



**STATE OF ILLINOIS
RAILSPITTER TOBACCO SETTLEMENT
AUTHORITY**

FINANCIAL AUDIT

For the Year Ended June 30, 2025

**Performed as Special Assistant Auditors
for the Auditor General, State of Illinois**



STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
FINANCIAL AUDIT
For the Year Ended June 30, 2025

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STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
FINANCIAL AUDIT
For the Year Ended June 30, 2025

AUTHORITY OFFICIALS

Chairman of the Board	Alexis Sturm
Chief Financial Officer	Paul Chatalas
Secretary	Alexander Smith

BOARD MEMBERS

Board Member (10/17/25 – Present)	Brad Fletcher
Board Member (2/10/25 – 10/16/25)	Vacant
Board Member (7/1/24 – 2/9/25)	Elizabeth Weber
Board Member	William O’Connell

AUTHORITY OFFICES

The Authority’s primary administrative offices are located at:

State of Illinois Building 555 W. Monroe Street, Suite 1500 S-GOMB Chicago, Illinois 60661	603 Stratton Office Building 401 South Spring St. Springfield, Illinois 62706
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STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
FINANCIAL AUDIT
For the Year Ended June 30, 2025

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Railsplitter Tobacco Settlement Authority (Authority) was performed by Sikich CPA LLC.

Based on their audit, the auditors expressed unmodified opinions on the Authority's basic financial statements.

EXIT CONFERENCE

The Authority waived an exit conference in a correspondence from Alexander Smith, Secretary of the Authority, on December 22, 2025.

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INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Governing Board
State of Illinois, Railsplitter Tobacco Settlement Authority

Report on the Audit of the Financial Statements

Opinions

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities and major fund of the State of Illinois, Railsplitter Tobacco Settlement Authority (Authority), as of and for the year ended June 30, 2025, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Authority, as of June 30, 2025, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Substantial Doubt About the Entity's Ability to Continue as a Going Concern

We draw attention to Note 7 in the financial statements, which indicates the Authority is statutorily set to terminate existence six months after all its liabilities have been met or otherwise discharged, which the Authority expects will occur upon the final payment of bonds upon redemption prior to maturity on June 1, 2026. These conditions raise substantial doubt about its ability to continue as a going concern. The financial statements have been prepared assuming the Authority will continue as a going concern. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and major fund of the State of Illinois that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of Illinois, as of June 30, 2025, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements of the Authority in an appropriate operational, economic, or historical context. Our opinions on the financial statements are not affected by this missing information.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises of the Authority officials page but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2026 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

Springfield, Illinois
January 7, 2026

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2025

(UNAUDITED)

The Management's Discussion and Analysis is designed to explain significant financial issues, provide an overview of the Authority's financial activity, identify changes in the Authority's financial position, and identify individual issues and concerns. This document should be read in conjunction with the basic financial statements.

The Authority was legally established on July 1, 2010.

FINANCIAL HIGHLIGHTS

Net Position

The Authority's total assets of governmental activities were \$127.9 million as of year-end. The Authority reported total cash and cash equivalents of \$3.5 million, and tobacco settlement receivables of \$124.4 million.

The Authority reported liabilities of \$124.4 million. This resulted in a net position of \$3.5 million at year-end.

The Authority does not conduct any business-type activities.

Revenues

The governmental activities revenues totaled \$238.4 million. This consisted of \$237.0 million of recognized tobacco settlement revenues and \$1.4 million in investment income.

Cost of Authority Program

The governmental activities expenses totaled \$237.1 million. Of this amount, \$234.5 million is the Tobacco Settlement Revenue distributions to the State. The Authority funded the required cash amounts of \$2.5 million per year into the sub-account held by the Trustee for the benefit of the Attorney General as required by the Indenture.

Major Fund – Railsplitter Tobacco Settlement Authority Governmental Fund

The revenues reported for the governmental fund (\$247.8 million) varied from revenues recognized for governmental activities (\$238.4 million). The difference between the amount recorded in the governmental fund and the amount reported in the government-wide Statement of Activities pertains to the change in revenue that was a deferred inflow in the fund because it was not collected in the availability period (TSRs receivable FY 2025 vs. FY 2024). At the fund level, expenditures totaled \$237.1 million. \$234.5 million was for residual tobacco settlement payments to the State. An additional \$2.5 million was for the Attorney General expenses as discussed above.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2025

(UNAUDITED)

OVERVIEW

The financial statements consist of two parts - management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include two types of statements that present different views of the Authority. The basic financial statements include notes to the financial statements that explain some of the information in the government-wide and fund financial statements and provide more detailed data.

Government-Wide Financial Statements

The government-wide financial statements are designed to emulate the corporate sector in that all government and business-type activities are consolidated into columns, which add to a total for the primary government. In the case of the Authority, there are currently no activities that are classified as business-type. The focus of the Statement of Net Position is designed to be similar to bottom line results for the Authority and its governmental-type activities. This statement combines and consolidates the governmental fund's current financial resources (short-term spendable resources) with long-term obligations using the accrual basis of accounting and economic resources measurement focus. This statement reports information on the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position.

The Statement of Activities is focused on both the gross and net cost of governmental activities, which are supported primarily by the tobacco settlement revenues. This Statement is intended to summarize and simplify the user's analysis of the cost of governmental services.

Fund Financial Statement

The Governmental Major Fund presentation is presented on a sources and uses of liquid resources basis. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Funds are established for various purposes and the Fund Financial Statement allows the demonstration of sources and uses and compliance associated therewith.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2025

(UNAUDITED)

GOVERNMENT-WIDE STATEMENTS

**Condensed Statement of Net Position
As of June 30, 2025 and 2024**

	Governmental Activities	Governmental Activities
	2025	2024
Current and other assets	\$ 127,881,771	\$ 138,358,630
Total assets	127,881,771	138,358,630
Current liabilities	124,408,890	136,232,648
Total liabilities	124,408,890	136,232,648
Net position:		
Unrestricted	\$ 3,472,881	\$ 2,125,982

Net position can be a useful indicator of a government's financial condition. As shown above, assets exceeded liabilities by \$3.5 million as of June 30, 2025, while assets exceeded liabilities by \$2.1 million as of June 30, 2024.

There are several transactions that will affect the comparability of the Statement of Net Position summary presentation for the Authority.

- 1) Net Results of Activities – which will impact (increase/decrease) current assets and unrestricted net position.
- 2) Borrowing of Capital – which will increase current assets and long-term debt.
- 3) Spending Borrowed Proceeds on New Capital – which will reduce current assets and increase noncurrent assets.
- 4) Principal Payment on Debt – which will reduce current assets and reduce long-term debt.
- 5) Reduction of Noncurrent Assets through Amortization – which will reduce deferred outflows of resources and unrestricted net position.

The increase in net position from 2024 to 2025 of \$1.3 million was the result of several factors. Total assets decreased by \$10.5 million. This decrease was primarily the result of a \$9.3 million decrease in tobacco settlement revenue receivables. The decrease in assets was exceeded by a \$11.8 million decrease in liabilities.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2025

(UNAUDITED)

The following table reports revenues and expenses for the current and prior year:

Condensed Statement of Activities
Year Ended June 30, 2025 and 2024

	Governmental Activities 2025	Governmental Activities 2024
Revenues		
Program revenues		
Tobacco settlement revenues	\$ 236,994,023	\$ 249,106,472
General revenue		
Investment income	1,438,957	3,946,979
Transfers In	-	344,770,995
Total revenue	<u>238,432,980</u>	<u>597,824,446</u>
Expenses		
Excess residual payments to State	234,494,023	331,516,128
Professional fees	92,058	189,504
Attorney General	2,500,000	2,500,000
Loss on defeasance of revenue bonds	-	3,602,366
Interest expenditures	-	2,684,688
Total expenses	<u>237,086,081</u>	<u>340,492,686</u>
Change in net position	1,346,899	257,331,760
Net position (deficit) - beginning	<u>2,125,982</u>	<u>(255,205,778)</u>
Net position (deficit) - ending	<u>\$ 3,472,881</u>	<u>\$ 2,125,982</u>

There are several impacts on revenues and expenses for the Authority as reflected below:

Revenues:

- 1) Changing Patterns in Tobacco Settlement Revenues - TSRs may experience significant changes periodically and are less predictable than many governmental revenues and often distort year-to-year comparisons.
- 2) Market Impacts on Investment Income - Market conditions may cause investment income to fluctuate.

Expenses:

- 3) Changing Patterns in Tobacco Settlement Revenues - Changes in TSRs will cause a corresponding change in the excess residual payments to the State.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2025

(UNAUDITED)

For the fiscal year ended June 30, 2025, revenues from governmental activities totaled \$238.4 million compared with \$597.8 million in the prior year, a decrease of \$359.4 million (60.1%). The decrease is primarily attributable to the absence of a transfer in from the State of Illinois which in the prior year \$344.8 million was used to defease the outstanding revenue bonds.

Total expenses for the year ended June 30, 2025 were \$237.1 million compared to \$340.5 million in the previous year. The \$103.4 million decrease (30.4%) is attributable to an decrease in excess residual payments to the State of \$97.0 million, and the absence of a loss on defeasance of revenue bonds.

FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS

Governmental Funds

The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Restricted fund balance represents amounts for which the Authority has little or no spending discretion, as external constraints limit how these funds may be used.

At June 30, 2025, the governmental fund reported an unassigned fund balance deficit of \$120.9 million compared to \$131.6 million in the previous year. The \$10.7 million decrease was due to a decrease of Tobacco Settlement Revenue receivables of \$9.3 million.

As there is a fund balance deficit, it is reported as unassigned.

Total revenues for the governmental fund for 2025 and 2024 were \$247.8 million and \$613.7 million, respectively, a decrease of \$365.9 million (59.6%). The decrease was primarily due to the absence of the \$344.8 million transfer in from the State of Illinois which was used for the defeasance of the outstanding revenue bonds. In addition, decreases were seen in tobacco settlement revenues of \$18.6 million and investment income of \$2.5 million.

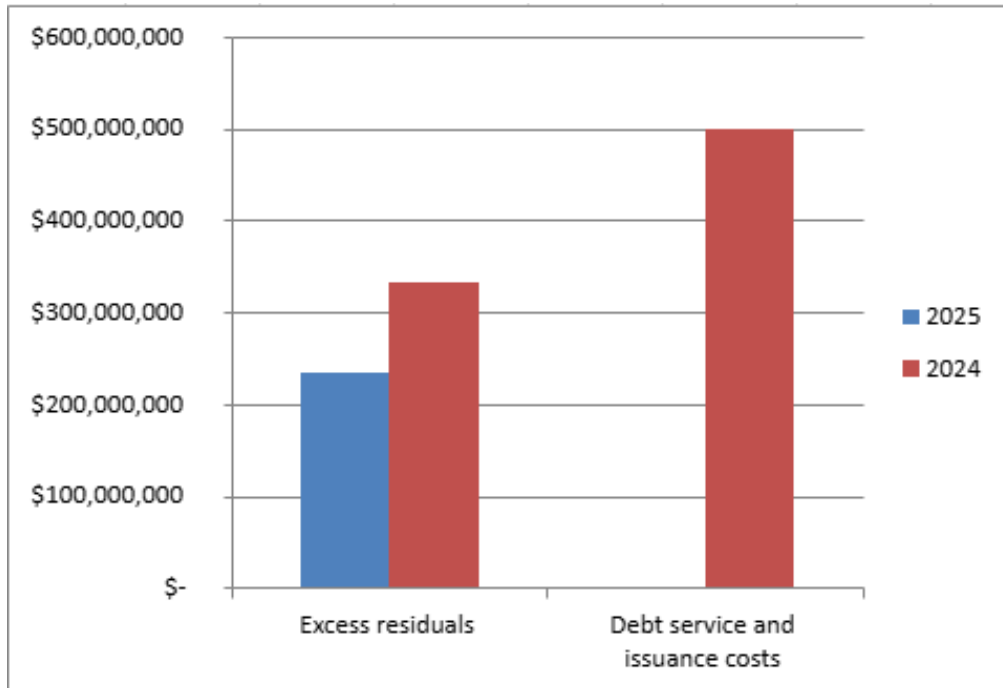
Total expenditures for the governmental fund for the years ended June 30, 2025 and 2024, were \$237.1 million and \$834.3 million, respectively. The \$597.2 million decrease (71.6%) was the result of the absence of the prior year's defeasance of the outstanding revenue bonds.

STATE OF ILLINOIS
RAILSPITTER TOBACCO SETTLEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2025

(UNAUDITED)

See the charts that follow.

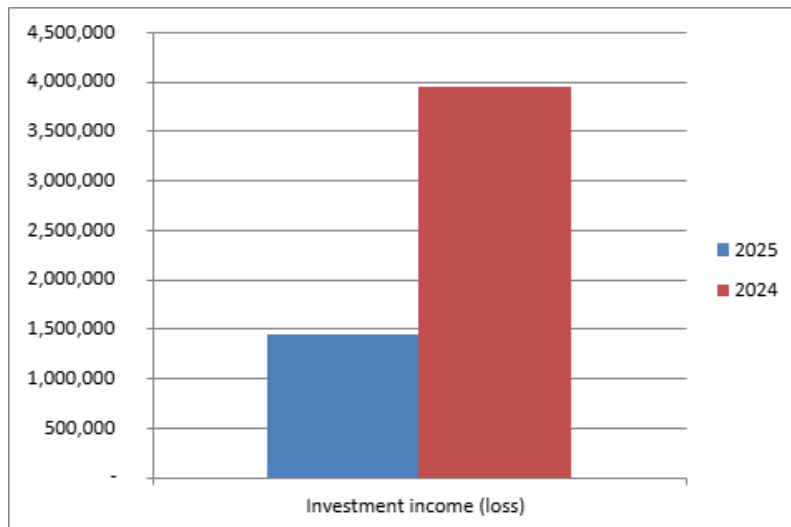
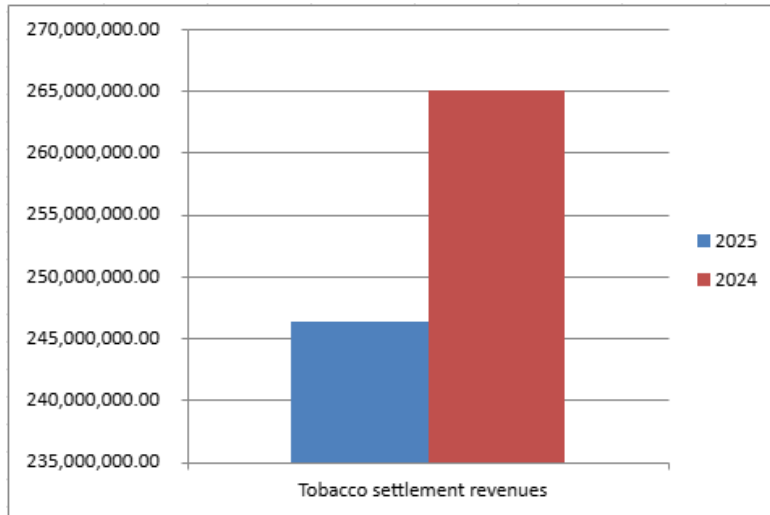
Major Expenditures - by Type (Governmental Fund)
Years Ended June 30, 2025 and 2024



STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2025

(UNAUDITED)

Revenues - by Type (Governmental Fund)
Years Ended June 30, 2025 and 2024



Economic Factors and a Look to the Future

The tobacco settlement revenues received in FY 2025 (cash received) of \$248.8 million was higher than the anticipated amount of \$186.3 million. On a cumulative basis, collections are \$853 million higher than the original estimate. The amount of TSRs received each year can fluctuate greatly and are difficult to predict.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2025

(UNAUDITED)

State of Illinois statute establishes dissolution of the Authority six months after all liabilities of the Authority have been met or otherwise discharged. Upon dissolution of the Authority, all rights and property of the Authority will pass to the State of Illinois.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Questions concerning this report may be directed to Paul Chatalas, 555 West Monroe Street, Chicago, Illinois 60661.

Railsplitter Tobacco Settlement Authority
(A Component Unit of the State of Illinois)

Statement of Net Position and Governmental Fund Balance Sheet
June 30, 2025

	Governmental Fund - RTSA	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents			
General account	\$ 3,109,778	\$ -	\$ 3,109,778
Operating sub-account	347,232	-	347,232
Attorney General sub-account	15,871	-	15,871
Total cash and cash equivalents	3,472,881	-	3,472,881
Receivables			
Tobacco settlement revenues (TSRs)	124,408,890	-	124,408,890
Total assets	127,881,771	-	127,881,771
Liabilities			
Current:			
Due to State - residual TSRs	124,408,890	-	124,408,890
Total current liabilities	124,408,890	-	124,408,890
Total liabilities	124,408,890	-	124,408,890
Deferred Inflow of Resources			
Deferred TSRs	124,408,890	(124,408,890)	-
Fund Balance/Net Position			
Fund balance - unassigned	(120,936,009)	120,936,009	-
Net position - unrestricted	-	3,472,881	3,472,881
Total fund balance/net position (deficit)	\$ (120,936,009)	\$ 124,408,890	\$ 3,472,881

See Notes to Financial Statements.

Railsplitter Tobacco Settlement Authority
(A Component Unit of the State of Illinois)

Reconciliation of the Governmental Fund Balance Sheet
to the Statement of Net Position
June 30, 2025

Total fund balance (deficit) -governmental fund	\$ (120,936,009)
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Amounts reported for governmental activities in the
Statement of Net Position are different because:

Revenues in the Statement of Activities that do not provide current financial resources are deferred inflows in the funds.	124,408,890
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Net position (deficit) of governmental activities	<u><u>\$ 3,472,881</u></u>
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See Notes to Financial Statements.

Railsplitter Tobacco Settlement Authority
(A Component Unit of the State of Illinois)

Statement of Activities and Governmental Revenues,
Expenditures and Changes in Fund Balance
Year Ended June 30, 2025

	Governmental		Statement of
	Fund - RTSA	Adjustments	Activities
Expenditures/expenses			
Excess residual payments to State	\$ 234,494,023	\$ -	\$ 234,494,023
Professional fees	92,058	-	92,058
Attorney General	2,500,000	-	2,500,000
Total expenditures/expenses	237,086,081	-	237,086,081
Program revenues			
Tobacco settlement revenues (TSRs)	246,317,781	(9,323,758)	236,994,023
Net program revenues (expenditures/expenses)	9,231,700	(9,323,758)	(92,058)
General revenues			
Investment income	1,438,957	-	1,438,957
Total general revenues	1,438,957	-	1,438,957
Change in fund balance/net assets	10,670,657	(9,323,758)	1,346,899
Net change in fund balance/net position	10,670,657	(9,323,758)	1,346,899
Fund balance/net position (deficit) July 1, 2024	(131,606,666)	133,732,648	2,125,982
Fund balance/net position (deficit) June 30, 2025	\$ (120,936,009)	\$ 124,408,890	\$ 3,472,881

See Notes to Financial Statements.

Railsplitter Tobacco Settlement Authority
(A Component Unit of the State of Illinois)

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balance - Governmental Fund to the Statement of Activities
Year Ended June 30, 2025

Net change in fund balances-total governmental fund	\$	10,670,657
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Amounts reported for governmental activities in the Statement of
Activities are different because:

Revenues in the Statement of Activities that do not provide current
financial resources are not reported as revenues in the funds.

In the fund financial statements, revenues are recorded when earned,
subject to availability. Under this basis of accounting, earned amounts
not received by August 31 of each year are removed from revenue and
reported as deferred inflows. The adjustment is the difference between
deferred inflows for FY 2024 and FY 2025 to reflect revenue on an earned
basis (accrual basis) in the Statement of Activities.

(9,323,758)

Change in net position of governmental activities	\$	1,346,899
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See Notes to Financial Statements.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2025

Note 1. Summary of Significant Accounting Policies

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

The Authority was established to sell revenue bonds, repayment of which is supported solely by future tobacco settlement revenues (TSRs) (pledged revenues). Rights to approximately \$4.1 billion of the State's TSRs were relinquished by the State of Illinois (State) to the Authority in exchange for a significant portion of the Series 2010 revenue bond proceeds (\$1.35 billion) and a residual certificate. The residual certificate represents the State's ownership in excess TSRs to be received by the Authority during the term of the Sales Agreement. Residual TSRs are defined as all pledged revenues that are in excess of amounts needed to fund the various accounts established under the Depositary Agreement (see Note 6). The Sales Agreement continues until the Authority's liabilities have been met or otherwise discharged. During fiscal year 2024, the Authority defeased the outstanding revenue bonds and carries no additional outstanding debt on the financial statements.

The Authority is governed by a three-member board consisting of the State's Budget Director and two other members appointed by the Governor. The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

Reporting Entity

Accounting principles generally accepted in the United States of America require the reporting entity to include (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that the exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on these criteria there are no potential component units which should be included with the Authority's financial statements; however, the Authority is considered to be a component unit of the State of Illinois. These financial statements are included in the State's annual comprehensive financial report.

Government-wide and Fund Financial Statements

Government-wide Financial Statements: The government-wide Statement of Net Position and Statement of Activities report the overall financial activity of the Authority. The financial activities of the Authority consist only of governmental activities, which are primarily supported by TSRs.

The Statement of Net Position presents the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported in three potential categories:

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2025

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds and other debt that are attributable to the acquisition, construction, or improvement of those assets, if any. The Authority does not report any capital assets as of June 30, 2025.

Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Unrestricted net position consists of net position that does not meet the criteria of the two preceding categories.

The Statement of Activities demonstrates the degree to which the direct expenses of the Authority are offset by program revenues. Direct expenses are those that are clearly identifiable with the Authority's principal function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs (including fines and fees), and (b) grants and contributions that are restricted to meeting the operational requirements of a particular program. Tobacco settlement revenues are considered program revenues because the Depositary Agreement restricts use of those revenues to debt repayment (including reserve requirements). Revenues that are not classified as program revenues, such as investment income, are presented as general revenues.

Fund Financial Statements: Separate financial statements are provided for the Authority's governmental fund.

Measurement Focus and Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. On an accrual basis, revenues from tobacco settlements are recognized when the Authority has a legal claim to the resources. Interest income is recorded as it is earned.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 2 months of the end of the fiscal year (availability period). Tobacco settlement revenues for the period of January 1, 2025 through June 30, 2025 have been estimated and accrued. These revenues will not be collected, however, within the availability period, and accordingly have been reported as deferred inflows of resources in the governmental fund.

Expenditures are recorded when the liability is incurred, as under accrual accounting.

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RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2025

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist solely of a money market fund that invests in U.S. Treasury securities only.

Deferred Inflows of Resources –TSRs

Deferred inflows of resources represent an acquisition of net position that applies to a future reporting period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

Fund Balance and Net Position

As of June 30, 2025, the governmental fund of the Authority reported a deficit fund balance of \$120.9 million that is unassigned. In the government-wide Statement of Net Position, the Authority has reported its net position of \$3.5 million as unrestricted.

Residual Tobacco Settlement Revenues

As part of the consideration for the sale to the Authority by the State of the pledged settlement payments, the Authority issued a residual certificate to the State. In accordance with the provisions of the Depositary Agreement, upon payment in full of the deposits required by the Depositary Agreement (see Note 6), the remaining balance of pledged revenues shall be transferred to the State as owner of the residual certificate. During the year ended June 30, 2025, \$246.3 million of residual revenues were paid to the State (cash basis amount). Of this, \$133.7 million pertained to FY 2024, and \$112.6 million pertained to FY 2025. An additional amount of \$124.4 million was recorded as a liability to the State as of year-end for FY 2025 estimated balances.

Expenditures/Expenses

The Authority's expenditures/expenses consist solely of excess residuals paid to the State, professional fees for audit and rating services and Attorney General expenses. The Authority has no employees and is not liable for any post-employment related employee obligations.

STATE OF ILLINOIS
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
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Note 2. Cash and Cash Equivalents

The Authority maintains various cash equivalent accounts, established in accordance with the Depositary Agreement for specific purposes. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All of the Authority's cash equivalents of \$3.5 million at June 30, 2025 were invested in a money market fund comprised of U.S. Treasury securities, reported at amortized cost rather than fair value.

Authorized Deposits and Investments

The Authority is permitted by the Public Funds Investment Act (30 ILCS 235) to engage in a wide variety of investment activities. These include:

- bonds, notes, certificates of indebtedness, treasury bills or other securities guaranteed by the United States Government;
- bonds, notes, debentures, or other similar obligations of the United States of America, its agencies and its instrumentalities;
- interest-bearing savings accounts, certificates of deposit, interest-bearing time deposits or any other investments that constitute direct obligations of any bank;
- short-term obligations of certain qualified United States Corporations;
- short-term discount obligations of the Federal National Mortgage Association;
- shares or other securities legally issued by certain state or federal savings and loans associations;
- insured dividend-bearing share accounts and certain other accounts of chartered credit unions;
- certain money market mutual funds;
- the Illinois funds investment pool;
- repurchase agreements that meet certain instrument and transactions requirements.

The Authority does not have a policy that further limits its permitted deposits and investments. The Authority adheres to the Public Funds Investment Act and has not adopted any additional policies addressing custodial risk, interest rate risk, credit risk, or concentration of credit risk.

Credit Risk

The Authority's money market investments were rated Aaa by Moody's as of June 30, 2025.

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Note 3. Receivables – Tobacco Settlement Revenues (TSRs)

The Master Settlement Agreement (MSA) is an industry-wide settlement of litigation between the settling states (including Illinois), and the tobacco product manufacturers (PMs), dated November 23, 1998. The settlement represents the resolution of a large potential financial liability of the PMs for smoking related injuries. Pursuant to the MSA, the settling states agreed to settle all their past, present, 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 others, making payments to the settling states, abiding by more stringent advertising restrictions, funding educational programs and more.

Under the MSA, annual payments are required each April 15th in perpetuity and are based on several factors, including the volume of domestic cigarette shipments during the previous calendar year.

The Authority received \$248.8 million in April 2025, under the MSA, pertaining to calendar year 2024. Of this amount, \$133.7 million was recorded as a receivable in FY 2024 and pertains to the period January 1, 2024 to June 30, 2024. Likewise, the Authority has accrued \$124.4 million in TSRs receivable for the period beginning January 1, 2025 and ending June 30, 2025. The amount accrued is considered earned but will not be received by the Authority until April 2026 and has been reported as a deferred inflow of resources in the governmental fund.

Note 4. Balances and Transactions with the State of Illinois - Related Party Transactions

Transactions and balances with the State of Illinois are as follows:

Due to State – residual TSRs – this liability represents the estimated amount that will be paid to the State upon receipt of the April 2026 TSRs that pertain to the period beginning January 1, 2025 through June 30, 2025 of \$124.4 million.

Note 5. Defeased Long-Term Obligations

On September 12, 2023, the Authority effectively defeased \$491,909,654 of outstanding revenue bond obligations and related unamortized premiums through the establishment of an irrevocable trust holding a portfolio of U.S. Treasury securities. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Authority's financial statements.

The Authority used \$344.8 million, appropriated by the Illinois General Assembly pursuant to Public Act 103-0006 for the defeasance, along with \$155.3 million from the Authority, to fund a defeasance escrow account held by an escrow agent who manages the defeased bonds.

As of June 30, 2025, \$232 million of defeased revenue bonds were outstanding. Funds held in the escrow account will pay the remaining debt service payments for the defeased bonds. The defeased bonds will be redeemed at, or prior to, their scheduled maturity dates in accordance with the Escrow Agreement. The maturity dates for the remaining outstanding defeased bonds are June 1st of 2026, 2027 and 2028. All remaining outstanding defeased bonds mature or are callable on June 1, 2026.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 6. Depositary Agreement

Upon defeasance of the Authority's outstanding revenue bond obligations, the existing Trust Indenture was terminated. On September 12, 2023, the Authority executed a depositary agreement with The Bank of New York Mellon Trust Company, N.A. as Depositary to collect the Tobacco Assets.

The depositary agreement establishes the Tobacco Assets Account with the following sub-accounts:

- (i) General Account
- (ii) Railsplitter Operating Account
- (iii) Attorney General Operating Account
- (iv) Residual Account

Application of Tobacco Assets

All Tobacco Assets received by the Depositary are required to be deposited in the General Account. On an annual basis, the Authority will determine the amount of operating expenses required for the Authority's operations and will provide the Depositary with the Annual Railsplitter Expense Amount. The Depositary will transfer the amounts on hand in the General Account as follows:

- (1) To the Railsplitter Operating Account until the amount of funds deposited into the Railsplitter Operating Account equals the Annual Railsplitter Expense Amount;
- (2) To the Attorney General Operating Account until the amount of funds deposited into the Attorney General Operating Account in said Settlement Year equals the Annual AG Expense Amount;
- (3) To the Residual Account, all Tobacco Assets remaining after making the deposits set forth in (1) and (2) above.

Note 7. Dissolution of the Authority

Authority management has evaluated whether conditions or events raise substantial doubt about the Authority's ability to continue within one year of the date these financial statements are issued. The Railsplitter Tobacco Settlement Authority Act (30 ILCS 171/3-4) provides that the Authority will dissolve 6 months after all liabilities of the Authority have been met or otherwise discharged. As stated in Note 5, all outstanding defeased debt of the Authority will mature or is callable on June 1, 2026. The Authority intends to call all unmatured debt on June 1, 2026. The Authority would be statutorily required to dissolve by December 1, 2026 or 6 months after any remaining liabilities are paid. All rights and property, which would include the remaining assets and operations, of the Authority would transfer to the State of Illinois and be vested in the State. Management is developing plans to address these matters.

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Note 8. Subsequent Events

The Authority is not aware of any additional facts, decisions, or conditions that might be expected to have a significant effect on the financial position or results of operations during this and future fiscal years.

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

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Governing Board
State of Illinois, Railsplitter Tobacco Settlement Authority

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the State of Illinois, Railsplitter Tobacco Settlement Authority (Authority), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and we have issued our report thereon dated January 7, 2026.

Report on Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and

corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the second paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

SIGNED ORIGINAL ON FILE

Springfield, Illinois
January 7, 2026