



**Homes and
Community Renewal**

2023

**Fiscal Year
Financial Statements**

Tobacco Settlement Financing Corporation

Tobacco Settlement Financing Corporation

Financial Statements

Fiscal Year Ended October 31, 2023

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RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Tobacco Settlement Financing Corporation (the “Corporation”), for the fiscal years ended October 31, 2023 and 2022, are the responsibility of management. The financial statements were prepared in accordance with U.S. generally accepted accounting principles.

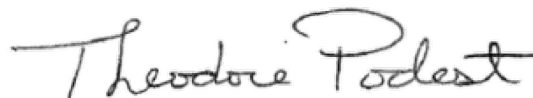
The Corporation maintains a system of internal control. The objectives of an internal control system are to provide reasonable assurance as to the protection of, and accountability for, assets; compliance with applicable laws and regulations; proper authorization and recording of transactions; and the reliability of financial records for preparing financial statements. The system of internal control is subject to periodic review by management and the internal audit staff.

The Corporation’s annual financial statements have been audited by Ernst & Young LLP, independent auditors appointed by the Members of the Corporation. Management has made available to Ernst & Young LLP all the financial records and related data of the Corporation and has provided access to all the minutes of the meetings of the Members of the Corporation. The independent auditors periodically meet with the Members of the Corporation to provide engagement related updates and communications.

The independent auditors conducted their audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that they plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. The audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control over financial reporting. Accordingly, the independent auditors do not express an opinion on the effectiveness of the Corporation’s internal control over financial reporting. The audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The independent auditors’ unmodified report expresses that the financial statements are presented, in all material respects, in accordance with U.S. generally accepted accounting principles.



RuthAnne Visnauskas
Commissioner/Chief Executive Officer



Ted Podest
SVP/Chief Financial Officer

January 31, 2024



Report of Independent Auditors

Management and Members of the Board
Tobacco Settlement Financing Corporation
New York, New York

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the governmental activities and each major fund of the Tobacco Settlement Financing Corporation (the Corporation), a component unit of the State of New York, as of and for the year ended October 31, 2023, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents (collectively referred to as the "financial statements").

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 each major fund of the Corporation at October 31, 2023, and the respective changes in financial position thereof 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 (*Government Auditing Standards*). 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 Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 of 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 Corporation's ability to continue as a going concern for 12 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 of 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 judgment 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 judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation'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 Corporation'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, as listed in the table of contents, 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 supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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.

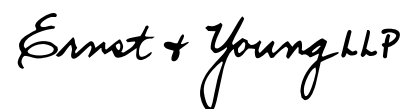
Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section 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 31, 2024 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 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 Corporation'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 Corporation's internal control over financial reporting and compliance.



January 31, 2024

TOBACCO SETTLEMENT FINANCING CORPORATION

A component unit of the State of New York

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEARS ENDED OCTOBER 31, 2023 AND 2022

Overview of the Financial Statements - The following is a narrative overview of the financial performance of the Tobacco Settlement Financing Corporation (the "Corporation") for the fiscal years ended October 31, 2023 ("fiscal 2023") and 2022 ("fiscal 2022"). It must be read in conjunction with the financial statements and the notes to the financial statements.

The annual financial statements consist of three parts: (1) management's discussion and analysis (this section); (2) the Corporation's basic financial statements; (3) the notes to the financial statements.

Management's Discussion and Analysis

- This section of the Corporation's financial statements, Management's Discussion and Analysis ("MD&A"), presents an overview of the Corporation's financial performance during fiscal 2023, compared to the fiscal 2022. The MD&A provides a discussion of financial highlights and an assessment of how the Corporation's position has changed from the past years. It also identifies the factors that, in management's view, significantly affected the Corporation's overall financial position. It may contain opinions, assumptions or conclusions made by the Corporation's management that should not be considered a replacement for and must be read in conjunction with the financial statements described below.

The Financial Statements

- The Statement of Net Position provides information about the liquidity and solvency of the Corporation by presenting the assets, liabilities and net position.
- The Statement of Activities accounts for all of the current year's revenues and expenses in order to measure the success of the Corporation's operations over the past year. It can be used to determine how the Corporation has funded its costs. By presenting the financial performance of the Corporation, the change in net position is similar to net profit or loss for a business.

The Notes to the Financial Statements

- The notes provide information that is essential to understanding the financial statements, such as the Corporation's accounting methods and policies;
- Details of contractual obligations, as well as future commitments and contingencies of the Corporation when applicable;
- Information regarding any other events or developing situations that could materially affect the Corporation's financial position.

Background

Pursuant to the Tobacco Settlement Financing Corporation Act (the "Act") of the State of New York (the "State"), the Corporation was created in 2003 as a subsidiary of the State of New York Municipal Bond Bank Agency (the "Agency"). By terms of its creation, the Corporation is treated and accounted for as a legal entity, separate from the State and the Agency, with separate corporate purposes. The Agency does not have financial accountability for the Corporation; accordingly, the Corporation is not a component unit of the Agency. Although legally separate from the State, the Corporation is a component unit of the State and, accordingly, is included in the State's financial statements.

In connection with the issuance of the Series 2003 A Bonds, the State sold to the Corporation, fifty percent (50%) of the State's Share of (i) the Annual Payments and Strategic Contribution Fund Payments and of all adjustments to prior payments, payable to the State pursuant to the Master Settlement Agreement ("MSA"), and received on and after January 1, 2004 and (ii) all Lump Sum Payments payable to the State pursuant to the MSA and received at any time on or after June 19, 2003.

In connection with the issuance of the Series 2003 B Bonds, the State sold to the Corporation, fifty percent (50%) of the State's Share of (i) the Annual Payments and Strategic Contribution Fund Payments and of all adjustments to prior payments, payable to the State pursuant to the MSA and received on and after January 1, 2004 and (ii) all Lump Sum Payments payable to the State pursuant to the MSA and received at any time on or after December 2, 2003.

All payments scheduled pursuant to the MSA are contracted to be received by the Corporation in perpetuity.

In June 2017, all outstanding bonds were redeemed.

MSA payments continue to be due annually to the Corporation. When bonds were outstanding, the MSA funds were used to pay debt service due on the Corporation's outstanding bonds, to pay administrative expenses and for certain arbitration expenses of the New York State Attorney General's Office.

As stated in the Purchase and Sale Agreement and the notes to the financial statements:

In connection with the issuance of the bonds by the Corporation, the Corporation and the State entered into agreements pursuant to which, among other things, at such time as the State may direct (but only after all bonds, notes and other obligations and financing arrangements issued or entered into by the Corporation under the Act are no longer outstanding in accordance with their terms and the terms of the documents pursuant to which such arrangements were entered into by the Corporation), the Corporation shall (1) pay, transfer, assign or otherwise convey to the State for deposit into such fund or account of the State as the law may require, all or any portion of the moneys of the Corporation, (ii) sell, transfer, assign and otherwise convey to the State the right to receive any remaining payments belonging to the Corporation under the MSA, and (iii) execute and deliver to the escrow agent under the MSA instructions to make all remaining payments to the State.

The right of the State to so direct the Corporation is embodied in certain “residual certificates” provided to the State by the Corporation, which represent the entitlement to deliver to the holder of the residual certificates (the State) any amounts remaining in any of the accounts established under the trust indenture to which the residual certificate applies, after making all deposits and payments set forth in the Indenture, and provided that there are no outstanding bonds and no obligations to make payments to any beneficiaries which are secured by the pledge of the indenture to which the residual certificate applies. See Note 3.

Until such time as the State shall direct the Corporation, as set forth above, Tobacco Settlement Revenues, pursuant to the MSA, will continue to be due to the Corporation.

Financial Highlights and Overall Analysis - Entity-Wide Financial Statements

Condensed Statements of Net Position

	Fiscal Year Ended		% Change 2023-2022
	October 31, 2023	October 31, 2022	
(In thousands)			
Assets:			
Assets	\$ 918,624	\$ 863,106	6.43%
Liabilities:			
Other liabilities	22	21	4.76%
Total liabilities	22	21	
Net Position:			
Unrestricted	918,602	863,085	6.43%
Total Net Position	\$ 918,602	\$ 863,085	

Significant Changes in Assets and Liabilities:

Assets

Assets which are primarily comprised of cash, cash equivalents and investments held increased from \$863.1 million in fiscal 2022 to \$918.6 million in fiscal 2023, an increase of approximately \$55.5 million, or 6.43%. The increase was a net result of revenues received, totaling approximately \$379.1 million, and interest earnings of approximately \$38.6 million, less funds transferred of approximately \$362.0 million.

Condensed Statements of Activities

	Fiscal Year Ended		% Change 2023-2022
	October 31, 2023	October 31, 2022	
(In thousands)			
Revenues:			
Tobacco Settlement Revenues	\$ 379,137	\$ 401,225	(5.51%)
Earnings (Losses) on investments	38,587	(698)	5628.22%
Settlement revenue resulting from investment agreement termination	9	13	(30.77%)
Total Revenues	417,733	400,540	
Expenses:			
General and Administrative Expenses	216	201	7.46%
Total Expenses	216	201	
Transfers to NYS	362,000	91	397702.20%
Total Change in Net Position	\$ 55,517	\$ 400,248	

Significant Changes in Revenues and Expenses:

Tobacco Settlement Revenues

Tobacco settlement revenues (“TSRs”) decreased from \$401.2 million in fiscal 2022 to \$379.1 million in fiscal 2023, a decrease of approximately \$22.1 million, or 5.5%.

TSRs consist primarily of the Pledged Settlement Payments sold by the State to the Corporation pursuant to the Purchase and Sale Agreement between the State and the Corporation. Pledged TSRs are contingent on tobacco sales and other factors, which cannot be predicted and therefore are only recognized when the payment is received by the Corporation.

As previously discussed, although all outstanding bonds were redeemed, until such time as the State shall direct the Corporation otherwise, TSRs, pursuant to the MSA, will continue to be due to the Corporation.

Earnings on Investments

Earnings on investments increased from (\$698) thousand in fiscal 2022 to \$38.6 million in fiscal 2023, an increase of approximately \$39.3 million. The increase in earnings in fiscal 2023 is primarily attributed to fluctuations in accrued interest, influenced by the amount of funds and the duration of investment, as well as the interest rates paid on such investments.

General and Administrative Expenses

General and Administrative expenses increased from \$201 thousand in fiscal 2022 to \$216 thousand in fiscal 2023, an increase of approximately \$15 thousand, or 7.5%. Expenses have increased in fiscal 2023 primarily as a result of the allocation of payroll expense, resulting from both new hires and salary increases within the Corporation's staffing.

Transfers to NYS

Pursuant to email request dated March 2, 2023 from the New York State Division of the Budget and in compliance with TSFC legislative law, the Corporation transferred TSRs which totaled \$362 million in fiscal 2023. These transfers occurred in March 2023. Future TSRs will be held by the Corporation until such time as designated by the State for transfer, or other disposition.

Tobacco Settlement Financing Corporation

(A Component Unit of the State of New York)

STATEMENTS OF NET POSITION AND GENERAL FUND

BALANCE SHEET

(Amounts in Thousands)

	Fiscal Year Ended
	October 31, 2023
Assets	
Cash and cash equivalents	\$ 5,962
Investments	912,587
Due from the State of New York Municipal Bond Bank Agency	75
Total assets	918,624
Liabilities	
Accounts payable	22
Total liabilities	22
Net Position/Fund Balance	
Unrestricted/Unassigned	\$ 918,602

See notes to financial statements.

Tobacco Settlement Financing Corporation

(A Component Unit of the State of New York)

STATEMENTS OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE

(Amounts in Thousands)

	<u>Fiscal Year Ended October 31, 2023</u>
Revenues	
Tobacco settlement revenue	\$ 379,137
Settlement revenue resulting from investment agreement termination	9
Earnings on investments	<u>38,587</u>
Total revenues	<u>417,733</u>
Expenses/Expenditures	
General and administrative expenses	<u>216</u>
Total expenses	<u>216</u>
Transfers to New York State	<u>362,000</u>
Change in net position/fund balance	<u>55,517</u>
Net position/fund balance, beginning of fiscal year	<u>863,085</u>
Net position/fund balance, end of fiscal year	<u><u>\$ 918,602</u></u>

See notes to financial statements.

Tobacco Settlement Financing Corporation
(A Component Unit of the State of New York)

Notes to Financial Statements

Fiscal Year Ended October 31, 2023

NOTE 1. Tobacco Settlement Financing Corporation

The Tobacco Settlement Financing Corporation (the "Corporation") is a public benefit corporation of the State of New York (the "State") created as a subsidiary of the State of New York Municipal Bond Bank Agency (the "Agency") and created pursuant to the Tobacco Settlement Financing Corporation Act (the "Act"), Part D3 of Chapter 62 of the Laws of the State of New York of 2003. By the terms of the Act, the Corporation shall be treated and accounted for as a legal entity separate from the State and the Agency with its separate corporate purposes set forth in the Act. The directors of the Agency are the members of the Corporation. The Corporation is governed by a seven-member board: the Chairman of the Agency, the Secretary of State, the Director of the Budget of the State, three directors appointed by the Governor of the State and the State Comptroller or his appointee. Although legally separate from the State, the Corporation is a component unit of the State and, accordingly, is included in the State's financial statements.

The Corporation does not have financial accountability to the Agency; accordingly, the Corporation is not a component unit of the Agency in accordance with the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 61, *The Financial Reporting Entity: Omnibus*. Therefore, the financial activities of the Corporation are not included in the Agency's financial statements.

NOTE 2. Summary of Significant Accounting Policies

A. Basis of Accounting

The entity-wide financial statements of the Corporation, which include the statement of net position and the statement of activities, are presented to display information about the reporting entity as a whole. The statement of net position and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

The Corporation's governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. They recognize revenue when it becomes both measurable and available to finance expenditures in the current fiscal period. Expenditures are recognized when the related liability is incurred, except for unmatured interest and principal which is recognized when due. The Corporation presents their financial statements in accordance with generally accepted accounting principles as promulgated by GASB.

B. The governmental fund consists of the General Fund. The General Fund accounts for all financial resources associated with the Corporation. Because the Corporation operates a

single governmental program, its government-wide and governmental fund financial statements have been combined using a columnal format that reconciles individual line items of the general fund financial data to government-wide data in a separate column on the face of the financial statements. As of October 31, 2023, there were no such reconciling items.

C. Cash and Cash Equivalents

All highly liquid investments with a maturity when purchased of 90 days or less are considered to be cash equivalents. Cash equivalents are stated at cost, which approximates fair value.

D. Investments

Investments are recorded at fair value.

E. Use of Net Position

When both restricted and unrestricted assets are available for a particular restricted use, it is the Corporation's policy to use restricted assets first, and then unrestricted as needed.

F. Tobacco Settlement Revenue

The amount of revenue recognized by the Corporation could be adversely impacted by certain third party litigation involving tobacco companies and others. Therefore, the Corporation cannot predict the actual amount of pledged settlement payments that it ultimately will receive. Therefore, since the receivable is not reasonably estimable, the Corporation recognizes tobacco settlement revenue when the payment is received.

G. Fund Balance/Net Position

The Corporation's "Fund Balance/Net Position" represents the excess of assets over liabilities and is reported as unrestricted.

NOTE 3. Tobacco Settlement Revenues

Pursuant to the Act and the Purchase and Sale Agreement, the State has sold to the Corporation 100% of the annual payments, strategic contribution payments and lump sum payments payable to the State (the "State's Share"), pursuant to the Master Settlement Agreement ("MSA"), less certain unsold payments which remain the property of the State. In connection with the issuance of the Series 2003 A Bonds, the State sold the Corporation fifty percent (50%) of the State's Share of (i) the annual payments and strategic contribution fund payments and of all adjustments to prior payments, payable to the State pursuant to the MSA and received on and after January 1, 2004 and (ii) all lump sum payments payable to the State pursuant to the MSA and received at any time on or after June 19, 2003.

In connection with the issuance of the Series 2003 B Bonds, the State sold the Corporation fifty percent (50%) of the State's Share of (i) the annual payments and strategic contribution fund payments and of all adjustments to prior payments, payable to the State pursuant to the MSA

and received on and after January 1, 2004 and (ii) all lump sum payments payable to the State pursuant to the MSA and received at any time on or after December 2, 2003.

The MSA (a) resolved cigarette smoking related litigation between the settling states and certain other jurisdictions and the Participating Manufacturers (“PMS”), (b) released the PMS from past and present smoking-related claims, and (c) provides for a continuing release of future smoking-related claims in exchange for certain payments to be made to the settling states and certain other jurisdictions and certain tobacco advertising and marketing restrictions, among other things. A decree was entered by the Supreme Court of the State allocating to the State a share of the Tobacco Settlement Revenue (“TSRs”) under the MSA.

The purchase price of the State's future right, title and interest to the payments sold to the Corporation were financed by the issuance of certain series of bonds of the Corporation and by the issuance of certain residual certificates in connection therewith. The residual certificates represent the entitlement to deliver to the holder of the residual certificates any amounts remaining in any of the accounts established under the trust indenture to which the residual certificate applies, after making all deposits and payments set forth in the Indenture, and provided that there are no outstanding bonds and no obligations to make payments to any beneficiaries which are secured by the pledge of the indenture to which the residual certificate applies.

The Purchase and Sale agreement between the State and the Corporation provides that the Corporation receives all TSRs until the state directs the Corporation to: (i) pay, transfer, assign or otherwise convey to the State for deposit into such fund or account of the State as the law may require, all or any portion of the moneys of the Corporation, (ii) sell, transfer, assign and otherwise convey to the State the right to receive any remaining payments belonging to the Corporation under the MSA, and (iii) execute and deliver to the escrow agent under the MSA inevitable instructions to make all remaining payments to the State. Until the State shall direct the Corporation, TSRs will continue to be due to the Corporation. As of October 31, 2023, the Corporation continues to hold funds in the amount of \$919 million received under the MSA. The Corporation is awaiting direction from the State as to the disposition of such funds.

NOTE 4. Service Agreement

The Corporation has an agreement with the Agency whereby the Agency provides managerial, administrative and financial services to the Corporation. Pursuant to this agreement, the Corporation was charged approximately \$216 thousand per Statement of Activities for various expenses including salaries, in the fiscal year. As of October 31, 2023, the Corporation has a due from the Agency of \$75 thousand, in accordance with the TSFC Service Agreement.

NOTE 5. Deposits and Investments

All of the Corporation's funds are held in trust accounts. All of the Corporation's investments that are securities are in registered form, and are held by agents of the Corporation or by the trustee in the Corporation's name. The agents or their custodians take possession of the securities. For the fiscal year ended October 31, 2023, all the Corporation funds were invested in accordance with the applicable policy (described below) or resolution. At October 31, 2023, deposits and investments (exclusive of accrued interest receivable) held by the trustee in the

Corporation's name amounted to \$919 million. There was no uncollateralized cash on deposit for the fiscal year ended October 31, 2023.

Credit Risk

The Corporation has a formal investment policy which is approved annually by the Corporation's board. The investment policy is in compliance with the New York State Comptroller's Investment Guidelines and governs the investment of all the Corporation's monies. These guidelines and policies are designed to protect principal by limiting credit risk. A summary of permitted investment policies and procedures is as follows:

- General obligations of, or obligations guaranteed by any state of the United States of America or political subdivision thereof, or the District of Columbia or any agency or instrumentality of any of them (excluding FNMA and FHLMC obligations as defeasance collateral);
- Certificates of deposit, savings accounts, demand and time deposits or other obligations or accounts of banks or trust companies in the State, secured as required by the Corporation;
- Obligations in which the State Comptroller is authorized to invest pursuant to Section 98 or 98-a of the State Finance Law;
- Commercial or finance company paper payable not more than 190 days after the date of issuance;
- Units of taxable money market funds which funds are regulated investment companies and seek to maintain a constant net asset value per share;
- Repurchase obligations, investment agreements or guaranteed investment contracts;
- Non-AMT Tax-Exempt obligation (Supplemental Account only).

There are minimum ratings requirements associated with the authorized investments described above.

Custodial Credit Risk

The Corporation manages custodial credit risk by limiting its investments to highly rated institutions and/ or requiring high quality collateral be held by the counterparty in the name of the Corporation.

Interest Rate Risk

Interest rate risk is minimal due to the short term duration of the Corporation's investments.

The Corporation had the following investments and maturities:

Values below are at fair value excluding accrued interest as of October 31, 2023:

Investment Type	Investment Maturities (In Years)		
	Fair Value	Less than 1	More than 1
	(\$ in Thousands)		
Money Market deposit accounts	\$ 652	\$ 652	\$ -
U.S. Treasury Bills	917,897	917,897	-
	918,549	918,549	-
Less: Amounts reported as cash equivalents	5,962	5,962	-
Total Investments	\$ 912,587	\$ 912,587	\$ -

NOTE 6. Fair Value Measurements

The Corporation categorizes its fair value measurements within the fair value hierarchy established by U.S. generally accepted accounting principles. The hierarchy is based on the evaluation 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.

As of October 31, 2023, US Treasury Bills held by the Corporation are measured at fair value at \$917.9 million and are within the Level 2 inputs category of fair value hierarchy. These financial instruments are valued using matrix pricing.

NOTE 7. Settlement Revenue from Investment Agreement Termination

In fiscal 2023, the amount totaled approximately \$9 thousand, was received in connection with the jointly administered Chapter 11 Plan of Lehman Brothers Holdings Inc. and its Affiliated Debtors as confirmed by the Bankruptcy Court on December 6, 2011. The amount received was in connection with (i) a Reserve Fund Agreement dated as of June 19, 2003 (the "June 2003 RFA") and (ii) a Reserve Fund Agreement dated as of December 2, 2003 (the "December 2003 RFA" and, together with the June 2003 RFA, collectively, the "RFAs"), each entered into among, inter alia, the Tobacco Settlement Financing Corporation ("TSFC") and Lehman Brothers Special Financing Inc. ("LBSF"). The obligations of LBSF under each RFA were guaranteed by Lehman Brothers Holdings Inc. ("LBHI" and, together with LBSF, collectively, "Lehman").

The RFAs served as investment vehicles through which TSFC invested certain reserve funds that served as a source of backup payment for debt service owed on its Bonds. The RFAs enabled TSFC to invest the reserve funds by purchasing qualifying securities from LBSF at purchase prices

that were set to ensure that TSFC received certain guaranteed rates of investment. Under the RFAs, LBSF would cause qualified dealers to deliver qualifying securities to Bank of New York, as trustee for the Corporation on specified deposit dates which occurred every 6 months. Following such delivery, the Trustee would immediately purchase such securities by paying the qualified dealer an aggregate purchase price as close as possible to, but not exceeding, certain scheduled reserve amount.

Subsequent to the Lehman bankruptcy filing, LBSF failed to deliver qualifying securities to the Trustee on both November 28, 2008 and May 29, 2009. Litigation ensued and the amounts received in fiscal 2023 represent a portion of the settlement for the lost interest earnings. The bankruptcy filings of Lehman had no impact on the principal amounts of the RFAs, which amounts remained unchanged from inception.



Report of Independent Auditors 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*

Management and Members of the Board
Tobacco Settlement Financing Corporation
New York, New York

We have audited, 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 (*Government Auditing Standards*), the financial statements of the Tobacco Settlement Financing Corporation (the Corporation), a component unit of the State of New York, which comprise the statement of net position and general fund balance sheet as of October 31, 2023, and the related statement of activities and general fund revenues, expenditures and change in fund balance for the year then ended, and the related notes (collectively referred to as the “financial statements”), and have issued our report thereon dated January 31, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation’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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

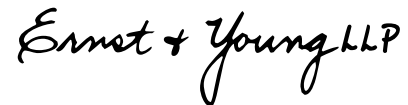
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of 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.



January 31, 2024



Homes and Community Renewal

Kathy Hochul, Governor

RuthAnne Visnauskas, Commissioner/CEO

Tobacco Settlement Financing Corporation

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