt Investment</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>			
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>Greater Than 10</u>
U.S. Government obligations	\$	\$	\$	\$	\$
U.S. Agency obligations					
U.S. Treasury obligations					
Mortgage backed securities					
Collateralized mortgage obligations					
Corporate bonds					
Other bonds					
Commercial Paper	104,884,288	104,884,288			
Money Market funds	29,537,813	29,537,813			
Other					
Total debt investments	\$ 134,422,101	\$ 134,422,101	\$ -	\$ -	\$ -

List the fair value and terms of any debt investments that are highly sensitive to changes in interest rates due to the terms of the investment (eg. coupon multipliers, reset dates, etc.):

<u>Debt Investment</u>	<u>Fair Value</u>	<u>Terms</u>
N/A	\$ N/A	N/A
Total	\$ -	

**C. Concentration of Credit Risk**

List, by issuer and amount, investments in any one issuer that represents 5% or more of total investments (not including U.S. government securities, mutual funds, and external investment pools).

<u>Issuer</u>	<u>Amount</u>	<u>% of Total Investments</u>
JPM US Government MMKT Fund	\$ 29,537,813	21.97%
Societe Generale	90,116,909	67.09%
Briarwood CP Trust	14,606,969	10.87%
Total	\$ 134,261,691	

**D. Foreign Currency Risk**

Disclose the U.S. dollar balances of any deposits or investments that are exposed to foreign currency risk (deposits or investments denominated in foreign currencies). List by currency denomination and investment type, if applicable.

<u>Foreign Currency</u>	<u>Fair Value in U.S. Dollars</u>	
	<u>Bonds</u>	<u>Stocks</u>
N/A	\$ N/A	\$ N/A
Total	\$ -	\$ -

**5. Policies**

Briefly describe the deposit and/or investment policies related to the custodial credit risk, credit risk of debt investments, concentration of credit risk, interest rate risk, and foreign currency risk disclosed in this note. If no policy exists concerning the risks disclosed, please state that fact.

NONE

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**6. Other Disclosures Required for Investments**

- a. Investments in pools managed by other governments or mutual funds \_\_\_\_\_
- b. Securities underlying reverse repurchase agreements \_\_\_\_\_
- c. Unrealized investment losses 963,807
- d. Commitments as of June 30, 2005, to resell securities under yield maintenance repurchase

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agreements:

1. Carrying amount and market value at June 30 of securities to be resold \_\_\_\_\_
  2. Description of the terms of the agreement \_\_\_\_\_
- e. Losses during the year due to default by counterparties to deposit or investment transactions \_\_\_\_\_
- f. Amounts recovered from prior-period losses that are not shown separately on the SNA \_\_\_\_\_

Legal or Contractual Provisions for Reverse Repurchase Agreements N/A

- g. Source of legal or contractual authorization for use of reverse repurchase agreements \_\_\_\_\_
- h. Significant violations of legal or contractual provisions for reverse repurchase agreements that occurred during the year \_\_\_\_\_

Reverse Repurchase Agreements as of the SNA Date N/A

- i. Credit risk related to the reverse repurchase agreements (other than yield maintenance agreements) outstanding at the SNA date, that is, the aggregate amount of reverse repurchase agreement obligations including accrued interest compared to aggregate market value of the securities underlying those agreements including interest \_\_\_\_\_
- j. Commitments on June 30, 20\_\_, to repurchase securities under yield maintenance agreements \_\_\_\_\_
- k. Market value on June 30, 20\_\_, of the securities to be repurchased \_\_\_\_\_
- l. Description of the terms of the agreements to repurchase \_\_\_\_\_
- m. Losses recognized during the year due to default by counter parties to reverse repurchase agreements \_\_\_\_\_
- n. Amounts recovered from prior-period losses that are not separately shown on the operating statement \_\_\_\_\_

Fair Value Disclosures N/A

- o. Methods and significant assumptions used to estimate fair value of investments, if fair value is not based on quoted market prices \_\_\_\_\_
- p. Basis for determining which investments, if any, are reported at amortized cost \_\_\_\_\_
- q. For investments in external investment pools that are not SEC-registered, a brief description of any regulatory oversight for the pool \_\_\_\_\_
- r. Whether the fair value of your investment in the external investment pool is the same as the value of the pool shares \_\_\_\_\_
- s. Any involuntary participation in an external investment pool \_\_\_\_\_

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t. If you are unable to obtain information from a pool sponsor to determine the fair value of your investment in the pool, methods used and significant assumptions made in determining that fair value and the reasons for having had to make such an estimate \_\_\_\_\_

u. Any income from investments associated with one fund that is assigned to another fund \_\_\_\_\_

**D. CAPITAL ASSETS – INCLUDING ASSETS ACQUIRED BY CAPITAL LEASE N/A**

The fixed assets used in the Special Purpose Government are included on the balance sheet and are capitalized at cost. Depreciation of all exhaustible fixed assets used by the entity are charged as an expense against operations. Accumulated depreciation is reported on the balance sheet. Depreciation for financial reporting purposes is computed by the straight-line method over the useful lives of the assets.

	for the year ended June 30, 2005						
	Balance 6/30/2004	Prior Period Adjustment	Adjusted Balance 6/30/2004	Additions	Transfers*	Retirements	Balance 6/30/2005
<b>Capital assets not being depreciated:</b>							
Land	\$	\$	\$	\$	\$	\$	\$
Non-depreciable land improvements							
Capitalized collections							
Construction in progress							
<b>Total capital assets not being depreciated</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Other capital assets</b>							
Furniture, fixtures, and equipment	\$	\$	\$	\$	\$	\$	\$
Less accumulated depreciation							
<b>Total furniture, fixtures, and equipment</b>							
Buildings and improvements							
Less accumulated depreciation							
<b>Total buildings and improvements</b>							
Depreciable land improvements							
Less accumulated depreciation							
<b>Total depreciable land improvements</b>							
Infrastructure							
Less accumulated depreciation							
<b>Total infrastructure</b>							
<b>Total other capital assets</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Capital asset summary:</b>							
Capital assets not being depreciated	\$	\$	\$	\$	\$	\$	\$
Other capital assets, at cost							
<b>Total cost of capital assets</b>							
Less accumulated depreciation							
<b>Capital assets, net</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

\*Should be used only for those completed projects coming out of construction-in-progress into fixed assets; not associated with transfers reported elsewhere in the packet.

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**E. RESTRICTED ASSETS**

Restricted assets at June 30, 2005, reflected \$178,778,491 in the non-current assets section on Statement A, and consist of \$134,422,101 in invested in commercial paper and money market mutual funds, \$44,184,372 in tobacco settlement receivables, and \$172,018 in interest receivables.

**F. LONG-TERM LIABILITIES**

The following is a summary of long-term debt transactions for the year ended June 30, 2005:

	Balance June 30, 2004	Year ended June 30, 2005:		Balance at June 30, 2005	Amounts due withi one year
		Additions	Reductions		
<b>Bonds &amp; notes payable &amp; capital leases:</b>					
Notes payable	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Reimbursement contracts payable	_____	_____	_____	_____	_____
Bonds payable	1,110,310,000	_____	26,805,000	1,083,505,000	_____
Total notes and bonds	1,110,310,000	-	26,805,000	1,083,505,000	-
<b>Other liabilities:</b>					
Contracts payable	_____	_____	_____	_____	_____
Capital lease obligations	_____	_____	_____	_____	_____
Claims and litigation	_____	_____	_____	_____	_____
Other long-term liabilities	_____	_____	_____	_____	_____
Total other liabilities	-	-	-	-	-
Total long-term liabilities	\$ 1,110,310,000	\$ -	\$ 26,805,000	\$ 1,083,505,000	\$ -

A detailed summary, by issue, of all debt outstanding at June 30, 2005, including outstanding interest of \$7,839,364 is shown on Schedule 4. Schedule 4-D is an amortization schedule of the out-standing debt. (Send OSRAP a copy of the amortization schedule for any new debt issued.)

**G. LITIGATION N/A**

1. The \_\_\_\_\_ is a defendant in litigation seeking damages as follows:

Date of Action	Description of Litigation and Probable outcome (Remote, reasonably possible, or probable)	Primary Attorney	Damages Claimed	Insurance Coverage
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
Totals			\$ -	\$ -

Our legal advisor estimates that potential claims not covered by insurance would affect the financial statement as follows (would not materially affect the financial statements or is unable to estimate the effect on the financial statement): \_\_\_\_\_

2. Claims and litigation costs of \$ \_\_\_\_\_ were incurred in the current year and are reflected in the accompanying financial statement.

**H. RELATED PARTY TRANSACTIONS N/A**

FASB 57 requires disclosure of the description of the relationship, the transaction(s), the dollar amount of the transaction(s) and any amounts due to or from which result from related party transactions. List all related party transactions.

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**I. ACCOUNTING CHANGES N/A**

Accounting changes made during the year involved a change in accounting \_\_\_\_\_ (principle, estimate, error or entity). The effect of the change is being shown in \_\_\_\_\_.

**J. IN-KIND CONTRIBUTIONS N/A**

(List all in-kind contributions that are not included in the accompanying financial statements.)

<u>In-Kind Contributions</u>	<u>Cost/Estimated Cost/Fair Market Value/As Determined by the Grantor</u>
_____	\$ _____
_____	_____
_____	_____
_____	_____
Total	\$ _____

**K. DEFEASED ISSUES N/A**

In \_\_\_\_\_, 20\_\_\_\_, the \_\_\_\_\_, issued \$ \_\_\_\_\_ of taxable/nontaxable bonds. The purpose of the issue was to provide monies to advance refund portions of \_\_\_\_\_ bonds. In order to refund the bonds, portions of the proceeds of the new issue \$ \_\_\_\_\_, plus an additional \$ \_\_\_\_\_ of sinking fund monies together with certain other funds and/or securities, were deposited and held in an escrow fund created pursuant to an escrow deposit agreement dated \_\_\_\_\_ between the \_\_\_\_\_ and the escrow trustee. The amount in the escrow, together with interest earnings, will be used to pay the principal, redemption premium, and interest when due. The refunding resulted in reducing the total debt service payments by almost \$ \_\_\_\_\_ and an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$ \_\_\_\_\_.

**L. VIOLATIONS OF FINANCE-RELATED LEGAL OR CONTRACTUAL PROVISIONS N/A**

At \_\_\_\_\_ (fiscal year end) \_\_\_\_\_ was not in compliance with the provisions of \_\_\_\_\_ Bond Reserve Covenant that requires \_\_\_\_\_.

The \_\_\_\_\_ did \_\_\_\_\_ to correct this deficiency.

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**M. DISAGGREGATION OF RECEIVABLE BALANCES**

Activity	Customer Receivables	Taxes	Receivables from other Governments	Other Receivables	Total Receivables
Tobacco Settlement Receivable	\$	\$	\$	\$ 44,184,372.00	\$ 44,184,372.00
Interest Receivable				172,018.00	172,018.00
Gross receivables	\$ -	\$ -	\$ -	\$ 44,356,390.00	\$ 44,356,390.00
Less allowance for uncollectible accounts	-	-	-	-	-
Receivables, net	\$ -	\$ -	\$ -	\$ 44,356,390.00	\$ 44,356,390.00
Amounts not scheduled for collection during the subsequent year	\$	\$	\$	\$	\$ -

Receivables at June 30, 2005, were as follows:

**N. DISAGGREGATION OF PAYABLE BALANCES**

Payables at June 30, 2005, were as follows:

Activity	Vendors	Salaries and Benefits	Accrued Interest	Other Payables	Total Payables
Operating	\$ Various	\$	\$	\$ 8,000	\$ 8,000
Operating	State of Louisiana			0,000	10,000
Total payables	\$ -	\$ -	\$ -	\$ 8,000	\$ 18,000

**O. SUBSEQUENT EVENTS N/A**

[Disclose any material event(s) affecting financial operations occurring between the close of the fiscal period and issuance of the financial statement.]

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**DUE TO/DUE FROM AND TRANSFERS N/A**

1. List by fund type the amounts due from other funds detailed by individual fund at your fiscal year end:

Type of Fund	Name of Fund	Amount
		\$

STATE OF LOUISIANA  
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		\$
Total due from other funds		

2. List by fund type the amounts due to other funds detailed by individual fund at fiscal year end:

<u>Type of Fund</u>	<u>Name of Fund</u>	<u>Amount</u>
		\$
Total due to other funds		\$

3. List by fund type all transfers from other funds for the fiscal year:

<u>Type of Fund</u>	<u>Name of Fund</u>	<u>Amount</u>
		\$
Total transfers from other funds		\$

4. List by fund type all transfers to other funds for the fiscal year:

<u>Type of Fund</u>	<u>Name of Fund</u>	<u>Amount</u>
		\$
Total transfers to other funds		\$

**Q. LIABILITIES PAYABLE FROM RESTRICTED ASSETS**

Liabilities payable from restricted assets at June 30, 2005 are \$38,507,364 in the current liabilities section on Statement A, and consist of \$18,000 in accounts payable, \$30,650,000 in bonds payable, and \$7,839,364 in interest payable.

Liabilities payable from restricted assets at June 30, 2005 are \$1,052,855,000 in the non-current liabilities section on Statement A, and consist of \$0 in accounts payable, and \$1,052,855,000 in bonds payable.

**R. PRIOR-YEAR RESTATEMENT OF FUND BALANCE/NET ASSETS**

The following adjustments were made to restate beginning fund balance/net assets for June 30, 2004.

1. Modified Accrual:

<u>Ending fund balance</u> <u>July 1, 2004,</u> <u>previously reported</u>	<u>Adjustments</u> <u>+ or (-)</u>	<u>Beginning fund</u> <u>July 1, 2004,</u> <u>As restated</u>
129,203,951	8,161,344	137,365,295
		--
		--
		--
		--
\$		\$
		--

Each adjustment must be explained below in detail.  
-To remove accrued interest payable from the fund financial statements.

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2. Full Accrual:

Ending net assets July 1, 2004, <u>previously reported</u>	Adjustments <u>+ or (-)</u>	Beginning net assets, July 1, 2004, <u>As restated</u>
\$ _____	_____	\$ _____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
\$ _____	_____	\$ _____

Each adjustment must be explained below in detail.




STATE OF LOUISIANA

SCHEDULE OF STATE FUNDING  
For the Year Ended \_\_\_\_\_  
(Fiscal Close)

	<u>Description of Funding</u>	<u>Amount</u>
1.	_____	\$ _____
2.	_____	_____
3.	_____	_____
4.	_____	_____
5.	_____	_____
6.	_____	_____
7.	_____	_____
8.	_____	_____
9.	_____	_____
10.	_____	_____
	Total	\$ _____







STATE OF LOUISIANA

SCHEDULE OF REIMBURSEMENT CONTRACTS PAYABLE AMORTIZATION  
 For The Year Ended \_\_\_\_\_  
 (Fiscal Close)

Fiscal Year Ending:	Principal	Interest
2006	\$ _____	\$ _____
2007	_____	_____
2008	_____	_____
2009	_____	_____
2010	_____	_____
2011	_____	_____
2012	_____	_____
2013	_____	_____
2014	_____	_____
2015	_____	_____
2016	_____	_____
2017	_____	_____
2018	_____	_____
2019	_____	_____
2020	_____	_____
2021	_____	_____
2022	_____	_____
2023	_____	_____
2024	_____	_____
2025	_____	_____
2026	_____	_____
2027	_____	_____
2028	_____	_____
2029	_____	_____
2030	_____	_____
Total	\$ _____ --	\$ _____ --

STATE OF LOUISIANA

SCHEDULE OF CAPITAL LEASE AMORTIZATION  
For The Year Ended June 30, 20\_\_

Fiscal Year Ending:	Payment	Interest	Principal	Balance
2006	\$ _____	\$ _____	\$ _____	\$ _____ --
2007	_____	_____	_____	_____ --
2008	_____	_____	_____	_____ --
2009	_____	_____	_____	_____ --
2010	_____	_____	_____	_____ --
2011-2015	_____	_____	_____	_____ --
2016-2020	_____	_____	_____	_____ --
2021-2025	_____	_____	_____	_____ --
2026-2030	_____	_____	_____	_____ --
Total	\$ <u>    --</u>	\$ <u>    --</u>	\$ <u>    --</u>	\$ <u>    --</u>

**STATE OF LOUISIANA**  
**SCHEDULE OF NOTES PAYABLE AMORTIZATION**

Fiscal Year Ending:	<u>Principal</u>	<u>Interest</u>
2006	\$ _____	\$ _____
2007	_____	_____
2008	_____	_____
2009	_____	_____
2010	_____	_____
2011-2015	_____	_____
2016-2020	_____	_____
2021-2025	_____	_____
2026-2030	_____	_____
<b>Total</b>	<b>\$ _____</b>	<b>\$ _____</b>

**STATE OF LOUISIANA**  
**Tobacco Settlement Financing Corporation**  
**SCHEDULE OF BONDS PAYABLE AMORTIZATION**  
**Term Maturities**  
**For The Year Ended June 30, 2005**

Fiscal Year Ending:	Principal	Interest
2006	\$ --	\$ 63,585,950
2007	--	63,585,950
2008	--	63,585,950
2009	--	63,585,950
2010	--	63,585,950
2011	--	63,585,950
2012	--	63,585,950
2013	--	63,585,950
2014	--	63,585,950
2015	--	63,585,950
2016	--	63,585,950
2017	--	63,585,950
2018	--	63,585,950
2019	--	63,585,950
2020	--	63,585,950
2021	--	63,585,950
2022	--	63,585,950
2023	--	63,585,950
2024	--	63,585,950
2025	163,710,000	63,585,950
2026	--	53,173,994
2027	--	53,173,994
2028	--	53,173,994
2029	--	53,173,994
2030	230,390,000	53,173,994
2031	--	40,502,544
2032	--	40,502,544
2033	--	40,502,544
2034	--	40,502,544
2035	--	40,502,544
2036	--	40,502,544
2037	--	40,502,544
2038	--	40,502,544
2039	689,405,000	40,502,543
2040	--	--
Total	\$ 1,083,505,000	\$ 1,902,111,858

SCHEDULE 4-D

**STATE OF LOUISIANA**  
**Tobacco Settlement Financing Corporation**  
**SCHEDULE OF BONDS PAYABLE AMORTIZATION**  
**Sinking Fund Maturities**  
**For The Year Ended June 30, 2005**

Fiscal Year Ending:	Principal	Interest
2006	\$ --	\$ 63,585,950
2007	--	63,585,950
2008	--	63,585,950
2009	--	63,585,950
2010	--	63,585,950
2011	--	63,585,950
2012	--	63,585,950
2013	--	63,585,950
2014	--	63,585,950
2015	--	63,585,950
2016	--	63,585,950
2017	--	63,585,950
2018	--	63,585,950
2019	5,925,000	63,585,950
2020	19,320,000	63,209,120
2021	21,850,000	61,980,368
2022	24,540,000	60,590,708
2023	27,470,000	59,029,964
2024	30,585,000	57,282,872
2025	34,020,000	55,337,666
2026	38,720,000	53,173,994
2027	42,400,000	51,044,394
2028	45,710,000	48,712,394
2029	49,680,000	46,198,343
2030	53,880,000	43,465,944
2031	58,450,000	40,502,544
2032	63,390,000	37,068,606
2033	68,670,000	33,344,444
2034	74,285,000	29,310,081
2035	80,050,000	24,945,838
2036	86,210,000	20,242,900
2037	86,250,000	15,178,063
2038	86,925,000	10,110,875
2039	85,175,000	5,004,027
2040	--	--
Total	\$ 1,083,505,000	\$ 1,705,936,443

SCHEDULE 4-D

**STATE OF LOUISIANA**  
**Tobacco Settlement Financing Corporation**  
**SCHEDULE OF BONDS PAYABLE AMORTIZATION**  
**Turbo Maturities**  
**For The Year Ended June 30, 2005**

Fiscal Year Ending:	<u>Principal</u>	<u>Interest</u>
2006	\$ 30,650,000	\$ 63,585,950
2007	34,390,000	61,636,610
2008	53,175,000	59,449,406
2009	58,125,000	56,067,476
2010	63,045,000	52,479,344
2011	68,170,000	49,011,869
2012	73,590,000	45,262,519
2013	79,360,000	41,215,069
2014	85,575,000	36,601,250
2015	92,170,000	31,573,719
2016	99,390,000	26,158,731
2017	107,045,000	20,319,569
2018	112,930,000	14,030,675
2019	121,335,000	7,396,038
2020	4,555,000	267,605
2021		
2022		
2023		
2024		
2025		
2026		
2027		
2028		
2029		
2030		
2031		
2032		
2033		
2034		
2035		
2036		
2037		
2038		
2039		
<b>Total</b>	<b>\$ 1,083,505,000</b>	<b>\$ 565,055,829</b>

SCHEDULE 4-D

**STATE OF LOUISIANA  
TOBACCO SETTLEMENT FINANCING CORPORATION  
SCHEDULE OF ADJUSTING ENTRIES  
Modified Accrual to Full Accrual Basis Reporting  
For the Year Ended June 30, 2005**

Ref #	Accounts	Debit	Credit
1.	Reserved Fund Balance	\$ 134,802,557	\$
	Unrestricted Net Assets	1,063,646,443	
	Bonds Payable – non current		1,052,855,000
	Bonds Payable – current		30,650,000
	Restricted Net Assets		178,778,491
	Unamortized bond issues costs	27,489,483	
	Tobacco Settlement Receivable	44,184,372	
	Accrued interest payable		7,839,364
	To record assets, liabilities, and net assets As appropriate for conversion to full accrual basis of accounting		
2.	Investments – Non current	134,422,101	
	Accrued interest receivable non current	172,018	
	Investments – current		134,422,101
	Accrued interest receivable		172,018
	To reclassify the investments to non-current\ Restricted to reflect the state-wide perspective.		

**Information for Note C "Deposits with Financial Institutions and Investments"**  
**(GASB Statement 3 Amended by GASB Statement 40)**

**I. Purpose:**

Note C provides the required disclosures about the governmental entities' deposits with financial institutions and investments. The disclosures required for deposits and investments as of the fiscal year ended date provides information about the credit risk and market risk of the deposits and investments and are designed to provide users of the financial statements information about the potential for losses associated with the deposits and investments. GASB Statement 40 has modified or eliminated portions of GASB Statement 3 including:

- modified the custodial credit risk disclosures of Statement 3 for deposits and investments to limit the required disclosure to only those exposed to custodial credit risk (similar to GASB 3's category 3).
- established or modified disclosure requirements related to concentrations of credit risk of investments, credit risk of debt investments, and interest rate risks of debt investments (including sensitivity to changes in interest rates), and
- established disclosure requirements for foreign currency risks for both deposits and investments.

Although GASB Statement 40 eliminated some of the disclosures required for custodial credit risk (the 3 categories for example), the total reported amounts of all deposits and investments must still be reported.

**II. Comparison of amounts disclosed per requirements in Note C to amounts shown on the Balance Sheet (if Balance Sheet is required as part of AFR packet):**

- Generally, the amounts of cash and investments on the balance sheet will not be classified exactly the way they would be classified in Note C.
- "Deposits with Financial Institutions" and "Investments" in Note C may be reported on the balance sheet using titles or line items that are different than those in Note C, or they may be combinations of titles or line items. For instance, "Deposits" in Note C may come from several line items on the balance sheet such as "Cash in Bank" and "CD's", or even "Investments" (See section III below that gives further guidance on what should be considered "Deposits" in note C).
- Line items on the balance sheet may include amounts that would be deposits in Note C, and may also include amounts that would be investments in Note C. Also, cash and cash equivalents line items on the balance sheet may include amounts that are not deposited in bank accounts of the entity and therefore would not be reported in Note C as deposits but as separate line items such as petty cash, cash on hand, and treasury cash. These amounts must be reported separately from the deposits in Note C.
- Each line item on the balance sheet that involves cash or investments, including any restricted cash and/or investments, needs to be analyzed to determine what is included in the item and how it should be disclosed in Note C.

**III. "Deposits with Financial Institutions" section of Note C:**

- Generally, this section of the Note C disclosure refers to the various examples of "Deposits with Financial Institutions" (See "A" below for examples). The term "cash and cash equivalents" is used in reference to GASB Statement 9 that affects presentation for the balance sheet and statement of cash flows, not the note disclosures required by GASB Statement 3 & 40. "Deposits with Financial Institutions" include deposit accounts in banks, savings and loan associations, and credit unions. They can be demand, savings, or time accounts, including negotiable order of withdrawal (NOW) accounts and non-negotiable CD's. As stated previously, deposits for Note C may be a combination of balance sheet line items or titles.
- Do not include treasury cash, petty cash not in a bank account, or cash on hand in Note C as part of the deposits in bank accounts. As mentioned previously, these amounts would be reported separately.

A. Examples and/or definitions:

Nonnegotiable Certificates of Deposit – Nonnegotiable CDs are time deposits that are placed by depositors directly with financial institutions and generally are subject to a penalty if redeemed before maturity. These are treated as deposits for GASB 3 Note C disclosures. (Negotiable CDs are securities that are normally sold in \$1 million units that are traded in a secondary market. These are treated as investments for Note C disclosures.)

Money Market Accounts – financial institution “money market” accounts are simply deposits that pay interest at a rate set to make the accounts competitive with money market mutual funds. They should be treated like any other deposit account for Note C disclosures.

Bank Investment Contracts (BICs) – A BIC is a general obligation instrument issued by a bank, typically to a pension plan, that provides for a guaranteed return on principal over a specified period. Since these are issued by a bank, they are treated as deposits for Note C disclosures.

B. Other definitions as applied to deposits:

Insured (Insurance) – deposits are insured by federal deposit insurance (FDIC), state deposit insurance, multiple financial institution collateral pools that insure public deposits, and even commercial insurance (if scope of coverage would be substantially the same as FDIC).

Collateral – Security pledged by a financial institution to a government entity for its deposits.

IV. “Investments” section of Note C:

- Types of investments for listing investments by type definitions/examples:
  1. Repurchase Agreements – An agreement in which a governmental entity (buyer-lender) transfers cash to a broker-dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the entity and promises to repay the cash plus interest in exchange for a) the same securities, or for b) different securities.
  2. U.S. Government Obligations – examples include treasury bills, treasury notes and treasury strips; obligations of certain U.S. Government Agencies such as FNMA, FHLB, or SLMA.
  3. Common & Preferred Stock – a security that represents an ownership interest in an entity.
  4. Commercial Paper (mortgages, notes, etc.) – An unsecured promissory note issued primarily by corporations for a specific amount and maturing on a specific day. Almost all commercial paper is rated as to credit risk by rating services.
  5. Corporate Bonds
  6. Other (identify) – It is not appropriate to present material amounts of investments as “Other”, unless the note disclosure describes the composition of the “Other” category. The following are examples of other investments:
    - a. Closed-end Mutual Fund – The investment company sells shares of its stock to investors and it invests on the shareholders’ behalf in a diversified portfolio of securities. A closed-end mutual fund has a constant number of shares, the value depends on the market supply and demand for the shares rather than directly on the value of the portfolio, the fund does issue certificates, and the securities are traded on a stock exchange.
    - b. Open-end Mutual Funds – The investment company sells shares of its stock to investors and it invests on the shareholders’ behalf in a diversified portfolio of securities. In contrast to a closed-end mutual fund, the open-end mutual fund creates new shares to meet investor demand, the value depends directly on the value of the portfolio, and the fund does not issue certificates but sends out periodic statements showing account activity. These investments are not evidenced by securities that exist in physical or book entry form.
    - c. Reverse Repurchase Agreements – An agreement in which a broker-dealer or financial institution (buyer-lender) transfers cash to a governmental entity (seller-borrower); the entity transfers securities to the broker-dealer or financial institution and promises to repay the cash plus interest in exchange for a) the same securities, or for b) different securities.
    - d. Investments in pools managed by another government – Generally, these investments would not be exposed to custodial credit risk because the investments themselves are not evidenced by securities that exist in physical or book entry form.
    - e. Private placements, such as venture capital and limited partnerships
    - f. Investments in real estate, annuity contracts, and direct investments in mortgages

V. Risk Disclosures for Deposits and Investments:

- Deposits and investments are subject to several types of risks, mainly credit risk, market risk, interest rate risk, and foreign currency risk.

Credit risk - defined as the risk that a counterparty to an investment transaction will not fulfill its obligations and can be associated with the issuer of securities, with a financial institution holding deposits, or with a party holding investment or collateral securities.

Concentration of credit risk - defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Market risk - defined as the risk that the market value of investment securities, collateral securities protecting a deposit, or securities of a repurchase agreement will decline.

Interest rate risk - defined as the risk that changes in interest rates will adversely affect the fair value of an investment.

Foreign currency risk - defined as the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

#### A. Custodial Credit Risk Disclosures for Deposits:

Following GASB Statement 3, deposits were classified into three categories of custodial credit risk depending on whether they were insured or collateralized, and who holds the collateral and how the collateral is held.

Collateral - Securities pledged by the financial institution for the purpose of securing the governmental entity's deposits.

Collateralized - When the entity's deposits are secured with securities pledged by the financial institution holding the deposits.

GASB Statement 40 amended GASB Statement 3 to eliminate the requirement to disclose all deposits by the 3 categories of risk. GASB Statement 40 requires only the disclosure of deposits that are considered to be exposed to custodial credit risk. An entity's deposits are exposed to custodial credit risk if the deposit balances are 1) uninsured and uncollateralized, 2) uninsured and collateralized with securities held by the pledging financial institution, or 3) uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the entity's name.

#### B. Custodial Credit Risk Disclosures for Investments:

Following GASB Statement 3, investments (listed by type) were either classified into three categories (depending on whether they are insured or registered and who holds the securities and how they are held), or listed as non-classified investments.

GASB Statement 40 amended GASB Statement 3 to eliminate the requirement to disclose all investments by the 3 categories of risk. GASB Statement 40 requires only the separate disclosure of investments that are considered to be exposed to custodial credit risk. However, the total reported amount and fair value columns still must be reported for total investments regardless of exposure to custodial credit risk. Those investments exposed to custodial credit risk are reported by type in one of two separate columns depending upon whether they are held by a counterparty, or held by a counterparty's trust department or agent not in the entity's name.

#### C. Additional Risk Disclosures Required by GASB Statement 40:

Credit Risk - Disclose the credit risk of debt investments by credit quality ratings as described by rating agencies as of the fiscal year end. All debt investments regardless of type can be aggregated by credit quality rating (if any are un-rated, disclose that amount).

Interest Rate Risk - Disclose the interest rate risk of debt investments by listing the investment type, total fair value, and breakdown of maturity in years of those investments. In addition, list the fair value and terms of any debt investments that are highly sensitive to changes in interest rates due to the terms of the investment (e.g. coupon multipliers, reset dates, etc.):

Concentration of Credit Risk - List, by amount and issuer (not including U.S. government securities, mutual funds, and investment pools), investments in any one issuer that represents 5% or more of total investments.

Foreign Currency Risk - Disclose the U.S. dollar balances of any deposits or investments that are exposed to foreign currency risk (deposits or investments denominated in foreign currencies). List these by currency denomination and investment type, if applicable.

Deposits and Investments Policies Relating to Risk - Briefly describe the deposit and/or investment policies related to the custodial credit risk, credit risk of debt investments, concentration of credit risk, interest rate risk, and foreign currency risk disclosed in this note. If no policy exists concerning the risks disclosed, that fact should be stated.

VI. Securities as Applied to Credit Risk of Deposits and Investments:

Securities defined – a transferable financial instrument that evidences ownership or creditorship. Securities can be in either paper or book-entry form.

1. Examples of securities that are often held by or pledged to (as collateral) governmental entities include:

- a. treasury bills, treasury notes, treasury bonds
- b. federal agency obligations
- c. corporate debt instruments (including commercial paper)
- d. corporate equity instruments
- e. negotiable CD's (keyword here is negotiable)
- f. bankers' acceptances
- g. shares of closed-end mutual funds (keyword here is closed-end)
- h. shares of unit investment trusts

2. Instruments or investments that are not securities include:

- a. investments made directly with another party (such as limited partnerships)
- b. real estate
- c. direct investments in mortgages and other loans
- d. investments in open-ended mutual funds (keyword here is open-ended)
- e. pools managed by other governments
- f. annuity contracts

**OTHER REPORT REQUIRED BY**

***GOVERNMENT AUDITING STANDARDS***

The following pages contain a report on internal control over financial reporting and on compliance with laws and regulations and on other matters as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control, compliance, or other matters that would be material to the presented financial statements.

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STEVE J. THERIOT, CPA  
LEGISLATIVE AUDITOR

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October 24, 2005

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*

**TOBACCO SETTLEMENT FINANCING CORPORATION**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

We have audited the financial statements of the debt service fund and the governmental activities of the Tobacco Settlement Financing Corporation (Corporation), a blended component unit of the State of Louisiana, as of and for the year ended June 30, 2005, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated October 24, 2005. We conducted our audit in accordance with 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Tobacco Settlement Financing Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

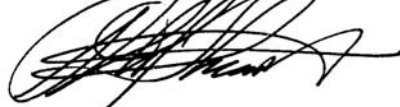
As part of obtaining reasonable assurance about whether the Tobacco Settlement Financing Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement

## TOBACCO SETTLEMENT FINANCING CORPORATION \_\_\_\_\_

amounts. 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Tobacco Settlement Financing Corporation and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Steve J. Theriot, CPA  
Legislative Auditor

KWT:JMR:THC:ss

[TSFC05]