

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Tobacco Settlement Financing Corporation
State of Louisiana
Baton Rouge, Louisiana

October 29, 2003



Financial and Compliance Audit Division

LEGISLATIVE AUDIT ADVISORY COUNCIL

MEMBERS

Senator J. "Tom" Schedler, Chairman
Representative Edwin R. Murray, Vice Chairman

Senator Robert J. Barham
Senator Lynn B. Dean
Senator Jon D. Johnson
Senator Willie L. Mount
Representative Rick Farrar
Representative Victor T. Stelly
Representative T. Taylor Townsend
Representative Warren J. Triche, Jr.

DIRECTOR OF FINANCIAL AND COMPLIANCE AUDIT

Albert J. Robinson, Jr., CPA

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Sixteen copies of this public document were produced at an approximate cost of \$108.64. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.state.la.us.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Director of Administration, at 225/339-3800.

TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA
Baton Rouge, Louisiana

Basic Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended June 30, 2003

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.

October 29, 2003

**TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA**

Basic Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended June 30, 2003

CONTENTS

	Statement	Page No.
Independent Auditor's Report on the Financial Statements		2
Management's Discussion and Analysis		4
Basic Financial Statements:		
Statement of Net Assets	A	8
Statement of Revenues, Expenses, and Changes in Fund Net Assets	B	9
Statement of Cash Flows	C	10
Notes to the Financial Statements		11
	Exhibit	
Other Supplemental Financial Information - Annual Fiscal Report to the Office of the Governor, Division of Administration, Office of Statewide Reporting and Accounting Policy, as of and for the Year Ended June 30, 2003		
Other Report Required by <i>Government Auditing Standards</i> - Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Basic Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	A	
	Appendix	
Management's Corrective Action Plans and Responses to the Findings and Recommendations	A	



OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

October 6, 2003

Independent Auditor's Report
on the Financial Statements

TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying basic financial statements of the Tobacco Settlement Financing Corporation, a component unit of the State of Louisiana, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of management of the Tobacco Settlement Financing Corporation. Our responsibility is to express an opinion 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 financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Tobacco Settlement Financing Corporation as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 4 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The Tobacco Settlement Financing Corporation disclosed its disagreement with existing accounting principles for revenues in the financial highlights section of management's discussion and analysis. This information is not required or allowed by GASB.

As discussed in note 7 of the financial statements, the corporation discloses that much of the tobacco settlement revenues that will be received in the future are contingent on future sales of tobacco products and, under generally accepted accounting principles, such contingent amounts cannot be recognized as revenue. The note also states that it is management's contention that the existing guidance does not properly address the recognition issues and its

LEGISLATIVE AUDITOR

TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA
Audit Report, June 30, 2003

application results in a presentation that does not fairly reflect the position of the corporation. Under existing accounting standards, this amount is appropriately not accrued and reported.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2003, on our consideration of the Tobacco Settlement Financing Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. 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.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Grover C. Austin". The signature is fluid and cursive, with a large initial "G" and "A".

Grover C. Austin, CPA
First Assistant Legislative Auditor

RR:JR:THC:dl

[TSFC03]

**TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 period from July 1, 2002, to June 30, 2003. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The TSFC's net asset deficit decreased \$34,864,923 (or 3.45%).
- The operating revenues of the TSFC increased \$332,910 (or 0.32%).
- The operating expenses of the TSFC increased \$23,301,306 (or 50.59%).
- Transfers to the State of Louisiana decreased \$1,069,428,423 (or 99.99%).

The TSFC was formed in order 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 cannot be recognized as revenue, even if the resolution of the contingency is all but certain. However, it should be noted that the aforementioned GAAP guidance was promulgated before the tobacco litigation and MSA were contemplated, and therefore no GAAP guidance existed which addressed this specific scenario and the related recognition issues unique to this situation during its development. It is management's contention that the existing guidance does not properly address the recognition issues and its application results in a presentation that does not fairly reflect the position of the TSFC.

Management estimates that the amount of TSRs that will be collected over time is \$4,509,207,429; however, there are so many contingencies involved in the calculation of the specific amounts of TSRs due from the PMs that the estimate is not considered sufficient enough to be recorded as a receivable in these financial statements. If the receivable were recorded, the net assets of the TSFC would be zero because TSR collections and any other revenues of the TSFC in excess of the bonds payable and other obligations of the TSFC are owed to the State of Louisiana.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts: Management's Discussion and Analysis and the Financial Statements. The Financial Statements also include notes that provide more detail of the information included in the financial statements.

TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA
Management's Discussion and Analysis (Continued)

BASIC FINANCIAL STATEMENTS

The financial statements of the TSFC report information about the TSFC using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about the activities of the corporation.

The Statement of Net Assets (page 8) presents the current and long-term portions of assets and liabilities separately.

The Statement of Revenues, Expenses, and Changes in Fund Net Assets (page 9) presents information on how the TSFC's assets changed as a result of current period operations.

The Statement of Cash Flows (page 10) presents information on how the TSFC's cash changed as a result of current period activity.

The following presents condensed financial information on the operations of the TSFC:

Summary of Financial Position

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Current assets	\$224,984	\$174,984
Noncurrent assets	166,798,536	170,925,114
Total assets	<u>167,023,520</u>	<u>171,100,098</u>
Current liabilities	8,408,701	8,675,202
Long-term liabilities	1,135,345,000	1,174,020,000
Total liabilities	<u>1,143,753,701</u>	<u>1,182,695,202</u>
Restricted for debt service	138,103,352	141,915,634
Unrestricted	<u>(1,114,833,533)</u>	<u>(1,153,510,738)</u>
Total net assets (deficit)	<u><u>(\$976,730,181)</u></u>	<u><u>(\$1,011,595,104)</u></u>

TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA
Management's Discussion and Analysis (Continued)

**Summary of Revenues, Expenses,
and Changes in Net Assets**

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Operating revenues	\$104,310,303	\$103,977,393
Operating expenses	<u>(69,362,908)</u>	<u>(46,061,602)</u>
Operating income	34,947,395	57,915,791
Transfers to the State of Louisiana	<u>(82,472)</u>	<u>(1,069,510,895)</u>
Changes in net assets [increase (decrease)]	<u>\$34,864,923</u>	<u>(\$1,011,595,104)</u>

Summary of Cash Flows

Net cash provided by operating activities	\$37,267,054	\$64,618,659
Net cash provided (used) by noncapital financial activities	(38,715,552)	75,324,550
Net cash provided (used) by investing activities	<u>1,498,498</u>	<u>(139,768,225)</u>
Net increase in cash	50,000	174,984
Cash at beginning of year	<u>174,984</u>	<u>NONE</u>
Cash at end of year	<u>\$224,984</u>	<u>\$174,984</u>

BUDGET ANALYSIS

The TSFC did not have an approved budget for the fiscal year ended June 30, 2003.

LONG-TERM DEBT ACTIVITY

At June 30, 2003, the TSFC has \$1,135,345,000 in outstanding debt. The TSFC made bond payments totaling \$38,675,000 during the year ended June 30, 2003.

**TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA**
Management's Discussion and Analysis (Concluded)

**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.

**TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA**

**Statement of Net Assets
June 30, 2003**

ASSETS

Current Assets - cash (note 2)	<u>\$224,984</u>
Noncurrent Assets:	
Unamortized bond issue cost/discount	28,695,184
Restricted assets:	
Investments (note 3)	138,074,713
Interest receivable	<u>28,639</u>
Total noncurrent assets	<u>166,798,536</u>
Total Assets	<u>167,023,520</u>

LIABILITIES

Current Liabilities:	
Bank fees payable	6,409
Accounts payable - State of Louisiana	41,920
Accrued interest payable	<u>8,360,372</u>
Total current liabilities	<u>8,408,701</u>
Noncurrent Liabilities - bonds payable (note 4)	<u>1,135,345,000</u>
Total Liabilities	<u>1,143,753,701</u>

NET ASSETS (Deficit)

Restricted for debt service (note 5)	138,103,352
Unrestricted net assets (note 6)	<u>(1,114,833,533)</u>
TOTAL NET ASSETS (Deficit)	<u><u>(\$976,730,181)</u></u>

The accompanying notes are an integral part of this statement.

**TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA**

**Statement of Revenues, Expenses,
and Changes in Fund Net Assets
For the Year Ended June 30, 2003**

OPERATING REVENUES

Tobacco settlement revenues	\$99,289,727
Investment income	5,020,576
Total operating revenues	<u>104,310,303</u>

OPERATING EXPENSES

Bond interest expense	69,096,649
Amortization of bond issue cost	139,041
Bank fees	85,298
Professional services	41,920
Total operating expenses	<u>69,362,908</u>

OPERATING INCOME

34,947,395

TRANSFERS TO THE STATE OF LOUISIANA

(82,472)

CHANGE IN NET ASSETS

34,864,923

NET ASSETS (Deficit) AT BEGINNING OF YEAR

(1,011,595,104)

NET ASSETS (Deficit) AT END OF YEAR

(\$976,730,181)

The accompanying notes are an integral part of this statement.

**TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA**

**Statement of Cash Flows
For the Year Ended June 30, 2003**

Cash flows from operating activities:	
Cash received from tobacco settlement	\$99,289,727
Cash received from investment income	7,334,360
Cash paid for bond interest expense	(69,228,860)
Cash paid for bank fees	(86,253)
Cash paid for professional fees	(41,920)
Net cash provided by operating activities	<u>37,267,054</u>
Cash flows from noncapital financing activities:	
Principal payments made on bonds	(38,675,000)
Transfer to the State of Louisiana	(40,552)
Net cash flows provided by noncapital financing activities	<u>(38,715,552)</u>
Cash flows from investing activities:	
Purchase of investment securities	(496,584,538)
Proceeds from sale of investment securities	498,083,036
Net cash provided by investing activities	<u>1,498,498</u>
Net increase in cash	50,000
Cash at beginning of year	<u>174,984</u>
Cash at end of year	<u><u>\$224,984</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income	\$34,947,395
Adjustments to reconcile operating income to net cash provided by operating activities:	
Net decrease in fair value of investments	2,286,892
Amortization of bond discount	175,255
Amortization of bond issue cost	139,041
Changes in assets and liabilities:	
Decrease in interest receivable	26,892
(Decrease) in bank fees payable	(955)
(Decrease) in interest expense payable	(307,466)
Net cash provided by operating activities	<u><u>\$37,267,054</u></u>

The accompanying notes are an integral part of this statement.

**TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA**

Notes to the Financial Statements
As of and for the Year Ended June 30, 2003

INTRODUCTION

The Tobacco Settlement Financing 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 ten 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 his 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; and (vi) seven members appointed by the Governor from each of the seven congressional districts and one additional member appointed from the state. The State Treasurer serves as the secretary-treasurer of the corporation and the board. The Tobacco Settlement Financing Corporation is a component unit of the state and is included in the state's financial statements.

**TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

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. The corporation's board has not entered into a cooperative endeavor agreement and has not assigned any administrative functions to the staff of the Department of the Treasury.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

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

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The corporation is considered a component unit of the State of Louisiana because the state exercises oversight responsibility and has 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. The accompanying financial statements present information only as to the transactions of the Tobacco Settlement Financing Corporation, a component unit of the State of Louisiana. Annually, the State of Louisiana issues basic financial statements, which include the activity contained in the accompanying financial statements. Those basic financial statements are audited by the Louisiana Legislative Auditor.

C. BASIS OF ACCOUNTING

For financial reporting purposes, the corporation is treated as a special-purpose government engaged only in business-type activities. All activities of the corporation are accounted for within a single proprietary (enterprise) fund. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statement. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The financial statements of the corporation have been presented using the economic resources measurement focus and

TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

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.

D. BUDGET PRACTICES

The corporation did not have an approved budget as required by R.S. 39:99.6(C).

E. CASH AND INVESTMENTS

Cash consists of demand deposits. Investments consist of direct investments in commercial paper and mutual funds. Under state law, the Tobacco Settlement Financing 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.

F. RESTRICTED ASSETS

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

G. CAPITAL ASSETS

The corporation has no capital assets at June 30, 2003.

H. LONG-TERM OBLIGATIONS

Long-term obligations are reported at face value.

**TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

**I. COMPENSATED ABSENCES, PENSION
BENEFITS, AND POSTRETIREMENT
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.

J. NET ASSETS

Net assets comprise the various net earnings from operation, nonoperating revenues, expenses and contributions of capital. Net assets generally are classified in the following components:

Restricted net assets consist of 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.

K. ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. CASH

At June 30, 2003, the corporation has cash (book balances) totaling \$224,984, which is held in a demand deposit account. The board has \$100,000 in deposits (collected bank balances) that are secured from risk by federal deposit insurance (GASB Risk Category 1). The remaining \$124,984 is unsecured (GASB Risk Category 3).

3. INVESTMENTS

At June 30, 2003, investments of the corporation total \$138,074,713, as shown on Statement A. In accordance with GASB Codification Section 150.125, the various types of investments are listed and presented by category of credit risk assumed by the corporation. Category 3 represents investments unsecured and unregistered with securities held by the counterparty or by its trust department or agent but not in the corporation's name.

TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

A summary of corporation investments follows:

	Category			Reported Amount	Fair Value
	1	2	3		
Commercial paper			\$105,789,497	\$105,789,497	\$105,789,497
Mutual funds				32,285,216	32,285,216
Total investments	<u>NONE</u>	<u>NONE</u>	<u>\$105,789,497</u>	<u>\$138,074,713</u>	<u>\$138,074,713</u>

Investments are stated at fair value as required by GASB Statement Number 31. The corporation used quoted market values to determine the fair value of the investments.

The \$32,285,216 of mutual funds consists of investments in corporate notes, funding agreements, certificates of deposit, and bank obligations. These investments are not required to be classified as to category of credit risk by GASB Codification Section 150.126.

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	\$215,550,000
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>
	<u>\$1,135,345,000</u>

TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

The following is a summary of the long-term obligation transactions for the year ended June 30, 2003:

	Long-Term Debt Payable at July 1, 2002	Additions	Deductions	Long-Term Debt Payable at June 30, 2003
Tobacco Settlement Asset-Backed bonds:				
Series 2001A (Taxable) due May 15, 2025	\$254,225,000		(\$38,675,000)	\$215,550,000
Series 2001B (Tax Exempt) due May 15, 2030	230,390,000			230,390,000
Series 2001B (Tax Exempt) due May 15, 2039	689,405,000			689,405,000
	<u>\$1,174,020,000</u>	<u>NONE</u>	<u>(\$38,675,000)</u>	<u>\$1,135,345,000</u>
Total				

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 state's future receipts from the Master Settlement Agreement 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 Master Settlement Agreement. 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 the 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>\$1,202,770,000</u>

TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

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

Fiscal Year	Term Maturities		Sinking Fund Maturities		Turbo Maturities	
	Principal	Interest	Principal	Interest	Principal	Interest
2004		\$66,882,974		\$66,882,974	\$25,500,000	\$66,882,974
2005		66,882,974		66,882,974	28,145,000	65,261,174
2006		66,882,974		66,882,974	31,170,000	63,471,152
2007		66,882,974		66,882,974	34,390,000	61,488,740
2008		66,882,973		66,882,974	53,175,000	59,301,536
2009-2013		334,414,869		334,414,869	339,965,000	243,888,406
2014-2018		334,414,869	\$41,440,000	331,656,855	497,110,000	128,683,944
2019-2023		334,414,869	109,505,000	309,057,549	125,890,000	7,663,642
2024-2028	\$215,550,000	293,287,929	191,435,000	265,551,319		
2029-2033	230,390,000	227,855,619	294,070,000	200,579,881		
2034-2038		202,512,719	413,720,000	99,787,756		
2039	689,405,000	40,502,542	85,175,000	5,004,030		
Total	<u>\$1,135,345,000</u>	<u>\$2,101,818,285</u>	<u>\$1,135,345,000</u>	<u>\$1,880,467,129</u>	<u>\$1,135,345,000</u>	<u>\$696,641,568</u>

Term bond maturities represent the minimum amount of principal that the corporation must pay as of specific distribution dates in order 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 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.

Because of the uncertainty of the schedule of bond repayments, no current portion of bonds payable is recorded.

TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

5. RESTRICTED NET ASSETS

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

Assets restricted for debt service:	
Investments	\$138,074,713
Interest receivable	28,639
	<hr/>
Net assets restricted for debt service	<u>\$138,103,352</u>

6. UNRESTRICTED NET ASSETS (DEFICIT)

On November 7, 2001, the corporation issued \$1,202,770,000 in Tobacco Settlement Asset-Backed Bonds. During fiscal years ended June 30, 2002, and June 30, 2003, \$1,069,510,895 and \$82,472, respectively, 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, 2003, \$138,103,352 is restricted for debt service, resulting in a deficit for unrestricted net assets of \$1,114,833,533, as presented on Statement A.

7. TOBACCO SETTLEMENT REVENUES

Tobacco Settlement Revenues (TSRs) consist of the amounts to be received under the terms of a Master Settlement Agreement (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 have 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

TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

through April 15, 2017 (Strategic Contribution Payments). As of November 7, 2001, the PMs had made the first of the three required Initial Payments and the Annual Payments due April 15, 2000 and 2001, none of which the corporation has 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 which 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, and under generally accepted accounting principals (GAAP), such contingent amounts cannot be recognized as revenue, even if the resolution of the contingency is all but certain. However, it should be noted, that the aforementioned GAAP guidance was promulgated before the tobacco litigation and MSA were contemplated, and therefore no GAAP guidance existed which addressed this specific scenario and the related recognition issues unique to this situation during its development. It is management's contention that the existing guidance does not properly address the recognition issues and its application results in a presentation that does not fairly reflect the position of the corporation.

Management estimates that the amount of TSRs that will be collected over time is \$4,509,207,429; however, so many contingencies are involved in the calculation of the specific amounts of TSRs due from the PMs that the estimate is not considered sufficient enough to be recorded as a receivable in these financial statements. If the receivable were recorded, the net assets of the corporation would be zero because TSR collections and any other corporation revenues in excess of the bonds payable and other obligations of the corporation are owed to the State of Louisiana.

8. 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.

TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA
Notes to the Financial Statements (Concluded)

9. 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 of the 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.

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, 2003, 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.

**TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA
OTHER SUPPLEMENTAL INFORMATION
As of and for the Year Ended June 30, 2003**

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

The following supplemental information presents the financial position of the Tobacco Settlement Financing Corporation as of June 30, 2003, 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.

Tobacco Settlement Financing Corporation
STATE OF LOUISIANA
Annual Financial Statements
June 30, 2003

C O N T E N T S

TRANSMITTAL LETTER
AFFIDAVIT

Statements

MD&A

Balance Sheet	A
Statement of Revenues, Expenses, and Changes in Fund Net Assets	B
Statement of Activities	C
Statement of Cash Flows	D

Notes to the Financial Statements

A.	Summary of Significant Accounting Policies
B.	Budgetary Accounting
C.	Deposits with Financial Institutions and Investments
D.	Capital Assets
E.	Inventories
F.	Restricted Assets
G.	Leave
H.	Retirement System
I.	Post Retirement Health Care and Life Insurance Benefits
J.	Leases
K.	Long-Term Liabilities
L.	Litigation
M.	Related Party Transactions
N.	Accounting Changes
O.	In-Kind Contributions
P.	Defeased Issues
Q.	Cooperative Endeavors
R.	Government-Mandated Nonexchange Transactions (Grants)
S.	Violations of Finance-Related Legal or Contractual Provisions
T.	Short-Term Debt
U.	Disaggregation of Receivable Balances
V.	Disaggregation of Payable Balances
W.	Subsequent Events
X.	Segment Information
Y.	Due to/Due from and Transfers
Z.	Liabilities Payable from Restricted Assets
AA.	Prior-Year Restatement of Net Assets

Schedules

1	Schedule of Per Diem Paid Board Members
2	Schedule of State Funding
3	Schedules of Long-Term Debt
4	Schedules of Long-Term Debt Amortization
15	Schedule of Comparison Figures

STATE OF LOUISIANA
Annual Financial Statements
Fiscal Year Ending June 30, 2003

Tobacco Settlement Financing Corporation

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

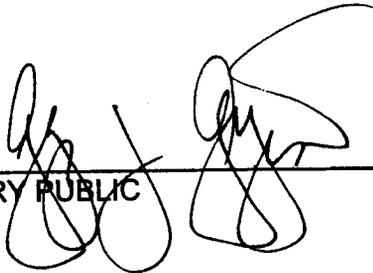
Legislative Auditor
P. O. Box 94397
Baton Rouge, Louisiana 70804-9397

AFFIDAVIT

Personally came and appeared before the undersigned authority, Mark C. Drennen (Name)
(Title) of Tobacco Settlement Financing Corporation who duly sworn, deposes and says, that the financial
statements herewith given present fairly the financial position of
Tobacco Settlement Financing Corporation at June 30, 2003 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 29th day
of September, 20 03.



Signature of Agency Official



NOTARY PUBLIC

Prepared by: _____

Title: Provost, Salter, Harper, and Alford LLC, Certified Public Accountants

Telephone No.: 225-924-1772

Date: _____

**STATE OF LOUISIANA
TOBACCO SETTLEMENT FINANCING CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE, 2003**

The Management's Discussion and Analysis of the Tobacco Settlement Financing Corporation's (BTA) financial performance presents a narrative overview and analysis of Tobacco Settlement Financing Corporation's (BTA) financial activities for the year ended June 30, 2003. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the additional information contained in the transmittal letter presented on pages ___ - ___ and the Tobacco Settlement Financing Corporation's (BTA) financial statements, which begin on page ____.

FINANCIAL HIGHLIGHTS

- ★ The Tobacco Settlement Financing Corporation's (BTA) liabilities exceeded its assets at the close of fiscal year 2003 by \$976,730,183 which represents a 3.45% decrease from last fiscal year.
- ★ The Tobacco Settlement Financing Corporation's (BTA) operating revenue increased \$332,910 (or .32%).
- ★ The Tobacco Settlement Financing Corporation's (BTA) operating expenses increased \$23,301,308 (or 50.58%).
- ★ The Tobacco Settlement Financing Corporation's (BTA) transfers to the State of Louisiana decreased \$1,069,428,423 (or 99.99%)

The Tobacco Settlement Financing Corporation (TSFC) was formed in order 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 principals (GAAP), such contingent amounts cannot be recognized as revenue, even if the resolution of the contingency is all but certain.

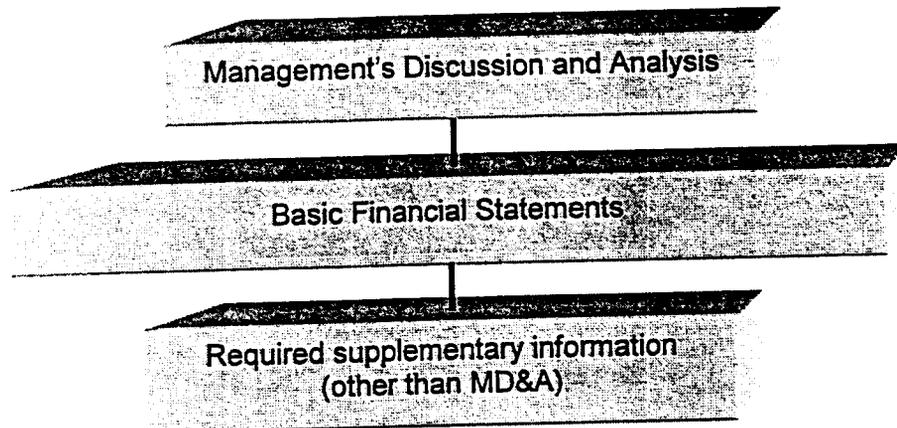
Much of the TSR's represent a portion of future sales of tobacco products, and under generally accepted accounting principals (GAAP), such contingent amounts cannot be recognized as revenue, even if the resolution of the contingency is all but certain. However, it should be noted, that the aforementioned GAAP guidance was promulgated before the tobacco litigation and MSA were contemplated, and therefore no GAAP guidance existed which addressed this specific scenario and the related recognition issues unique to this situation during its development. It is Management's contention that the existing guidance does not properly address the recognition issues and its application results in a presentation that does not fairly reflect the position of the TSFC.

Management estimates that the amount of TSRs that will be collected over time is \$4,509,207,431, however, there are so many contingencies involved in the calculation of the specific amounts of TSRs due from the PMs, that the estimate is not considered sufficient enough to be recorded as a receivable in these financial statements. If the receivable were recorded, the net assets of the TSFC would be zero because TSR collections and any other revenues of the TSCF in excess of the bonds payable and other obligations of the TSFC are owed to the State of Louisiana.

STATE OF LOUISIANA
TOBACCO SETTLEMENT FINANCING CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE, 2003

OVERVIEW OF THE FINANCIAL STATEMENTS

The following graphic illustrates the minimum requirements for Special Purpose Governments Engaged in Business-Type Activities established by Governmental Accounting Standards Board Statement 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.



These financial statements consist of three sections - Management's Discussion and Analysis (this section), the basic financial statements (including the notes to the financial statements), and required supplementary information.

Basic Financial Statements

The basic financial statements present information for the Tobacco Settlement Financing Corporation (BTA) as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Balance sheet; the Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Statement of Cash Flows.

The Balance sheet (pages __ - __) presents the current and long term portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the financial position of the Tobacco Settlement Financing Corporation (BTA) is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Fund Net Assets (pages __ - __) presents information showing how Tobacco Settlement Financing Corporation's (BTA) assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

**STATE OF LOUISIANA
TOBACCO SETTLEMENT FINANCING CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE, 2003**

The Cash Flow Statement (pages __ - __) presents information showing how Tobacco Settlement Financing Corporation's (BTA) cash changed as a result of current year operations. The cash flow statement is prepared using the direct method and includes the reconciliation of operating income(loss) to net cash provided(used) by operating activities (indirect method) as required by GASB 34.

FINANCIAL ANALYSIS OF THE ENTITY

	Total	
	2003	2002
Current and other assets	\$ 225	\$ 175
Capital assets		
Total assets	225	175
Other liabilities	8,409	8,675
Long-term debt outstanding	1,135,345	1,174,020
Total liabilities	1,143,754	1,182,695
Net assets (deficit):		
Invested in capital assets, net of debt		
Restricted	138,103	141,915
Unrestricted	(1,114,833)	(1,153,510)
Total net assets (deficit)	\$ (976,730)	\$ (1,011,595)

Restricted net assets represent resources set aside for the purpose of funding debt service payments in accordance with bond resolutions. Conversely, unrestricted net assets are those that do not have any limitations on what these amounts may be used for.

The net assets (deficit) of the Tobacco Settlement Financing Corporation (BTA) decreased by \$34,864,321, or 3.45%, from June 30, 2002 to June 30, 2003. One of the major causes of this decrease was the retirement of \$38,675,000 of bonds payable during the period.

STATE OF LOUISIANA
 TOBACCO SETTLEMENT FINANCING CORPORATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 AS OF JUNE, 2003

Statement of Revenues, Expenses, and Changes in Fund Net Assets
 for the years ended June 30, 2003
 (in thousands)

	Total	
	2003	2002
Operating revenues	\$ 104,310	\$ 103,977
Operating expenses	(69,363)	(46,061)
Operating income(loss)	34,947	57,916
Non-operating revenues(expenses)		
Income(loss) before transfers	34,947	57,916
Transfers in		
Transfers out	(82)	(1,069,511)
Net increase(decrease) in net assets	\$ 34,865	\$ (1,011,595)

The Tobacco Settlement Financing Corporation's (BTA) total revenues increased by \$ 332,910 or less than 1%. Operating expenses increased by \$23,301,308 or 50.58%. The increase in operating expenses is due to the fact that the bonds payable were outstanding for the entire year versus eight months during the preceding period generating an increase in interest expense.

DEBT ADMINISTRATION

Debt

The Tobacco Settlement Financing Corporation (BTA) had \$ 1,135,345,000 in bonds and notes outstanding at year-end, compared to \$1,174,020,000 last year, a decrease of 3.29% as shown in the table below.

Outstanding Debt at Year-end (in thousands)		
	2003	2002
General Obligation Bonds	\$	\$
Revenue Bonds and Notes	1,135,345	1,174,020
Totals \$	1,135,345	\$ 1,174,020

**STATE OF LOUISIANA
TOBACCO SETTLEMENT FINANCING CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE, 2003**

VARIATIONS BETWEEN ORIGINAL AND FINAL BUDGETS

The TSFC does not have an approved budget therefore no budgetary comparison schedule is presented.

**CONTACTING THE TOBACCO SETTLEMENT FINANCING CORPORATIONS'S (BTA)
MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Tobacco Settlement Financing Corporation's (BTA) finances and to show the Tobacco Settlement Financing Corporation's (BTA) accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Tobacco Settlement Financing Corporation, P O Box 44154 Baton Rouge LA 70804.

**STATE OF LOUISIANA
TOBACCO SETTLEMENT FINANCING CORPORATION (BTA)
BALANCE SHEET
AS OF JUNE 30, 2003**

ASSETS

CURRENT ASSETS:

Cash and cash equivalents (Note C1)	\$	<u>224,984</u>
Investments (Note C2)		
Receivables (net of allowance for doubtful accounts)(Note U)		
Due from other funds (Note Y)		
Due from federal government		
Inventories		
Prepayments		
Notes receivable		
Other current assets		
Total current assets		<u>224,984</u>

NONCURRENT ASSETS:

Restricted assets (Note F):		
Cash		<u>138,074,713</u>
Investments		<u>28,639</u>
Receivables		
Notes receivable		
Capital assets (net of depreciation)(Note D)		
Land		
Buildings and improvements		
Machinery and equipment		
Infrastructure		
Construction in progress		<u>28,695,184</u>
Other noncurrent assets		<u>166,798,536</u>
Total noncurrent assets	\$	<u>167,023,520</u>
Total assets		

LIABILITIES

CURRENT LIABILITIES:

Accounts payable and accruals (Note V)	\$	<u>48,331</u>
Due to other funds (Note Y)		
Due to federal government		
Deferred revenues		
Amounts held in custody for others		
Other current liabilities		<u>8,360,372</u>
Current portion of long-term liabilities:		
Contracts payable		
Reimbursement contracts payable		
Compensated absences payable (Note K)		
Capital lease obligations - (Note J)		
Notes payable		
Liabilities payable from restricted assets (Note Z)		
Bonds payable		
Other long-term liabilities		<u>8,408,703</u>
Total current liabilities		

NON-CURRENT LIABILITIES:

Contracts payable		
Reimbursement contracts payable		
Compensated absences payable (Note K)		
Capital lease obligations (Note J)		
Notes payable		
Liabilities payable from restricted assets (Note Z)		<u>1,135,345,000</u>
Bonds payable		
Other long-term liabilities		<u>1,135,345,000</u>
Total long-term liabilities		<u>1,143,753,703</u>
Total liabilities		

NET ASSETS

Invested in capital assets, net of related debt		
Restricted for:		
Capital projects		<u>138,103,352</u>
Debt service		
Unemployment compensation		
Other specific purposes		<u>(1,114,833,535)</u>
Unrestricted		<u>(976,730,183)</u>
Total net assets	\$	<u>167,023,520</u>
Total liabilities and net assets		

The accompanying notes are an integral part of this financial statement.

**STATE OF LOUISIANA
 TOBACCO SETTLEMENT FINANCING CORPORATION (BTA)
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2003**

OPERATING REVENUES	
Sales of commodities and services	\$ _____
Assessments	_____
Use of money and property	5,020,576
Licenses, permits, and fees	_____
Tobacco settlement revenue	99,289,727
Other	_____
Total operating revenues	104,310,303
OPERATING EXPENSES	
Cost of sales and services	_____
Administrative	69,223,869
Depreciation	_____
Amortization	139,041
Total operating expenses	69,362,910
Operating income(loss)	34,947,393
NON-OPERATING REVENUES(EXPENSES)	
State appropriations	_____
Intergovernmental revenues (expenses)	_____
Taxes	_____
Use of money and property	_____
Gain (loss) on disposal of fixed assets	_____
Federal grants	_____
Interest expense	_____
Other	_____
Total non-operating revenues(expenses)	0
Income(loss) before contributions and transfers	34,947,393
Capital contributions	
Transfers in	
Transfers out	(82,472)
Change in net assets	34,864,921
Total net assets – beginning as restated	(1,011,595,104)
Total net assets – ending	\$ (976,730,183)

The accompanying notes are an integral part of this financial statement.

Statement B

**STATE OF LOUISIANA
TOBACCO SETTLEMENT FINANCING CORPORATION (BTA)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	
Component Unit:				
Component Unit X	\$ 69,362,910	\$	\$	\$ (69,362,910)
General revenues:				
Taxes				
State appropriations				
Grants and contributions not restricted to specific programs				5,020,576
Interest				99,289,727
Tobacco settlement revenues				
Miscellaneous				
Special items				(82,472)
Transfers				104,227,831
Total general revenues, special items, and transfers				34,864,921
Change in net assets				(1,011,595,104)
Net assets - beginning				\$ (976,730,183)
Net assets - ending				

The accompanying notes are an integral part of this financial statement.

**STATE OF LOUISIANA
TOBACCO SETTLEMENT FINANCING CORPORATION (BTA)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED) JUNE 30, 2003**

Cash flows from operating activities		
Cash received from customers	\$	
Cash payments to suppliers for goods and services		(128,173)
Cash payments to employees for services		
Payments in lieu of taxes		
Internal activity-payments to other funds		
Claims paid to outsiders		
Other operating revenues(expenses)		37,395,227
Net cash provided(used) by operating activities		37,267,054
Cash flows from non-capital financing activities		
State appropriations		
Proceeds from sale of bonds		
Principal paid on bonds		(38,675,000)
Interest paid on bond maturities		
Proceeds from issuance of notes payable		
Principal paid on notes payable		
Interest paid on notes payable		
Operating grants received		
Other		
Transfers In		
Transfers Out		(40,552)
Net cash provided(used) by non-capital financing activities		(38,715,552)
Cash flows from capital and related financing		
Proceeds from sale of bonds		
Principal paid on bonds		
Interest paid on bond maturities		
Proceeds from issuance of notes payable		
Principal paid on notes payable		
Interest paid on notes payable		
Acquisition/construction of capital assets		
Proceeds from sale of capital assets		
Capital contributions		
Other		
Net cash provided(used) by capital and related financing activities		0
Cash flows from investing activities		
Purchases of investment securities		(496,584,538)
Proceeds from sale of investment securities		498,083,036
Interest and dividends earned on investment securities		
Net cash provided(used) by investing activities		1,498,498
Net increase(decrease) in cash and cash equivalents		50,000
Cash and cash equivalents at beginning of year		174,984
Cash and cash equivalents at end of year	\$	224,984

The accompanying notes are an integral part of this statement.

INTRODUCTION

The Tobacco Settlement Financing Corporation (BTA) was created by the Louisiana State Legislature under the provisions of Louisiana Revised Statutes 39:99.1 through 39:99.20. The following is a brief description of the operations of the Tobacco Settlement Financing Corporation (BTA) which includes the parish/parishes in which the (BTA) is located:

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 Net Assets, Revenues Expenses and Changes in Fund Net Assets, Activities and Cash Flows present information only as to the transactions of the programs of the Tobacco Settlement Financing Corporation as authorized by Louisiana statutes and administrative regulations. 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 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 as follows:

Revenue Recognition

Revenues are recognized using the full accrual basis of accounting; therefore, revenues are recognized in the accounting period in which they are earned and become measurable.

Expense Recognition

Expenses are recognized on the accrual basis; therefore, expenses, including salaries, are recognized in the period incurred, if measurable.

B. BUDGETARY ACCOUNTING N/A

The appropriations made for the operations of the various programs of the _____ (BTA) are annual lapsing appropriations.

1. The budgetary process is an annual appropriation valid for one year.
2. The agency is prohibited by statute from over expending the categories established in the budget.
3. Budget revisions are granted by the Joint Legislative Budget Committee, a committee of the Louisiana Legislature. Interim emergency appropriations may be granted by the Interim Emergency Board.
4. The budgetary information included in the financial statements include the original appropriation plus subsequent amendments as follows:

STATE OF LOUISIANA
Tobacco Settlement Financing Corporation (BTA)
Notes to the Financial Statement
As of and for the year ended June 30, 2003

APPROPRIATIONS

Original approved budget	\$ _____
Amendments:	_____

Final approved budget	\$ _____ 0

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. Under state law the tobacco Settlement Financing Corporation (BTA) may deposit funds within a fiscal agent bank selected and designated by the Interim Emergency Board. Further, the (BTA) may invest in time certificates of deposit of state banks organized under the laws of Louisiana, national banks having their principal office in the state of Louisiana, in 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.

For the purpose of the Statement of Cash Flows, all highly liquid investments (including restricted assets with a maturity of three months or less when purchased) are considered to be cash equivalents.

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. The deposits at June 30, 2003, were secured as follows:

	Deposits in bank accounts			
	Cash	Certificates of Deposit	Other (Describe)	Total
Deposits in bank accounts per balance sheet	\$ 224,984	\$ _____	\$ _____	\$ 224,984
Bank balances:				
1. Insured or collateralized with securities held by the entity or its agency in the entity's name	100,000			100,000
2. Collateralized with securities held by the pledging institution's trust department or agent in the entity's name				0
3. Uncollateralized, including any securities held for the entity but not in the entity's name	124,984			124,984
Total bank balances	\$ 224,984	\$ 0	\$ 0	\$ 224,984

NOTE: The "Total Bank Balances" will not necessarily equal the "Deposits in Bank Account per Balance Sheet".

**STATE OF LOUISIANA
Tobacco Settlement Financing Corporation (BTA)
Notes to the Financial Statement
As of and for the year ended June 30, 2003**

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

	<u>Banking institution</u>	<u>Program</u>	<u>Amount</u>
1.	Bank One	None	\$ 224,984
2.			
3.			
4.			
	Total		\$ 224,984

Were uncollateralized securities fitting the description in (3) above during the year significantly greater than at June 30, 2003? **NO** If yes, attach a statement listing the amount(s) and a reason for this occurrence.

Cash in State Treasury and petty cash are not required to be reported in the note disclosure. However, to aid in reconciling amounts reported on the balance sheet to amounts reported this note, list below any cash in treasury and petty cash that are included on the balance sheet.

Cash in State Treasury \$ _____
Petty cash \$ _____

2. INVESTMENTS

Upon implementation of GASB Statement 31, reported amount and fair value will often be the same number.

The Tobacco Settlement Financing Corporation (BTA) does (does not) maintain investment accounts as authorized by R.S 39:99.6(E).

Investments can be classified according to the level of risk to the entity. Using the following categories, list each type of investment disclosing the carrying amount, market value, and applicable category of risk.

Category 1 - Insured or registered in the entity's name, or securities held by the entity or its agent in the entity's name.

Category 2 - Uninsured and unregistered with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 - Unsecured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

**STATE OF LOUISIANA
Tobacco Settlement Financing Corporation (BTA)
Notes to the Financial Statement**

As of and for the year ended June 30, 2003

Type of Investment	Category of Risk			Reported Amount	Fair Value
	1	2	3		
Repurchase agreements	\$	\$	\$	\$ 0	\$
U.S. Government securities				0	
Common & preferred stock				0	
Commercial paper			105,789,497	105,789,497	105,789,497
Corporate bonds				0	
Other: (identify)				0	
				0	
				0	
Total categorized investments	\$ 0	\$ 0	\$ 105,789,497	\$ 105,789,497	\$ 105,789,497
Certain types of investments cannot be categorized: (list separately)					
Money Market Mutual Funds				32,285,216	32,285,216
Total investments				\$ 138,074,713	\$ 138,074,713

3. Other Disclosures Required for Investments N/A

- a. Investments in pools managed by other governments or mutual funds _____
- b. Securities underlying reverse repurchase agreements _____
- c. Unrealized investment losses _____
- d. Commitments as of _____ (fiscal close), to resell securities under yield maintenance repurchase agreements:
 - 1. Carrying amount and market value at June 30 of securities to be resold _____
 - 2. Description of the terms of the agreement _____
- e. Investment types owned during the year but not owned as of June 30 _____
- f. Losses during the year due to default by counterparties to deposit or investment transactions _____
- g. Amounts recovered from prior-period losses which are not shown separately on the balance sheet _____

Legal or Contractual Provisions for Reverse Repurchase Agreements

**STATE OF LOUISIANA
Tobacco Settlement Financing Corporation (BTA)
Notes to the Financial Statement
As of and for the year ended June 30, 2003**

- h. Source of legal or contractual authorization for use of reverse repurchase agreements _____

- i. Significant violations of legal or contractual provisions for reverse repurchase agreements that occurred during the year _____

Reverse Repurchase Agreements as of Year-End

- j. Credit risk related to the reverse repurchase agreements outstanding at year end, 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 _____
- k. Commitments on _____ (fiscal close), to repurchase securities under yield maintenance agreements _____
- l. Market value on _____ (fiscal close), of the securities to be repurchased _____
- m. Description of the terms of the agreements to repurchase _____

- n. Losses recognized during the year due to default by counterparties to reverse repurchase agreements _____

- o. Amounts recovered from prior-period losses which are not separately shown on the operating statement _____

Fair Value Disclosures

- p. Methods and significant assumptions used to estimate fair value of investments, if fair value is not based on quoted market prices _____

- q. Basis for determining which investments, if any, are reported at amortized cost _____

- r. For investments in external investment pools that are not SEC-registered, a brief description of any regulatory oversight for the pool _____

- s. Whether the fair value of your investment in the external investment pool is the same as the value of the pool shares _____

- t. Any involuntary participation in an external investment pool _____

- u. Whether 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 _____

STATE OF LOUISIANA
Tobacco Settlement Financing Corporation (BTA)
Notes to the Financial Statement
As of and for the year ended June 30, 2003

v. Any income from investments associated with one fund that is assigned to another fund _____

D. CAPITAL ASSETS – INCLUDING CAPITAL LEASES ASSETS N/A

The fixed assets used in the Special Purpose Government Engaged only in Business-Type Activities are included on the balance sheet of the entity 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.

Year ended June 30, 2003

	Balance 6/30/2002	Additions	Transfers *	Retirements	Balance 6/30/2003	Prior Period Adjustment	Adjusted Balance 6/30/2003
Capital assets not being depreciated							
Land		--	--	--	--	--	--
Non-depreciable land improvements	--	--	--	--	--	--	--
Capitalized collections	--	--	--	--	--	--	--
Construction in progress	--	--	--	--	--	--	--
Total capital assets not being depreciated	--	--	--	--	--	--	--
Other capital assets							
Furniture, fixtures, and equipment	--	--	--	--	--	--	--
Less accumulated depreciation	--	--	--	--	--	--	--
Total furniture, fixtures, and equipment	--	--	--	--	--	--	--
Buildings and improvements	--	--	--	--	--	--	--
Less accumulated depreciation	--	--	--	--	--	--	--
Total buildings and improvements	--	--	--	--	--	--	--
Depreciable land improvements	--	--	--	--	--	--	--
Less accumulated depreciation	--	--	--	--	--	--	--
Total depreciable land improvements	--	--	--	--	--	--	--
Infrastructure	--	--	--	--	--	--	--
Less accumulated depreciation	--	--	--	--	--	--	--
Total infrastructure	--	--	--	--	--	--	--
Total other capital assets	--	--	--	--	--	--	--
Capital Asset Summary:							
Capital assets not being depreciated	--	--	--	--	--	--	--
Other capital assets, at cost	--	--	--	--	--	--	--
Total cost of capital assets	--	--	--	--	--	--	--
Less accumulated depreciation	--	--	--	--	--	--	--
Capital assets, net	--	--	--	--	--	--	--

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

STATE OF LOUISIANA
Tobacco Settlement Financing Corporation (BTA)
Notes to the Financial Statement
As of and for the year ended June 30, 2003

E. INVENTORIES N/A

The unit's inventories are valued at _____ (method of valuation). These are perpetual inventories and are expensed when used. **NOTE: DO NOT INCLUDE POSTAGE. THIS IS SHOWN AS A PREPAYMENT.**

F. RESTRICTED ASSETS

Restricted assets in the Tobacco Settlement Financing Corporation (BTA) at June 30, 2003, reflected at \$138,074,713 in the non-current assets section on Statement A, consist of \$_____ in interest receivable and \$138,074,713 invested in commercial paper and money market mutual funds.

G. LEAVE N/A

1. COMPENSATED ABSENCES

The _____ (BTA) has the following policy on annual and sick leave: (Describe leave policy.)

An example disclosure follows:

Employees earn and accumulate annual and sick leave at various rates depending on their years of service. The amount of annual and sick leave that may be accumulated by each employee is unlimited. Upon termination, employees or their heirs are compensated for up to 300 hours of unused annual leave at the employee's hourly rate of pay at the time of termination. Upon retirement, unused annual leave in excess of 300 hours plus unused sick leave is used to compute retirement benefits.

The cost of leave privileges, computed in accordance with GASB Codification Section C60, is recognized as a current year expenditure in the fund when leave is actually taken; it is recognized in the enterprise funds when the leave is earned. The cost of leave privileges applicable to general government operations not requiring current resources is recorded in long-term obligations.

2. COMPENSATORY LEAVE

Employees who are considered having non-exempt status according to the guidelines contained in the Fair Labor Standards Act may be paid for compensatory leave earned (K-time). Upon termination or transfer, an employee will be paid for any time and one-half compensatory leave earned and may or may not be paid for any straight hour-for-hour compensatory leave earned. Compensation paid will be based on the employees' hourly rate of pay at termination or transfer. The liability for accrued payable compensatory leave at _____ (fiscal close) computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards, Section C60.105 is estimated to be \$_____. The leave payable (is) (is not) recorded in the accompanying financial statements.

H. RETIREMENT SYSTEM N/A

Substantially all of the employees of the (BTA) are members of the _____ (System), a cost sharing multiple-employer, defined benefit pension plan. The System is a statewide public employee retirement system (PERS) for the benefit of state employees, which is administered and controlled by a separate board of trustees.

All full-time (BTA) employees are eligible to participate in the System. Benefits vest with 10 years of service. At retirement age, employees are entitled to annual benefits equal to \$300 plus 2.5% of their highest consecutive 36 months' average salary multiplied by their years of credited service.

**STATE OF LOUISIANA
Tobacco Settlement Financing Corporation (BTA)
Notes to the Financial Statement
As of and for the year ended June 30, 2003**

Vested employees are entitled to a retirement benefit, payable monthly for life at (a) any age with 30 years of service, (b) age 55 with 25 years of service, or (c) age 60 with 10 years of service. In addition, vested employees have the option of reduced benefits at any age with 20 years of service. The System also provides death and disability benefits. Benefits are established or amended by state statute. The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the State Employees Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804-4213, or by calling (225) 922-0608 or (800) 256-3000.

Members are required by state statute to contribute 7.5% of gross salary, and the (BTA) is required to contribute at an actuarially determined rate as required by R.S. 11:102. The contribution rate for the fiscal year ended June 30, 20__, decreased to __% of annual covered payroll from the __% and __% required in fiscal years ended June 30, 2002 and 2001, respectively. The (BTA) contributions to the System for the years ending June 30, 2003, 2002, and 2001, were \$_____, \$_____, and \$_____, respectively, equal to the required contributions for each year.

I. POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS N/A

GASB 12 requires the following disclosures about an employer's accounting for post retirement health care and life insurance benefits:

1. A description of the benefits provided and the employee group covered.
2. A description of the accounting and funding policies followed for those benefits.
3. The cost of those benefits recognized for the period, unless the costs are not readily determinable.**
4. The effect of significant matters affecting the comparability of the costs recognized for all periods presented.

**If the cost of any post retirement health care or life insurance benefits cannot readily be separated from the cost of providing such benefits for active employees or otherwise be reasonably approximated, the total cost of providing those benefits to active employees and retirees, as well as the number of active employees and the number of retirees covered by the plan must be disclosed.

Substantially all (BTA) employees become eligible for post employment health care, dental and life insurance benefits if they reach normal retirement age while working for the (BTA). These benefits for retirees and similar benefits for active employees are provided through an insurance company whose premiums are paid jointly by the employee and the (BTA). For 2003, the cost of providing those benefits for the _____ retirees totaled \$_____.

The _____(BTA) provides certain continuing health care and life insurance benefits for its retired employees. Substantially all (BTA) employees become eligible for those benefits if they reach normal retirement age while working for the (BTA). Those benefits for retirees and similar benefits for active employees are provided through an insurance company whose monthly premiums are paid jointly by the employee and by the (BTA). The (BTA) recognizes the cost of providing these benefits ((BTA)'s portion of premiums) as an expenditure when paid during the year, which was \$_____ for the year ended _____, 20__. The cost of providing those benefits for _____ retirees is not separable from the cost of providing benefits for the _____ active employees. (or, The (BTA)'s cost of providing retiree health care and life insurance benefits are recognized as expenditures when the monthly premiums are paid. For the year ended _____, 20__ the costs of _____ retiree benefits totaled \$_____).

**STATE OF LOUISIANA
Tobacco Settlement Financing Corporation (BTA)
Notes to the Financial Statement
As of and for the year ended June 30, 2003**

J. LEASES N/A

1. OPERATING LEASES

The total payments for operating leases during fiscal year _____ amounted to \$ _____. A schedule of payments for operating leases follows:

<u>Nature of lease</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009- 2013</u>	<u>FY2014- 2018</u>
_____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
Total	\$ _____ 0	\$ _____ 0					

2. CAPITAL LEASES

Capital leases are (are not) recognized in the accompanying financial statements. The amounts to be accrued for capital leases and the disclosures required for capital and operating leases by National Council on Governmental Accounting (NCGA) Statement No. 5, as adopted by the Governmental Accounting Standards Board, and FASB 13 should be reported on the following schedules:

Capital leases are defined as an arrangement in which any one of the following conditions apply: (1) ownership transfers by the end of the lease, (2) the lease contains a bargain purchase option, (3) the lease term is 75% of the asset life or, (4) the discounted minimum lease payments are 90% of the fair market value of the asset.

SCHEDULE A – TOTAL AGENCY CAPITAL LEASES EXCEPT LEAF

<u>Nature of lease</u>	<u>Gross Amount of Leased Asset (Historical Costs)</u>	<u>Remaining interest to end of lease</u>	<u>Remaining principal to end of lease</u>
a. Office space	\$ _____	\$ _____	\$ _____
b. Equipment	_____	_____	_____
c. Land	_____	_____	_____
Total	\$ _____ 0	\$ _____ 0	\$ _____ 0

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of (last day of your fiscal year) and a breakdown of yearly principal and interest:

STATE OF LOUISIANA
Tobacco Settlement Financing Corporation (BTA)
Notes to the Financial Statement
As of and for the year ended June 30, 2003

Year ending June 30, :	<u>Total</u>
2004	\$ _____
2005	_____
2006	_____
2007	_____
2008	_____
2009-2013	_____
2014-2018	_____
2019-2023	_____
Total minimum lease payments	_____ 0
Less amounts representing executory costs	_____
Net minimum lease payments	_____ 0
Less amounts representing interest	_____
Present value of net minimum lease payments	\$ _____ 0

SCHEDULE B – NEW AGENCY CAPITAL LEASES EXCEPT LEAF

<u>Nature of lease</u>	<u>Gross Amount of Leased Asset (Historical Costs)</u>	<u>Remaining interest to end of lease</u>	<u>Remaining principal to end of lease</u>
a. Office space	\$ _____	\$ _____	\$ _____
b. Equipment	_____	_____	_____
c. Land	_____	_____	_____
Total	\$ _____ 0	\$ _____ 0	\$ _____ 0

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of (last day of your fiscal year) and a breakdown of yearly principal and interest:

**STATE OF LOUISIANA
Tobacco Settlement Financing Corporation (BTA)
Notes to the Financial Statement
As of and for the year ended June 30, 2003**

Year ending June 30, :	<u>Total</u>
2004	\$ _____
2005	_____
2006	_____
2007	_____
2008	_____
2009-2013	_____
2014-2018	_____
2019-2023	_____
Total minimum lease payments	_____ 0
Less amounts representing executory costs	_____
Net minimum lease payments	_____ 0
Less amounts representing interest	_____
Present value of net minimum lease payments	\$ _____ 0

SCHEDULE C - LEAF CAPITAL LEASES

<u>Nature of lease</u>	<u>Gross Amount of Leased Asset (Historical Costs)</u>	<u>Remaining interest to end of lease</u>	<u>Remaining principal to end of lease</u>
a. Office space	\$ _____	\$ _____	\$ _____
b. Equipment	_____	_____	_____
c. Land	_____	_____	_____
Total	\$ _____ 0	\$ _____ 0	\$ _____ 0

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of (last day of your fiscal year) and a breakdown of yearly principal and interest:

STATE OF LOUISIANA
Tobacco Settlement Financing Corporation (BTA)
Notes to the Financial Statement
As of and for the year ended June 30, 2003

Year ending June 30, :	<u>Total</u>
2004	\$ _____
2005	_____
2006	_____
2007	_____
2008	_____
2009-2013	_____
2014-2018	_____
2019-2023	_____
Total minimum lease payments	_____ 0
Less amounts representing executory costs	_____ 0
Net minimum lease payments	_____ 0
Less amounts representing interest	_____ 0
Present value of net minimum lease payments	\$ _____ 0

3. LESSOR DIRECT FINANCING LEASES

A lease is classified as a direct financing lease (1) when any one of the four capitalization criteria used to define a capital lease for the lessee is met and (2) when both the following criteria are satisfied:

- Collectibility of the minimum lease payments is reasonably predictable.
- No important uncertainties surround the amount of the unreimbursable costs yet to be incurred by the lessor under the lease.

Provide a general description of the direct financing agreement, and complete the chart below:

<u>Composition of lease</u>	<u>Date of lease</u>	<u>Minimum lease payment receivable</u>
a. Office space	_____	\$ _____
b. Equipment	_____	_____
c. Land	_____	_____
Less amounts representing executory costs		_____ 0
Minimum lease payment receivable		_____ 0
Less allowance for doubtful accounts		_____ 0
Net minimum lease payments receivable		_____ 0
Less estimated residual value of leased property		_____ 0
Less unearned income		_____ 0
Net investment in direct financing lease		\$ _____ 0

STATE OF LOUISIANA
Tobacco Settlement Financing Corporation (BTA)
Notes to the Financial Statement
As of and for the year ended June 30, 2003

Minimum lease payments do not include contingent rentals which may be received as stipulated in the lease contracts. Contingent rental payments occur if for example the use of the equipment, land, or building etc., exceeds a certain level of activity each year. Contingent rentals received for fiscal year 2003 were \$ _____ for office space, \$ _____ for equipment, and \$ _____ for land.

The following is a schedule by year of minimum leases receivable for the remaining fiscal years of the lease as of _____ (the last day of your fiscal year):

Year ending _____:	
2004	\$ _____
2005	_____
2006	_____
2007	_____
2008	_____
2009-2013	_____
2014-2018	_____
2019-2023	_____
Total	\$ _____ 0

4. LESSOR – OPERATING LEASE

When a lease agreement does not satisfy at least one of the four criteria (common to both lessee and lessor accounting), and both of the criteria for a lessor (collectibility and no uncertain reimbursable costs), the lease is classified as an operating lease. In an operating lease, there is no simulated sale and the lessor simply records rent revenues as they become measurable and available.

Provide the cost and carrying amount, if different, of property on lease or held for lease organized by major class of property and the amount of accumulated depreciation as of _____ 20__:

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Carrying amount</u>
a. Office space	\$ _____	\$ _____	\$ _____
b. Equipment	_____	_____	_____
c. Land	_____	_____	_____
Total	\$ _____ 0	\$ _____ 0	\$ _____ 0

The following is a schedule by years of minimum future rentals on non-cancelable operating lease(s) as of _____ (the last day of your fiscal year):

Year Ended June 30,	Office Space	Equipment	Land	Other	Total
2004	\$ _____	\$ _____	\$ _____	\$ _____	\$ 0
2005					0
2006					0
2007					0
2008					0
2009-2013					0
2014-2018	_____	_____	_____	_____	0
Total	\$ _____ 0	\$ _____ 0	\$ _____ 0	\$ _____ 0	\$ _____ 0

**STATE OF LOUISIANA
Tobacco Settlement Financing Corporation (BTA)
Notes to the Financial Statement
As of and for the year ended June 30, 2003**

Contingent rentals received from operating leases received for your fiscal year was \$ _____
for office space, \$ _____ for equipment, and \$ _____ for land.

K. LONG-TERM LIABILITIES

The following is a summary of long-term debt transactions of the entity for the year ended June 30, 2003:

	Balance June 30, 2002	Year ended June 30, 2003		Balance June 30, 2003	Amount due within one year
		Additions	Reductions		
Bonds and notes payable:					
Notes payable	\$	\$	\$	\$	—
Reimbursement contracts payable					—
Bonds payable	1,174,020,000		38,675,000	1,135,345,000	
Total notes and bonds	1,174,020,000	—	38,675,000	1,135,345,000	
Other liabilities:					
Contracts payable					—
Compensated absences payable					—
Capital lease obligations					—
Liabilities payable from restricted assets					—
Claims and litigation					—
Other long-term liabilities					—
Total other liabilities	—	—	—	—	—
Total long-term liabilities	1,174,020,000	—	38,675,000	1,135,345,000	

A detailed summary, by issues, of all debt outstanding at June 30, 2003, including outstanding interest of \$ _____ is shown on schedule 4. Schedule 5 is an amortization schedule of the outstanding debt. (Send a copy of the amortization schedule for any new debt issued.)

L. LITIGATION N/A

1. The _____ (BTA) is a defendant in litigation seeking damages as follows:

Date of Action	Description of Litigation	Primary Attorney	Damages Claimed	Insurance Coverage
_____	_____	_____	\$ _____	\$ _____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
Totals			\$ <u>0</u>	\$ <u>0</u>

The _____ (BTA)'s 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):

**STATE OF LOUISIANA
Tobacco Settlement Financing Corporation (BTA)
Notes to the Financial Statement
As of and for the year ended June 30, 2003**

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

M. 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).

N. 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 _____.

O. 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	\$ _____ 0

P. DEFEASED ISSUES N/A

In _____, _____, the _____ (BTA), issued \$ _____ of taxable 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 (BTA) 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 gave the (BTA) an economic gain (difference between the present values of the debt service payments on the old and new debt of \$ _____).

**STATE OF LOUISIANA
Tobacco Settlement Financing Corporation (BTA)
Notes to the Financial Statement
As of and for the year ended June 30, 2003**

Q. COOPERATIVE ENDEAVORS N/A

LRS 33:9022 defines cooperative endeavors as any form of economic development assistance between and among the state of Louisiana, its local governmental subdivisions, political corporations, public benefit corporations, the United States government or its agencies, or any public or private association, corporation, or individual. The term cooperative endeavor includes cooperative financing, cooperative development, or any form of cooperative economic development activity. The state of Louisiana has entered into cooperative endeavor agreements with certain entities aimed at developing the economy of the state. The liability outstanding as of June 30, 2003, by funding source, is as follows:

NOTE: Amounts in excess of contract limits **cannot** be used to reduce the outstanding contract balance at June 30, 2003. For example, if a contract specifies a percentage of usage for each month (25%) and usage exceeds that percentage (75%), you cannot claim actual usage that exceeds contract requirements (50%).

NOTE: In order to compute your ending balances by funding source, you should begin with your balances at June 30, 2002. These amounts will be increased by amounts for new contracts and amendments and decreased for payments as well as for liquidations.

R. GOVERNMENT-MANDATED NONEXCHANGE TRANSACTIONS (GRANTS) N/A

The following government-mandated nonexchange transactions (grants) were received during fiscal year 2002-2003:

<u>CFDA Number</u>	<u>Program Name</u>	<u>State Match Percentage</u>	<u>Total Amount of Grant</u>
_____	_____	_____	\$ _____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
Total government-mandated nonexchange transactions (grants)			\$ _____ 0

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

At June 30, 20__, the _____ (BTA) was not in compliance with the provisions of _____ Bond Reserve Covenant that requires _____ The _____ (BTA) did _____ to correct this deficiency.

T. SHORT-TERM DEBT N/A

The _____ (BTA) issues short-term notes for _____

**STATE OF LOUISIANA
Tobacco Settlement Financing Corporation (BTA)
Notes to the Financial Statement
As of and for the year ended June 30, 2003**

Short-term debt activity for the year ended June 30, 20__, was as follows:

	Reason for Debt	Beginning Balance	Issued	Redeemed	Ending Balance
Tax anticipation notes		\$ _____	\$ _____	\$ _____	\$ _____ 0

The _____ (BTA) uses a revolving line of credit to finance prior to the issuance of related bonds.

Short-term debt activity for the year ended June 30, 20__, was as follows:

	Reason for Debt	Beginning Balance	Draws	Redeemed	Ending Balance
Line of credit		\$ _____	\$ _____	\$ _____	\$ _____ 0

U. DISAGGREGATION OF RECEIVABLE BALANCES N/A

Receivables at June 30, 20__, were as follows:

Activity	Customer Receivables	Taxes	Receivables from other Governments	Other Receivables	Total Receivables
	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____ 0
					0
Gross receivables	\$ _____ 0	\$ _____ 0	\$ _____ 0	\$ _____ 0	\$ _____ 0
Less allowance for uncollectible accounts	_____ 0	_____ 0	_____ 0	_____ 0	_____ 0
Receivables, net	\$ _____ 0	\$ _____ 0	\$ _____ 0	\$ _____ 0	\$ _____ 0
Amounts not scheduled for collection during the subsequent year	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____ 0

V. DISAGGREGATION OF PAYABLE BALANCES

Payables at June 30, 20__, were as follows:

Activity	Vendors	Salaries and Benefits	Accrued Interest	Other Payables	Total Payables
Operating	\$ Bank One	\$ _____	\$ _____	\$ _____	\$ _____ 6,411
					0
Total payables	\$ _____ 0	\$ _____ 0	\$ _____ 0	\$ _____ 0	\$ _____ 6,411

**STATE OF LOUISIANA
Tobacco Settlement Financing Corporation (BTA)
Notes to the Financial Statement
As of and for the year ended June 30, 2003**

W. SUBSEQUENT EVENTS N/A

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

X. SEGMENT INFORMATION N/A

Governments that report enterprise funds or that use enterprise fund accounting and reporting standards to report their activities are required to present segment information for those activities in the notes to the financial statements. For the purposes of this disclosure, a segment is an identifiable activity (or group of activities), reported as or within an enterprise fund or an other stand-alone entity that has one or more bonds or other debt instruments outstanding, with a revenue stream pledged in support of that debt. In addition, the activity's revenues, expenses, gains and losses, assets, and liabilities are required to be accounted for separately. This requirement for separate accounting applies if imposed by an external party, such as accounting and reporting requirements set forth in bond indentures. Disclosure requirements for each segment should be met by identifying the types of goods and services provided and by presenting condensed financial statements in the notes, including the elements in A through C below (GASB 34, paragraph 122, as modified by GASB 37, paragraph 17.)

Type of goods or services provided by the segment _____

A. Condensed balance sheet:

- (1) Total assets – distinguishing between current assets, capital assets, and other assets. Amounts receivable from other funds or BTA's should be reported separately.
- (2) Total liabilities – distinguishing between current and long-term amounts. Amounts payable to other funds or BTA's should be reported separately.
- (3) Total net assets – distinguishing among restricted (separately reporting expendable and nonexpendable components); unrestricted; and amounts invested in capital assets, net of related debt.

Condensed Balance sheet:

	<u>Segment #1</u>	<u>Segment #2</u>
Current assets	\$ _____	\$ _____
Due from other funds	_____	_____
Capital assets	_____	_____
Other assets	_____	_____
Current liabilities	_____	_____
Due to other funds	_____	_____
Long-term liabilities	_____	_____
Restricted net assets	_____	_____
Unrestricted net assets	_____	_____
Invested in capital assets, net of related debt	_____	_____

B. Condensed statement of revenues, expenses, and changes in net assets:

- (1) Operating revenues (by major source).
- (2) Operating expenses. Depreciation (including any amortization) should be identified separately.
- (3) Operating income (loss).
- (4) Nonoperating revenues (expenses) – with separate reporting of major revenues and expenses.

**STATE OF LOUISIANA
Tobacco Settlement Financing Corporation (BTA)
Notes to the Financial Statement
As of and for the year ended June 30, 2003**

- (5) Capital contributions and additions to permanent and term endowments.
- (6) Special and extraordinary items.
- (7) Transfers
- (8) Change in net assets.
- (9) Beginning net assets.
- (10) Ending net assets.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets:

	<u>Segment #1</u>	<u>Segment #2</u>
Operating revenues	\$ _____	\$ _____
Operating expenses	_____	_____
Depreciation and amortization	_____	_____
Operating income (loss)	0	0
Nonoperating revenues (expenses)	_____	_____
Capital contributions/additions to permanent and term endowments	_____	_____
Special and extraordinary items	_____	_____
Transfers in	_____	_____
Transfers out	_____	_____
Change in net assets	0	0
Beginning net assets	_____	_____
Ending net assets	0	0

C. Condensed statement of cash flows:

- (1) Net cash provided (used) by:
 - (a) Operating activities
 - (b) Noncapital financing activities
 - (c) Capital and related financing activities
 - (d) Investing activities
- (2) Beginning cash and cash equivalent balances
- (3) Ending cash and cash equivalent balances

Condensed Statement of Cash Flows:

	<u>Segment #1</u>	<u>Segment #2</u>
Net cash provided (used) by operating activities	\$ _____	\$ _____
Net cash provided (used) by noncapital financing activities	_____	_____
Net cash provided (used) by capital and related financing activities	_____	_____
Net cash provided (used) by investing activities	_____	_____
Beginning cash and cash equivalent balances	_____	_____
Ending cash and cash equivalent balances	0	0

STATE OF LOUISIANA
Tobacco Settlement Financing Corporation (BTA)
Notes to the Financial Statement
As of and for the year ended June 30, 2003

Y. 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:

<u>Type of Fund</u>	<u>Name of Fund</u>	<u>Amount</u>
_____	_____	\$ _____
_____	_____	_____
_____	_____	_____
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 from 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 due 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 due from other funds		\$ _____

Z. LIABILITIES PAYABLE FROM RESTRICTED ASSETS

Liabilities payable from restricted assets in the _____ (BTA) at _____ (fiscal year end), reflected at \$ _____ in the current liabilities section on Statement A, consist of \$ _____ in accounts payable, \$ _____ in notes payable, and \$ _____ in _____.

Liabilities payable from restricted assets in the _____ (BTA) at _____ (fiscal year end), reflected at \$ _____ in the non-current liabilities section on Statement A, consist of \$ _____ in accounts payable, \$ _____ in notes payable, and \$ _____ in _____.

STATE OF LOUISIANA
Tobacco Settlement Financing Corporation (BTA)
Notes to the Financial Statement
As of and for the year ended June 30, 2003

AA. PRIOR-YEAR RESTATEMENT OF NET ASSETS N/A

The following adjustments were made to restate beginning net assets for June 30, 20__.

Fund balance July 1, 2002, <u>previously reported</u>	Adjustments <u>+ or (-)</u>	Beginning net assets, July 1, 2002, <u>As restated</u>
\$ _____	\$ _____	\$ _____ --
_____	_____	_____ --
_____	_____	_____ --
_____	_____	_____ --
_____	_____	_____ --
_____	_____	_____ --

Each adjustment must be explained in detail on a separate sheet.

(NOTE: Net Assets at July 1, 20__, previously reported, must correspond to Net Assets at June 30, 20__, per the information received from OSRAP.)

STATE OF LOUISIANA

(BTA)

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	\$ <u>0</u>

STATE OF LOUISIANA
 (BTA)
SCHEDULE OF REIMBURSEMENT CONTRACTS PAYABLE AMORTIZATION
 For The Year Ended _____
 (Fiscal Close)

Fiscal Year Ending:	<u>Principal</u>	<u>Interest</u>
2004	\$ _____	\$ _____
2005	_____	_____
2006	_____	_____
2007	_____	_____
2008	_____	_____
2009	_____	_____
2010	_____	_____
2011	_____	_____
2012	_____	_____
2013	_____	_____
2014	_____	_____
2015	_____	_____
2016	_____	_____
2017	_____	_____
2018	_____	_____
2019	_____	_____
2020	_____	_____
2021	_____	_____
2022	_____	_____
2023	_____	_____
2024	_____	_____
2025	_____	_____
2026	_____	_____
2027	_____	_____
2028	_____	_____
 Total	 \$ _____ --	 \$ _____ --

STATE OF LOUISIANA
(BTA)
SCHEDULE OF CAPITAL LEASE AMORTIZATION
For The Year Ended June 30, 20__

Fiscal Year Ending:	<u>Payment</u>	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2004	\$ _____	\$ _____	\$ _____	\$ --
2005	_____	_____	_____	--
2006	_____	_____	_____	--
2007	_____	_____	_____	--
2008	_____	_____	_____	--
2009-2013	_____	_____	_____	--
2014-2018	_____	_____	_____	--
2019-2023	_____	_____	_____	--
2024-2028	_____	_____	_____	--
Total	\$ <u> -- </u>	\$ <u> -- </u>	<u> -- </u>	<u> -- </u>

STATE OF LOUISIANA
(BTA)
SCHEDULE OF NOTES PAYABLE AMORTIZATION

Fiscal Year Ending:	<u>Principal</u>	<u>Interest</u>
2004	\$ _____	\$ _____
2005	_____	_____
2006	_____	_____
2007	_____	_____
2008	_____	_____
2009-2013	_____	_____
2014-2018	_____	_____
2019-2023	_____	_____
2024-2028	_____	_____
Total	\$ <u> --</u>	\$ <u> --</u>

**STATE OF LOUISIANA
 TOBACCO SETTLEMENT FINANCING CORPORATION (BTA)
 SCHEDULE OF BONDS PAYABLE AMORTIZATION
 Term Maturities
 For The Year Ended June 30, 2003**

	Fiscal Year				
	<u>Ending:</u>		<u>Principal</u>		<u>Interest</u>
	2004	\$		\$	66,882,974.00
	2005				66,882,974.00
	2006				66,882,974.00
	2007				66,882,974.00
	2008				66,882,974.00
	2009				66,882,974.00
	2010				66,882,974.00
	2011				66,882,974.00
	2012				66,882,974.00
	2013				66,882,974.00
	2014				66,882,974.00
	2015				66,882,974.00
	2016				66,882,974.00
	2017				66,882,974.00
	2018				66,882,974.00
	2019				66,882,974.00
	2020				66,882,974.00
	2021				66,882,974.00
	2022				66,882,974.00
	2023				66,882,974.00
	2024				66,882,974.00
	2025		215,550,000.00		66,882,974.00
	2026				53,173,994.00
	2027				53,173,994.00
	2028				53,173,994.00
	Sub-Total	\$	215,550,000.00	\$	1,630,947,410.00

**STATE OF LOUISIANA
TOBACCO SETTLEMENT FINANCING CORPORATION (BTA)
SCHEDULE OF BONDS PAYABLE AMORTIZATION
Sinking Maturities
For The Year Ended June 30, 2003**

	Fiscal Year				
	Ending:		Principal		Interest
	2004	\$		\$	66,882,974.00
	2005				66,882,974.00
	2006				66,882,974.00
	2007				66,882,974.00
	2008				66,882,974.00
	2009				66,882,974.00
	2010				66,882,974.00
	2011				66,882,974.00
	2012				66,882,974.00
	2013				66,882,974.00
	2014				66,882,974.00
	2015		2,315,000.00		66,882,974.00
	2016		11,470,000.00		66,735,740.00
	2017		13,480,000.00		66,006,248.00
	2018		14,175,000.00		65,148,920.00
	2019		16,325,000.00		64,247,390.00
	2020		19,320,000.00		63,209,120.00
	2021		21,850,000.00		61,980,368.00
	2022		24,540,000.00		60,590,708.00
	2023		27,470,000.00		59,029,964.00
	2024		30,585,000.00		57,282,872.00
	2025		34,020,000.00		55,337,666.00
	2026		38,720,000.00		53,173,994.00
	2027		42,400,000.00		51,044,393.00
	2028		45,710,000.00		48,712,393.00
	Sub-Total	\$	342,380,000.00	\$	1,575,095,464.00

**STATE OF LOUISIANA
TOBACCO SETTLEMENT FINANCING CORPORATION (BTA)
SCHEDULE OF BONDS PAYABLE AMORTIZATION
Turbo Maturities
For The Year Ended June 30, 2003**

Fiscal Year	Ending:	Principal	Interest
2004		\$ 25,500,000.00	\$ 66,882,974.00
2005		28,145,000.00	65,261,174.00
2006		31,170,000.00	63,471,152.00
2007		34,390,000.00	61,488,740.00
2008		53,175,000.00	59,301,536.00
2009		55,800,000.00	55,919,606.00
2010		63,045,000.00	52,479,344.00
2011		68,170,000.00	49,011,869.00
2012		73,590,000.00	45,262,519.00
2013		79,360,000.00	41,215,069.00
2014		85,575,000.00	36,601,250.00
2015		92,170,000.00	31,573,719.00
2016		99,390,000.00	26,158,731.00
2017		107,045,000.00	20,319,568.00
2018		112,930,000.00	14,030,675.00
2019		121,335,000.00	7,396,037.00
2020		4,555,000.00	267,605.00
2021		-	-
2022		-	-
2023		-	-
2024		-	-
2025		-	-
2026		-	-
2027		-	-
2028		-	-
Total		\$ 1,135,345,000.00	\$ 696,641,568.00

STATE OF LOUISIANA

TOBACCO SETTLEMENT FINANCING CORPORATION (BTA)

COMPARISON FIGURES

To assist OSRAP in determining the reason for the change in financial position for the state and reason for the changes in the budget, please complete the schedule below. If the change is greater than 10%, explain the reason for the change.

	<u>2003</u>	<u>2002</u>	<u>Difference</u>	<u>Percentage Change</u>
1) Revenues	\$ 104,310,303	\$ 103,977,393	\$ 332,910	\$.32 %
Expenses	69,445,382	46,061,602	23,383,780	50.77 %
2) Capital assets			-	
Long-term debt	1,135,345,000	1,174,020,000	(38,675,000)	(3.29) %
Net Assets	(976,730,183)	(1,011,595,104)	34,864,921	3.45 %

Explanation for change: Bonds payable were outstanding for the entire year ended June 30, 2003 versus approximately 8 months in the prior year.

3)	<u>2003 Original Budget</u>	<u>2003 Final Budget</u>	<u>Difference</u>	<u>Percentage Change</u>
Revenues	\$ _____	\$ _____	\$ -	\$ _____
Expenditures	_____	_____	-	_____

Explanation of change: _____

	<u>2003 Final Budget</u>	<u>2003 Actual Budget</u>	<u>Difference</u>	<u>Percentage Change</u>
Revenues	_____	_____	_____	_____
Expenditures	_____	_____	_____	_____

Explanation of change: _____

OTHER REPORT REQUIRED BY

GOVERNMENT AUDITING STANDARDS

The following pages contain a report on compliance with laws and regulations and on internal control 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 or compliance matters that would be material to the presented financial statements.



OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

October 6, 2003

Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of the Basic Financial Statements
Performed in Accordance With *Government Auditing Standards*

TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying basic financial statements of the Tobacco Settlement Financing Corporation, a component unit of the State of Louisiana, as of and for the year ended June 30, 2003, and have issued our report thereon dated October 6, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the Tobacco Settlement Financing Corporation's basic 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 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 the following instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Board Did Not Meet Quarterly and
Did Not Have an Approved Budget**

For the second consecutive year, the Tobacco Settlement Financing Corporation's board only met once during the fiscal year and did not have an approved budget for the fiscal year ended June 30, 2003. Louisiana Revised Statute (R.S.) 39:99.5(C) requires the board to meet no less than quarterly and R.S. 39:99.6(C) requires the corporation to prepare an operating budget annually, which is to be submitted for approval to the State Bond Commission and the Joint Legislative Committee on the Budget.

The chairman or a majority of the board members only called for one meeting during fiscal year 2003. In addition to violating Louisiana law, failure to submit a budget for approval does not provide for proper oversight of the operations of the corporation.

LEGISLATIVE AUDITOR

TOBACCO SETTLEMENT FINANCING CORPORATION STATE OF LOUISIANA

Compliance and Internal Control Report

October 6, 2003

Page 2

The board should meet at least quarterly and oversee the activities of the corporation. The board should obtain approval for an operating budget by the State Bond Commission and the Joint Legislative Committee on the Budget as required by law. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 1).

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 opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters described on the following pages involving the internal control over financial reporting and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the corporation's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Articles of Incorporation Not Filed

For the second consecutive year, the Tobacco Settlement Financing Corporation has not filed Articles of Incorporation with the Secretary of State. The corporation was created by Act 1145 of the 2001 Regular Session of the Legislature. This act was codified as R.S. 39:99.4. Management of the corporation relied on the language of the legislation to establish the corporation and did not file Articles of Incorporation on the advice of counsel. R.S. 12:205 applies to the incorporation of nonprofit entities and requires that Articles of Incorporation be filed with the Louisiana Secretary of State. It also specifies that a corporation shall only come into existence when the articles have been accepted by the Secretary of State and a Certificate of Incorporation has been issued. By not filing Articles of Incorporation, the State of Louisiana's position against tobacco revenue bondholders may be weakened if the tobacco companies file bankruptcy.

Articles of Incorporation should be filed with the Secretary of State to strengthen the position of the corporation and to ensure that outside parties do not have easier recourse against the State of Louisiana should legal action against the corporation arise. Management did not concur with the finding. Management stated, in part, that filing Articles of Incorporation would be a redundancy of effort and expense providing no additional shield of protection beyond that already provided through statute. Management also expressed that the process of the bond validation suit settled the issue of state liability (see Appendix A, pages 2-3).

LEGISLATIVE AUDITOR

TOBACCO SETTLEMENT FINANCING CORPORATION STATE OF LOUISIANA

Compliance and Internal Control Report

October 6, 2003

Page 3

Additional Comments: We continue to believe that Articles of Incorporation should be filed to ensure the understanding that the Tobacco Settlement Financing Corporation is in fact a separate legal entity, distinct and apart from the state.

Internal Control Weaknesses Over Operations

For the second consecutive year, the Tobacco Settlement Financing Corporation's board has not hired staff, established an accounting system, or adequately monitored transactions of Bank One, the trustee. Adequate internal control includes assigning responsibility for maintaining an accounting system and monitoring trustee activities to ensure compliance with laws and regulations and that transactions are accomplished in the best interest of the corporation. Internal control also provides assurance that the accounting system and its underlying data are reliable. An accounting system should be designed to assemble, analyze, classify, record, and report financial data. In performing these functions, an accounting system must also help to maintain adequate control over the assets of the corporation.

R.S. 39:99.8(A) states that 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. A cooperative endeavor agreement was never executed between the corporation and the Department of the Treasury. Therefore, the duties of treasury personnel were never formally established.

Neither the board nor the staff of the Department of the Treasury exercised adequate oversight over the financial and legal affairs of the Tobacco Settlement Financing Corporation. Although monthly trustee account bank statements and monthly operating account bank statements were accumulated, no formal accounting records existed to support the financial statements. The trustee's activities were not reviewed for accuracy and compliance with laws and regulations. In addition to the findings discussed under the legal compliance section of this report, the following weaknesses in control were noted:

- The corporation engaged a certified public accountant (CPA) to prepare the financial statements. Because the corporation had no books of original entry, the CPA had to prepare spreadsheets to summarize the transactions of the corporation. CPAs typically charge fees based on the number of hours estimated to be necessary to complete a job. It is likely that the corporation incurred additional expense because of its failure to provide books of original entry. In addition, failure to prepare books of original entry makes it more difficult for management to monitor the transactions of the corporation.

LEGISLATIVE AUDITOR

TOBACCO SETTLEMENT FINANCING CORPORATION STATE OF LOUISIANA

Compliance and Internal Control Report

October 6, 2003

Page 4

- The board did not monitor investment activity and did not determine if the trustee maximized the investment income that could have been earned on tobacco settlement revenues.
- Operating expenses totaling \$41,920 were incorrectly paid from the Cost of Issuance Account instead of the Operating Account. The expenses were not related to the issuance of the bonds, but were for professional services. Section 8.06 of the bond indenture states, in part, that at such a time as an authorizing officer (of the corporation) notifies the trustee that the Cost of Issuance have been fully paid, the Trustee may close and terminate the Cost of Issuance Account. The funds remaining therein, if any, shall then be transferred to the Louisiana Fund and the Millennium Trust pursuant to the direction of an authorized officer. However, based on R.S. 39:99.12.B(3) and Attorney General Opinion Number 03-0185, these residual funds should be transferred to the Millennium Trust. The payments totaling \$41,920 paid from the Cost of Issuance Account lowered the balance that when closed would have been transferred to the Millennium Trust. The Cost of Issuance Account was not closed until April 2003 although no disbursements, related to the issuance of bonds, had been made since January 30, 2002. By not closing the account timely the corporation also incurred additional bank fees of \$1,538. Because the corporation did not monitor the expenses paid from the Cost of Issuance Account, the Millennium Trust lost the interest as well as the use of the funds in the operating account.

Without adequate monitoring and an accounting system, the risk increases that errors and noncompliance with laws and regulations will occur and not be detected or corrected in a timely manner. It also increases the risk that fraud may occur and not be detected in a timely manner.

The board should hire adequate staffing or establish a formal agreement for staffing with the state treasurer and should establish an accounting system and internal control procedures, including monitoring of the trustee's activities and investment earnings. Furthermore, the board should authorize the transfer of \$41,920 from the operating account to the Millennium Trust. Management concurred in part with this finding. Management did not concur with the portions of the finding relating to the monitoring of investment activity and lost interest and stated that those portions of the finding are in error and represent a misunderstanding of the account in question (see Appendix A, pages 4-6).

LEGISLATIVE AUDITOR

**TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA**

Compliance and Internal Control Report

October 6, 2003

Page 5

Additional Comments: We continue to believe that a lack of monitoring exists based on information available through the State Treasurer's Office. Monthly bank statements were the only evidence of monitoring provided to the auditors. There was no indication that other records were maintained or that investment activity was monitored.

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 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of the 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,



Grover C. Austin, CPA
First Assistant Legislative Auditor

RR:JR:THC:dl

[TSFC03]

Appendix A

Management's Corrective Action Plans and Responses to the Findings and Recommendations



State of Louisiana
DIVISION OF ADMINISTRATION
OFFICE OF THE COMMISSIONER

M. J. "MIKE" FOSTER, JR.
GOVERNOR

MARK C. DRENNEN
COMMISSIONER OF ADMINISTRATION

September 11, 2003

Mr. Grover C. Austin, CPA
First Assistant Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Austin:

RE: Tobacco Financing Corporation Audit Finding – The Board Did Not Meet Quarterly and Did Not Have an Approved Budget

This is being provided to you in response to the September 5, 2003, correspondence from your office delineating the aforementioned audit finding.

Response: We concur with the finding. Although the Board did itself meet on March 20, 2003 and adopt a budget for both FY 02-03 and 03-04, it did not submit those budgets for ratification by the State Bond Commission and Joint Legislative Committee on the Budget as required by LRS 39:99.6C. In addition the Board failed to meet quarterly as required by LRS 39:99.5C.

The Board did adopt a resolution at its March 20, 2003, Board meeting to request that the legislature modify the provisions of LRS 39:99.6.C to require such approval only in those cases where the budget would exceed \$100,000. In addition, the Board adopted a resolution to request the legislature modify the provisions of LRS 39:99.5C to allow it to meet yearly or when necessary (given the activities of the Corporation there is not a necessity for mandatory quarterly meetings). Unfortunately, neither of these amendments were considered during the 2003 legislative session. Modifications to LRS 39:99.5C and 39:99.6.C will be requested in the next legislative session.

Should you have any questions, please contact Mr. Whitman Kling, Deputy Undersecretary, at 342-7085.

Sincerely,

Mark C. Drennen, Chairman
Tobacco Finance Settlement Corporation

MCD/WJK/sm



State of Louisiana
DIVISION OF ADMINISTRATION
OFFICE OF THE COMMISSIONER

M. J. "MIKE" FOSTER, JR.
GOVERNOR

September 11, 2003

MARK C. DRENNEN
COMMISSIONER OF ADMINISTRATION

Mr. Grover C. Austin, CPA
First Assistant Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Austin:

RE: Tobacco Financing Corporation Audit Finding – Articles of Incorporation were not Filed.

This is being provided to you in response to your office's September 1, 2003 correspondence delineating the aforementioned audit finding.

Response: *This is a repeat finding from last year. We again do not concur with this repeat finding.* Counsel for the Corporation, inclusive of the Attorney General's Office, has clearly indicated that a filing of Articles of Incorporation would be a redundancy of effort and expense providing no additional shield of protection beyond that already provided through statute, and such articles could not provide any protection not already provided by the enabling statutes. In addition, it should be noted that the issue of state liability was settled by the process of the bond validation suit (The Board of Directors of the Tobacco Settlement Financing Corporation versus ALL TAXPAYERS, PROPERTY OWNERS, CITIZENS OF THE STATE OF LOUISIANA, AND NON-RESIDENTS OWNING PROPERTY OR SUBJECT TO TAXATION THEREIN, AND ALL OTHER PERSONS INTERESTED IN OR AFFECTED IN ANY WAY BY THE ISSUANCE OF TOBACCO SETTLEMENT ASSET-BACKED BONDS OF THE TOBACCO SETTLEMENT FINANCING CORPORATION Docket Number 487871, Division H 19th Judicial District Court, Parish of East Baton Rouge) which was heard and confirmed by the courts on October 9, 2001. Such judgment specifically found the covenants of the Corporation in the Indenture were valid and enforceable and the Indenture, Purchase Agreement or other means provides for the payment of the bonds and the validity of all pledges of revenues and of all covenant provisions that constitute a part of the contract between the Corporation and the owners of the Bonds are valid. In all, it could not have been clearer that the state was not liable in any respect for the payment of the Bonds.

Mr. Grover C. Austin
September 11, 2003
Page 2

If you should you have any questions, please contact Mr. Whitman Kling,
Deputy Undersecretary at 342-7085.

Sincerely,



Mark C. Drennen, Chairman
Tobacco Finance Settlement Corporation

MCD/WJK/sm



State of Louisiana
DIVISION OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

MARK C. DRENNEN
COMMISSIONER OF ADMINISTRATION

"MIKE" FOSTER, JR.
GOVERNOR

September 11, 2003

Mr. Grover C. Austin, CPA
First Assistant Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Austin:

RE: Tobacco Financing Corporation Audit Finding – Internal Control Weaknesses
Over Operations

This is being provided to you in response to your office's September 1, 2003
correspondence delineating the aforementioned audit finding.

Response: *This is a repeat finding (comprised of several sub-issues) from the prior
year. For the second year in a row we will respond to each sub-component finding
separately.*

a. Cooperative Endeavor agreements were not formally established with the
Department of Treasury as required by statute.

Response: We agree with that portion of the finding indicating that a formal
cooperative endeavor had not been executed but disagree with the implication that
the lack of the cooperative endeavor allowed the Treasurer to not fulfill its duties.

b. The corporation engaged a certified public accountant (CPA) to prepare the
financial statements. Because the corporation had no books of original entry, the
CPA had to prepare spreadsheets to summarize the transactions of the corporation.
CPAs typically charge fees based on the number of hours estimated to be
necessary to complete a job. It is likely that the corporation incurred additional
expense because of its failure to provide books of original entry. In addition, failure
to prepare books of original entry makes it more difficult for management to
monitor the transactions of the corporation.

Response: *We do not concur* that the engaged CPA's fees or effort were
necessarily increased due to a lack of books of original entry. The Corporation
maintained adequate records, inclusive of spreadsheets, that provided the engaged
CPA sufficient information to prepare the contracted for financials.

Mr. Grover C. Austin
September 11, 2003
Page 2

c. The board did not monitor investment activity and did not determine if the trustee maximized the investment income that could have been earned on tobacco settlement revenues.

Response: *We do not concur with the finding* in that it would imply inadequate monitoring of investments and investment earnings maximization. The investment and fiscal staff of the Treasurer's Office do provide a monthly review of the investment activities of the various investment accounts, which in our opinion is sufficient to assure that funds are invested properly and timely in the vast majority of cases.

We would further note again this year that the auditor's finding is in error and represents a misunderstanding of the investment earnings particularly with respect to the investment of the Bond Reserve account the auditor failed to take into account the Liquidity Reserve Account Forward Delivery Agreement and the Reserve Fund Agreement, which provide for the delivery of securities to the Trustee, which produces an annual return on the Reserve Account of 4.63% and 4.36%, respectively, for the Corporation. These rates of return were agreed to after a competitive bidding process and represent the best market rate at the time of the bidding. The Corporation has no legal ability to do as suggested in prior year findings (invest in a mutual fund) and any attempt on the part of the Corporation to do so would be a default under such agreements. The Corporation is receiving the rate of return it negotiated for under the bidding process even if at some points in the year there are monies invested in securities with a zero investment return. This is because the rate of return on the securities held by the Trustee is blended. It does not mean there is no return. The Trustee has statements showing that the Corporation received its guaranteed annual rate of return.

d. Operating expenses totaling \$41,920 were incorrectly paid from the Cost of Issuance Account instead of the Operating Account. The expenses were not related to the issuance of the bonds, but were for professional services. Section 8.06 of the bond indenture states, in part, that at such a time as an authorizing officer (of the corporation) notifies the trustee that the Cost of Issuance have been fully paid, the Trustee may close and terminate the Cost of Issuance account. The funds remaining therein, if any, shall then be transferred to the Millennium Trust pursuant to the direction of an authorized officer. The payments totaling \$41,920 paid from the Cost of Issuance account lowered the balance, that when closed, would have been transferred to the Louisiana Fund and the Millennium Trust. The Cost of Issuance Account was not closed until April 2003 although no

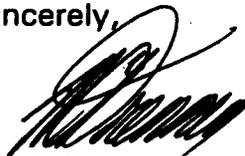
Mr. Grover C. Austin
September 11, 2003
Page 3

disbursements, related to the issuance of bonds, had been made since January 30, 2002. By not closing the account timely the corporation also incurred additional bank fees of \$1,538. The Millennium Trust lost the interest that would have accrued on these funds, as well as the use of the funds.

Response: We agree with most of the finding. To correct this action, the Chairman, on August 7, 2003, requested the Treasurer to move \$31,920 from the Operating Account to the Millennium Trust Fund and a provided a requested transfer base. The remaining \$10,000 balance was requested on August 27, 2003. **We do not concur** that there was a loss of total interest to the Millennium Trust Funds as proceeds of the Costs of Issuance and Operating Account earned interest that ultimately flowed to be distributed to both the Louisiana and Millennium Trust Funds.

Should you have any questions, please contact Mr. Whitman Kling, Deputy Undersecretary at 342-7085.

Sincerely,



Mark C. Drennen, Chairman
Tobacco Finance Settlement Corporation

MCD/WJK/sm

c: Ms. Angele Davis, Deputy Commissioner