Buckeye Tobacco Settlement Financing Authority of Ohio

Basic Financial Statements

For the Fiscal Year Ended
June 30, 2020

OHIO AUDITOR OF STATE
KEITH FABER

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Board of Directors
Buckeye Tobacco Settlement Finance Authority
30 East Broad Street, 34th Floor
Columbus, Ohio 43215

We have reviewed the *Independent Auditor's Report* of the Buckeye Tobacco Settlement Finance Authority, Franklin County, prepared by Rea & Associates, Inc., for the audit period July 1, 2019 through June 30, 2020. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Buckeye Tobacco Settlement Finance Authority is responsible for compliance with these laws and regulations.

Keith Faber
Auditor of State
Columbus, Ohio

November 25, 2020

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BUCKEYE TOBACCO SETTLEMENT FINANCING AUTHORITY
FRANKLIN COUNTY, OHIO
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Rea & associates a brighter way

INDEPENDENT AUDITOR'S REPORT

September 30, 2020

Buckeye Tobacco Settlement Financing Authority
30 East Broad Street, 34th Floor
Columbus, Ohio 43215

To the Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and Debt Service Fund of the Buckeye Tobacco Settlement Financing Authority (the Authority), a blended component unit of the State of Ohio, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and Debt Service Fund of the Buckeye Tobacco Settlement Financing Authority, as of June 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Authority present the financial position and the changes in financial position thereof for the governmental activities and Debt Service Fund of only the transactions of the Buckeye Tobacco Settlement Financing Authority. They do not purport to, and do not, present fairly the financial position of the State of Ohio as of June 30, 2020, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, as discussed in Note 11, the financial impact of COVID-19 and the ensuring emergency measures may impact subsequent periods of the Authority. We did not modify our opinions regarding these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2020 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Rea & Associates, Inc.
Gahanna, Ohio

Buckeye Tobacco Settlement Financing Authority
Franklin County, Ohio
(A Component Unit of the State of Ohio)

Management Discussion and Analysis
June 30, 2020
(Unaudited)

As management of the Buckeye Tobacco Settlement Financing Authority (the "Authority"), we are providing this overview of the Authority's financial activities for the fiscal year ended June 30, 2020. Please read this overview in conjunction with the Authority's basic financial statements, which follow.

The Authority is included within the State of Ohio's Comprehensive Annual Financial Report as a blended component unit of the primary government. The Authority uses a governmental bond service fund to report its financial position and results of operations. We believe these financial statements present all activities for which the Authority is financially responsible.

THE AUTHORITY

The Ohio General Assembly enacted House Bill 119, effective June 30, 2007, which created the Authority for the sole purpose of purchasing and receiving any assignment of tobacco settlement receipts ("TSRs") pursuant to the Tobacco Master Settlement Agreement (the "MSA") and issuing obligations to provide financing of essential State functions and facilities. The Authority entered into a *Purchase and Sale Agreement*, dated October 1, 2007, between the State and the Authority, wherein the State transferred to the Authority all of its rights and interests under the MSA and the Consent Decree and Final Judgment between all participating States and the participating Tobacco manufacturers. These rights include the State's share of all TSRs received on or after October 29, 2007 and to be received under the MSA until the date on which all bonds have been fully repaid, but specifically exclude any right to or interest in amounts withheld before October 29, 2007 by the cigarette manufacturers when they exercised the market share loss provisions of the MSA. These moneys are on deposit in an escrow account until pending litigation between the States and the manufacturers is resolved.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2020 are as follows:

- The liabilities of the Authority exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by $655.9 million (net position).
- The Authority's total net position decreased by $44.0 million, or 7% during fiscal year 2020.
- The Authority's net position is a result of bonds payable and other liabilities exceeding recognized assets and deferred outflows of resources. The bonds are recognized as a liability, while the resources to repay the bonds (the future TSRs) are not recognized as assets until the underlying sales of tobacco products are known.
- During March 2020, the Authority issued $5.35 billion in Asset-Backed Refunding Bonds to advance refund and current refund the outstanding 2007 Series Bonds.
- During fiscal year 2020, the Authority made principal payments totaling $123 million and interest payments totaling $197.5 million on the Series 2007 and Series 2020 Refunding Bonds.
- The total net carrying value of the bonds increased $114.0 million during fiscal year 2020.
- Interest earnings totaled $7.2 million during fiscal year 2020.
- The Authority received $62,986 during the year related to a settlement agreement with Lehman Brothers Special Financing, Inc., (see Note 10 to the financial statements for more details).

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. These basic financial statements are comprised of two components: 1) combined government-wide and fund financial statements, and 2) notes to the financial statements. For most governmental entities, the government-wide and fund financial statements are presented separately; however, since the Authority is comprised of only one bond service fund, we are presenting both types of financial statements on one combined set of financial statements, as described below:

- ***Governmental Fund Balance Sheet/Statement of Net Position***

  The column labeled "Governmental Bond Service Fund" presents information on the Authority's assets, liabilities, and fund balance using the modified-accrual basis of accounting. The fund is an accounting device that the State of Ohio uses to keep track of specific sources of funding and spending for particular purposes. The fund balance may serve as a useful measure of the Authority's net resources available for spending at the end of the fiscal year.

  The column labeled "Government-wide Statement of Net Position" presents information on the Authority's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as *net position*. Such information is presented on the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

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

  The column labeled "Governmental Bond Service Fund" presents information on near-term inflows, outflows, and balances of expendable resources. Such information is presented on the modified-accrual basis of accounting.

  The column labeled "Government-wide Statement of Activities" presents information showing how the Authority's net position changed during the most recent fiscal year. Such information is presented on the accrual basis of accounting. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

Because the focus of fund financial statements is narrower than that of government-wide financial statements, it is useful to compare the information presented on a fund basis with similar information presented on a government-wide basis. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The combined government-wide and fund financial statements include a reconciliation to facilitate this comparison (see column labeled "Reconciliation").

FINANCIAL ANALYSIS OF THE AUTHORITY

Table 1 below is a summary of the Authority's net position as of June 30, 2020 with comparative amounts to the prior fiscal year.

Table 1
Net Position

	2020	2019
Assets		
Cash and Investments	$ 373,453,087	$ 383,587,731
Interest Receivable	2,016	96,342
Tobacco Settlement Receivable	652,531,351	617,325,705
Total Assets	1,025,986,454	1,001,009,778
Deferred Outflows of Resources		
Deferred Charges on Refunding Loss	143,819,967	0
Deferred Payments to State	3,933,711,030	4,042,486,190
Total Deferred Outflows of Resources	4,077,530,997	4,042,486,190
Liabilities		
Accrued Interest	18,457,095	28,498,289
Bonds Payable	5,740,934,483	5,626,892,225
Total Liabilities	5,759,391,578	5,655,390,514
Net Position		
Unrestricted Net Position	(655,874,127)	(611,894,546)
Total Net Position	$ (655,874,127)	$ (611,894,546)

Approximately 77% of the Authority's assets and deferred outflows are comprised of deferred charges on refunding loss and deferred payments for the bond proceeds that were paid to the State of Ohio for funding of long-lived capital projects at state-supported institutions of higher education and to pay the State's share of the cost of rebuilding elementary and secondary school facilities across the State. The deferred outflow is being amortized over the future payment period for expected tobacco settlement receipts. As a result, the deferred payments to state decreased by approximately 2.7% during fiscal year 2020. The remaining assets consist mainly of cash and investments restricted for payment of the bond obligations, and the tobacco settlement receivable consisting of estimated collections from January–June 2020, (to be received during fiscal year 2021) and amounts on deposit in the disputed payment account.

Future TSRs are dependent on many factors including future tobacco consumption and the financial capability of the Original Participating Manufacturers (the "OPMs"), as defined in Note 1 to the basic financial statements, and consequently, except as noted above, TSRs do not meet asset recognition criteria under accounting principles generally accepted in the United States of America ("GAAP").

The change in the tobacco settlement receivable is primarily related to the amount of disputed payments withheld from the 2020 TSRs.

In March 2020, the Authority issued $5.35 billion in Tobacco Settlement Asset-Backed Refunding Bonds (the "Series 2020 Bonds") to refund all of the Authority's outstanding Series 2007 Bonds. In connection with the issuance of the Series 2020 Bonds, the Authority engaged an independent consultant to develop a forecast of future tobacco rates of consumption and likely TSRs based on those forecasted rates of consumption. The forecasted TSRs reflect a significant decrease from the projection prepared in connection with the issuance of the Series 2007 Bonds. The decrease is primarily attributable to changes in tobacco consumption since the 2007 projection. The change in the tobacco settlement receivable is a result of the new TSR projection and the amount of disputed payments withheld from the 2020 TSRs.

Over 99% of the Authority's liabilities consist of the principal balance, net of premium, of the Bonds outstanding, with the remaining liability being accrued interest payable on those Bonds at the end of the fiscal year. The carrying amount of the Bonds increased during the fiscal year by $114.0 million because of the issuance of the Series 2020 Bonds. The increase in the carrying amount was largely attributable to the accounting treatment for the $512 million in Premium generated by the issuance. This increase was partially offset by over $123 million in principal payments made during the fiscal year on the Series 2007 Bonds and Series 2020 Bonds.

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Table 2 below summarizes the Authority's Statement of Activities for the period ending June 30, 2020 with comparative amounts to the prior fiscal year.

Table 2
Change in Net Position

	2020	2019
Revenues		
Tobacco Settlement	$ 321,708,583	$ 342,694,383
Interest Income	7,180,241	9,141,454
Total Revenues	328,888,824	351,835,837
Expenses		
General Government	2,280,984	78,884
Interest	233,358,802	342,695,877
Bond Issuance Costs	28,516,445	0
Amortization of Deferred Payments to State	108,775,160	96,275,138
Total Expenses	372,931,391	439,049,899
Other Financing Sources (Uses)		
Proceeds from Settlement	62,986	180,342
Increase (Decrease) in Net Position	(43,979,581)	(87,033,720)
Net Position Beginning of Year	(611,894,546)	(524,860,826)
Net Position End of Year	$ (655,874,127)	$ (611,894,546)

TSRs account for approximately 98% of total general revenues of the Authority. TSRs decreased from fiscal year 2019 to 2020 as a result of fewer TSR's collected in 2019 and the reduction in the receivable based on the new TSRs projections.

The Authority's expenses consisted primarily of interest payments and the related amortized/accreted amounts on the outstanding bond obligations (approximately 63% of total expenses), and amortization of the deferred outflows for bond proceeds transferred to the State (approximately 27% of total expenses). These were in line with prior year percentages.

Bond Service Fund

In regards to the Authority's Bond Service Fund as of June 30, 2020, assets and deferred outflows reported (other than the reporting requirements related to loss on the issuance of refunding bonds) were identical to those reported at the accrual basis level.

During fiscal year 2020, significant activity in the Bond Service Fund included the receipt of TSRs and related interest earnings ($294.6 million), the payment of debt principal (over $123 million) and interest recognized ($198 million). In addition, the Authority received revenue from settlement proceeds.

BUDGETARY HIGHLIGHTS

The Authority annually adopts an operating budget as required by its by-laws; however, there is no legal requirement for the Authority to adopt a budget. Accordingly, budgetary information is not presented in this report.

LONG-TERM DEBT

On October 29, 2007, the Authority issued asset-backed bonds totaling $5.532 billion. The tax-exempt Tobacco Settlement Asset-Backed Bonds, Series 2007 were comprised of three series of bonds — the Tobacco Settlement Asset-Backed Bonds, Series 2007A, which are Senior Bonds (the ‘‘Series 2007A Bonds’’), the Tobacco Settlement Asset-Backed Bonds, Series 2007B, which are First Subordinate Capital Appreciation Bonds (the ‘‘Series 2007B Bonds’’) and the Tobacco Settlement Asset-Backed Bonds, Series 2007C, which are Second Subordinate Capital Appreciation Bonds. All of the Series 2007 Bonds other than the Series 2007A-1 Bonds were Turbo Term Bonds.

On March 4, 2020 the authority issued $5.352 billion in Asset-Backed Refunding Bonds, Series 2020 Senior Bonds. The Authority used the proceeds from the issuance, together with other available funds, to (i) refund through redemption and defeasance all of the Authority’s Series 2007 bonds, (ii) fund the Senior Liquidity Reserve Accounts and (iii) pay costs of issuance incurred in connection with the issuance of the Series 2020 Bonds. As of the date of the closing of the Series 2020 Bonds, the Series 2007 Bonds were defeased.

Standard and Poor’s is currently the only rating agency providing ratings related to the Series 2020 Bonds. As of June 30, 2020, the ratings have not changed since the ratings established on the issuance date.

The Series 2020 Bonds are secured by and payable solely from the TSRs and investment earnings pledged under the Trust Indenture and amounts established and held in accordance with the Trust Indenture. The Authority has covenanted to apply 100% of all surplus collections of TSRs, if any, to the special mandatory redemption (“Turbo Redemption”) of the Series 2020 Bonds that have Turbo Redemption options, at the principal amount or accreted value thereof on each distribution date.

More information regarding long-term debt is set forth in Note 5 to the basic financial statements.

ECONOMIC FACTORS AND OUTLOOK

Payment of debt service and orderly retirement of the Bonds are conditioned exclusively on the Authority’s receipt of TSRs. TSRs are contingent on, among other things, the financial stability of the OPMs. TSRs have significantly underperformed original estimates made in connection with the issuance of the Series 2007 Bonds due to higher than forecast consumption decline, continued NPM adjustments being taken by the manufacturers, and the loss of the SLRA Forward Delivery Agreement and its guaranteed investment income.

The forecast prepared in connection with the Series 2020 Bonds was based on certain expectations and assumptions, as outlined in the March 2020 Offering Circular. The forecast includes the projected impact of electronic cigarette use and the raising of the federal minimum age for sale of tobacco products from 18 to 21 years. This legislation (known as "Tobacco 21" or "T21") is effective as of December 20, 2019, making it illegal for a retailer to sell any tobacco product—including cigarettes, cigars, and e-cigarettes—to anyone under the age of 21. The new federal minimum age of sale applies to all retail establishments and persons with no exceptions. The change in the law is expected to have a negative impact on the future collection of TSRs.

The Authority's ability to pay its debt service on its stated schedule could be threatened if TSRs materially underperform the forecast prepared in connection with the issuance of the Series 2020 Bonds and the Authority continues to be unable to access the Disputed Payment Accounts,

Tobacco settlement collections in 2020 were sufficient for the Authority to redeem $69.9 million of the Series 2020B-1 Class 2 Senior Turbo Bonds.

Disputed Payments – As of June 30, 2020, the estimated tobacco settlement receivable includes $488.7 million for payments withheld from the Authority in fiscal years 2008 thru 2020 by the cigarette manufacturers when they exercised the market share loss provisions of the Master Settlement Agreement ("MSA"). These moneys were either withheld by the cigarette manufacturers or are on deposit in an escrow account until pending litigation between the State and the manufacturers is resolved. The State contends it has met its obligations under the MSA and is due the payments withheld. As a result of the withheld payments and deposits into the disputed payments account, the Authority's receipt of payments under the MSA due was reduced in previous years. In certain previous years, this reduction impacted the Authority's ability to meet its payment obligations when due and necessitated a draw from the Senior Liquidity Reserve Account. No draw was required for 2020.

CONTACTING THE AUTHORITY

Persons needing additional information concerning this report or otherwise needing to contact the Authority may do so by writing or telephoning Kimberly Murnieks, Secretary of the Buckeye Tobacco Settlement Financing Authority, and Director of the Ohio Office of Budget and Management at 30 East Broad Street, 34th Floor, Columbus, Ohio 43215, (614) 466-4034.

Buckeye Tobacco Settlement Financing Authority
Franklin County, Ohio
(A Component Unit of the State of Ohio)

Governmental Fund Balance Sheet/Statement of Net Position
June 30, 2020

	Governmental Bond Service Fund Balance Sheet	Reconciliation (See Note 8)	Government-Wide Statement of Net Position
Assets			
Cash and Cash Equivalents	$ 311,739	$ 0	$ 311,739
Accrued Interest Receivable	40	0	40
Restricted Assets:			
Cash and Cash Equivalents	897,799	0	897,799
Investments	372,243,549	0	372,243,549
Accrued Interest Receivable	1,976	0	1,976
Tobacco Settlement Receivable	652,531,351	0	652,531,351
Total Assets	1,025,986,454	0	1,025,986,454
Deferred Outflows of Resources			
Deferred Charges on Refunding Loss	0	143,819,967	143,819,967
Deferred Payments to State	3,933,711,030	0	3,933,711,030
Total Deferred Outflows of Resources	3,933,711,030	143,819,967	4,077,530,997
Liabilities			
Accrued Interest Payable	0	18,457,095	18,457,095
Bonds Payable, Including Premium			
Due Within One Year	0	40,045,000	40,045,000
Due in More Than One Year	0	5,700,889,483	5,700,889,483
Total Liabilities	0	5,759,391,578	5,759,391,578
Deferred Inflows of Resources			
Unavailable Revenue	652,531,351	(652,531,351)	0
Fund Balance			
Restricted For Debt Service	4,306,854,352	(4,306,854,352)	0
Assigned	311,781	(311,781)	0
Net Position			
Unrestricted	0	(655,874,127)	(655,874,127)
Total Fund Balance/Net Position	4,307,166,133	(4,963,040,260)	(655,874,127)
Total Liabilities, Deferred Inflows of Resources and Fund Balance/Net Position	$ 4,959,697,484	$ 143,819,967	$ 5,103,517,451

The notes to the financial statements are an integral part of this statement.

Buckeye Tobacco Settlement Financing Authority
Franklin County, Ohio
(A Component Unit of the State of Ohio)

Statement of Governmental Fund Revenues, Expenditures and Changes In
Fund Balances/Statement of Activities

For the Fiscal Year Ended June 30, 2020

	Governmental Bond Service Fund	Reconciliation (See Note 8)	Government-Wide Statement of Activities
General Revenues			
Tobacco Settlement	$ 286,502,937	$ 35,205,646	$ 321,708,583
Interest	8,051,519	(871,278)	7,180,241
Total General Revenues	294,554,456	34,334,368	328,888,824
Expenditures/Expenses			
General Government	2,280,984	0	2,280,984
Debt Service			
Principal	123,060,000	(123,060,000)	0
Interest	197,905,330	35,453,472	233,358,802
Bond Issuance Costs	28,516,445	0	28,516,445
Advance Refunding Payment to Escrow	244,230,213	(244,230,213)	0
Amortization of Deferred Payments to State	108,775,160	0	108,775,160
Total Expenditures/Expenses	704,768,132	(331,836,741)	372,931,391
Excess (Deficiency) of General Revenues Over (Under) Expenditures/Expenses	(410,213,676)	366,171,109	(44,042,567)
Other Financing Sources (Uses)			
Proceeds from Settlement	62,986	0	62,986
Proceeds from Debt Refunding	5,352,196,396	(5,352,196,396)	0
Premium on Debt Refunding	511,874,965	(511,874,965)	0
Payment to Bond Escrow Agent on Debt Refunding	(5,572,924,801)	5,572,924,801	0
Total Other Financing Sources (Uses)	291,209,546	(291,146,560)	62,986
Net Change in Fund Balance/Net Position	(119,004,130)	75,024,549	(43,979,581)
Fund Balance/Net Position, Beginning of Year,	4,426,170,263	(5,038,064,809)	(611,894,546)
Fund Balance/Net Position, End of Year	$ 4,307,166,133	$ (4,963,040,260)	$ (655,874,127)

The notes to the financial statements are an integral part of this statement.

1. Reporting Entity

The Buckeye Tobacco Settlement Financing Authority (the ''Authority'') is a body, both corporate and politic, constituting a public body, agency and instrumentality of the State of Ohio (the ''State''), separate and distinct from the State, performing essential functions of the State and created and governed by Sections 183.51 and 183.52 of the Ohio Revised Code.

The Ohio General Assembly enacted House Bill 119, effective June 30, 2007, which created the Authority for the sole purpose of purchasing and receiving any assignment of tobacco settlement receipts ("TSRs") pursuant to the Tobacco Master Settlement Agreement (the "MSA") and issuing obligations to provide financing of essential State functions and facilities. The Authority entered into a *Purchase and Sale Agreement*, dated October 1, 2007, between the State and the Authority, wherein the State transferred to the Authority all of its rights and interests under the MSA and the Consent Decree and Final Judgment between all participating States and the participating Tobacco manufacturers. These rights include the State's share of all TSRs received on or after October 29, 2007 to be received under the MSA until the date on which all the bonds have been fully repaid, but specifically exclude any right to or interest in amounts withheld before October 29, 2007 by the cigarette manufacturers when they exercised the market share loss provisions of the MSA. These moneys are on deposit in an escrow account until pending litigation between the States and the manufacturers is resolved.

The MSA is an industry wide settlement of litigation between certain states and the Original Participating Manufacturers (the "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 (the "SPMs"), to become parties to the MSA. The four OPMs together with the SPMs are referred to as the Participating Manufacturers (the "PMs"). The settlement represents the resolution of a large potential financial liability of the PMs for smoking related injuries, the costs of which have been borne and will likely continue to be borne by cigarette consumers. Pursuant to the MSA, the Settling States agreed to settle all their past, present, and future smoking related claims against the PMs in exchange for agreements and undertakings by the PMs concerning a number of issues. These issues include, among others, making payments to the Settling States, abiding by more stringent advertising restrictions, and funding educational programs, all in accordance with the terms and conditions set forth in the MSA.

On October 29, 2007 the Authority successfully securitized 100% of the projected TSRs through the issuance of five series of Tobacco Settlement Asset-Backed Bonds, Series 2007, totaling $5.531 billion (the "Series 2007 Bonds") On March 4, 2020 the authority issued $5.352 billion in Asset-Backed Refunding Bonds, Series 2020 Senior Bonds (the "Series 2020 Bonds"). The Authority used the proceeds from the issuance, together with other available funds, to (i) refund through redemption and defeasance all of the Authority's Series 2007 bonds, (ii) fund the Senior Liquidity Reserve Account and (iii) pay costs of issuance incurred in connection with the issuance of the Series 2020 Bonds.

The Authority has pledged future TSR's, including related investment earnings, and net of specified operating and enforcement expenses, to repay the bonds, which have a final stated maturity in 2057. Net TSR's (modified accrual basis) for fiscal year 2020 were $292,273,472. This amount consists of the total general revenues of $294,554,456 less general government expenditures of $2,280,984. Annual principal and interest payments on the bonds will require 100% of the net TSR's. Total principal and interest paid for fiscal year 2020 was $320,965,330.

The Series 2007 Bonds were issued on a tax-exempt basis to fund long-lived capital projects at state-supported institutions of higher education and to pay the State's share of the cost of rebuilding elementary and secondary school facilities across the State. The Series 2020 Bonds were issued on a federally-tax basis ($428,400,000) and on tax-exempt basis ($4,923,796,396). Pursuant to a "Residual Certificate," after the Bonds, and any related operating expenses, have been fully paid, any remaining TSRs will become payable to the State.

The Authority is a blended component unit of the State (the primary government), which uses funds to report on its combined financial position and results of its operations.

The Authority is governed by a three member board of directors, consisting of the Governor, the Treasurer of State, and the Director of Budget and Management, and officers who by law perform the functions of such offices during any vacancy therein, and, as applicable, includes officers or employees acting as designees. The Governor serves as Chairman, the Treasurer of State serves as Treasurer, and the Director of Budget and Management serves as Secretary. The Authority may, upon recommendation of the Director of Budget and Management, appoint an Assistant Secretary and may, upon recommendation of the Treasurer of State, appoint an Assistant Treasurer, who may but need not be members of the Authority, to serve at the pleasure of the Authority.

2. Summary of Significant Accounting Policies

The financial statements of the Authority have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the Authority's accounting policies are described below.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Government-wide financial statements (i.e., the statement of net position and the statement of activities) do not provide information by fund. Specifically, the statement of net position includes non-current liabilities, which are not included in the fund statements. Tobacco Settlement Receipts ("TSRs"), interest income, and other items not properly included among program revenues are reported as general revenues. The Authority has no program revenues.

In addition to the government-wide financial statements, the Authority prepares financial statements for its only governmental fund. Governmental fund financial statements use the modified accrual basis of accounting and the current financial resources measurement focus. TSRs are recognized as soon as they are considered measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred. The Authority reports one governmental fund – the Bond Service Fund – which was created in the bond proceedings for the obligations and is used to account for all financial resources of the Authority.

As permitted by GASB Statement No. 34 the Authority's financial statements include separate Statement of Net Position and Statement of Activities columns reporting the financial activities using the accrual basis of accounting, in addition to the Bond Service Fund column reporting the financial activities using the modified accrual basis of accounting.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed. Assigned amounts are considered to have been spent when an expenditure is incurred for operating expenses of the Authority. Annually, the Authority prepares an Officer's Certificate indicating the amount of assigned fund balance to be used for operating expenditures of the Authority for the ensuing fiscal year.

Asset Recognition Criteria for TSRs.

The Authority has implemented GASB Technical Bulletin No. 2004-1: Tobacco Settlement Recognition and Financial Reporting Entity Issues (the "Bulletin"), effective July 1, 2003. The Bulletin requires the Authority to recognize TSRs when the event giving rise to recognition occurs (the domestic shipment of cigarettes by the tobacco manufacturers) in the government-wide financial statements, and when the event occurs and the TSRs become available in the fund financial statements. Other than the asset recognition criteria required by Bulletin No. 2004-1, future collections are not measurable and are therefore not recorded as assets in either the government-wide financial statements or the governmental fund financial statements.

Cash and Cash Equivalents

Cash includes cash on hand, demand deposits, and short term investments with maturities of three months or less from the date acquired by the Authority.

Investments

Investments are recorded on the statement of net position and the balance sheet at the measurement amount. All investment income, including changes in the fair value of investments, is reported as revenue in the statement of activities and the statement of revenues, expenditures, and changes in fund balance.

Pursuant to Ohio Revised Code Section 183.51(S) and as otherwise provided in the Trust Indenture, moneys to the credit of the Authority may be invested by or on behalf of the Authority only in one or more of the following:

a. Notes, bonds, or other direct obligations of the United States or of any agency or instrumentality of the United States, or in no-front-end-load money market mutual funds consisting exclusively of those obligations, or in repurchase agreements, including those issued by any fiduciary, secured by those obligations, or in collective investment funds consisting exclusively of those obligations;

b. Demand, trust and time deposits, money market deposit accounts or certificates of deposit of, or bankers' acceptances issued by, any bank or trust company, savings and loan association, or savings bank, payable on demand or on a specified date no more than three months after the date of issuance thereof;

c. Certificates, notes, warrants, bonds, obligations, or other evidences of indebtedness of a state or a political subdivision thereof;

d. Commercial or finance company paper including both noninterest-bearing discount obligations and interest bearing obligations payable on demand or on a specific date not more than 270 days after the date of issuance thereof;

e. Repurchase agreements with respect to any security described in paragraph a;

f. Securities bearing interest or sold at a discount (payable on demand or on a specified date no more than three months after the date of issuance thereof) that are issued by any corporation incorporated under the laws of the United States of America or any state thereof;

g. Units of taxable or tax-exempt money market funds which funds are regulated investment companies;

h. Investment agreements, forward purchase agreements or guaranteed investment contracts;

i. A surety, guaranty, letter of credit, liquidity agreement, agreement to purchase securities of the Authority or other similar agreement provided in lieu of or in substitution for amounts in the Senior Liquidity Reserve Account;

j. The treasurer of state's pooled investment program under section 135.45 of the Revised Code;

k. Other obligations or securities that are non-callable and that acceptable to each rating agency.

The Authority has not adopted a formal investment policy because the Trust Indenture contains these investment restrictions. Interest revenue represents interest received during the fiscal year, offset by the change in fair market value of investments and the net change in interest receivable (earned in June but paid in July).

Tobacco Settlement Receivable

Tobacco Settlement Receivable is calculated based on the subsequent year's estimated amount of the schedule of pre-adjusted base payments as reported in the March 2020 Offering Circular for the Series 2020 Bonds for the Authority (See Note 6). Only 50% of the amount is reported as a receivable, which represents receipts estimated for the period of January 1 through June 30.

Restricted Assets

The 2007 and 2020 bond Trust Indentures states that the trustee shall establish and maintain certain segregated trust accounts which include a "Collection Account," into which the Trustee will deposit all collections, and a "Bond Service Fund." Under the 2020 trust indenture, the "Bond Service Fund" includes the following subaccounts:

(1) Senior Debt Service Account
(2) Senior Liquidity Reserve Account
  (a) Class 1 Senior Liquidity Reserve Subaccount
  (b) Class 2 Senior Liquidity Reserve Subaccount
(3) Senior Turbo Redemption Account
(4) Lump Sum Payment Account
(5) First Subordinate Turbo Redemption Account
(6) Second Subordinate Turbo Redemption Account
(7) Fully Subordinate Turbo Redemption Account

The 2007 Series Senior Liquidity Reserve Account was originally funded in the amount of $389,231,603 which level was required to be maintained for so long as any Series 2007A Bonds or any other Senior Bonds remain outstanding. However, the Senior Liquidity Reserve Requirement could be amended by the Authority in connection with the issuance of refunding bonds or additional bonds. The account balance as of the date of the issuance of the Series 2020 Bonds were used to provide the additional resources needed to defease the outstanding Series 2007 Bonds.

The 2020 Series Class 1 and Class 2 Senior Liquidity Reserve Accounts were originally funded in the amount of $91,657,486 and $170,850,000, respectively, which levels are required to be maintained for so long as any Series 2020 Bonds remain outstanding. However, the 2020 Senior Liquidity Reserve Requirements may be amended by the Authority in connection with the issuance of refunding bonds or additional bonds. In addition, amounts on deposit in the 2020 Senior Liquidity Reserve Accounts will be available to pay the principal of and interest on the Series 2020 Bonds to the extent Collections are insufficient for such purpose. There was no draw down required for 2020. Amounts in the 2020 Series Senior Liquidity Reserve Accounts above the required funding levels are available to make Turbo Redemptions. Unless an event of default has occurred, amounts withdrawn from the Senior Liquidity Reserve Account could be replenished from collections in future years.

Deferred Inflows of Resources and Deferred Outflows of Resources

A deferred outflow of resources is a consumption of assets by the Authority that is applicable to a future reporting period.

The Authority transferred the proceeds from the Series 2007 Bonds to State agencies to fund capital projects at state-supported institutions of higher education and to pay the State's share of the cost of rebuilding elementary and secondary school facilities across the State. Pursuant to GASB Statement No. 48, the Authority has set up a deferred charge for the amount of bond proceeds used to fund the capital projects. The deferred charge is being amortized over the projected payment period of future TSRs and reported as a deferred outflow of resources on the financial statements. For 2020 amortization expense was $108,775,160.

In 2020, the Authority has recognized a $144,943,560 Deferred Charge on Refunding from the difference in the carrying value of refunded debt and its reacquisition price as result of the issuance of the Series 2020 refunding bonds. The deferred charge is being amortized over a straight-line method until the final maturity date of the Series 2007 Bonds (2052). During the year the Authority amortized $1,123,593 resulting in an ending balance of $143,819,967 as of June 30, 2020.

A deferred inflow of resources is an acquisition of assets by the Authority that is applicable to a future reporting period. Tobacco Settlement Receipts received or recognized before the eligibility requirements are met and are recorded as deferred inflows of resources in governmental funds. On governmental fund financial statements, receivables that will not be collected within the available period have been reported as a deferred inflow of resources.

Net Discount/Premium on Bonds Payable

Bonds can be issued with either a discount or premium. For the Series 2020 Bonds, the premium is being amortized on a straight-line basis over the life of each bond series up until the final maturity date for each series (see Note 5). The net discount/premium on bonds payable is a reduction/addition of bonds payable on the Statement of Net Position. The annual amortization expense is included in interest expense on the Statement of Activities.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due. Accrued interest payable is the amount of interest on the bonds accrued from the most recent interest payment date, June 1st, to the end of the fiscal year.

Budgeting Process

The Authority is not required by law or regulation to follow a legal budget or to present a budgetary statement.

Transfers to State Agencies

The Trust Indenture establishes a mechanism for the ongoing funding of the costs incurred or to be incurred (including reserves for the same) by the office of the Attorney General of the State with respect to enforcement of the MSA, the Qualifying Statute, the Consent Decree and related legislation (“Enforcement Expenses”). The Series 2007 Bonds stated the Authority’s funding of Enforcement Expenses is subject to an annual Enforcement Expense Transfer Cap of (i) $2.5 million through the Fiscal Year ending June 30, 2013 and (ii) thereafter $2 million, which $2 million will be indexed for inflation as set forth in the Trust Indenture. The Series 2020 Bonds have a cap of $2 million.

Use of Estimates

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

3. Deposits and Investments

Deposits. The Authority had no deposits as of June 30, 2020.

Investments. All of the Authority's investments are held by the trustee in several accounts in the name of the Authority. The following schedule reflects the Authority's investments at their measurement amounts, and associated credit risks and maturities as of June 30, 2020.

		Investments					
		S&P Credit Rating	Moody's Credit Rating	Measurement Amount	% of Total	Maturity < 3 months	Maturity 3-16 months
Money Market Funds:							
Goldman Sachs Financial Square Government Fund		AAAm	Aaa-mf	$ 1,209,538	0.3%	$ 1,209,538	$ 0
Commercial Paper:							
Exxon Mobil	Corp C P	A-1+	P-1	155,801,880	41.7%	0	155,801,880
Natixis	NY C P	A-1	P-1	216,441,669	58.0%	0	216,441,669
Total Investments				$ 373,453,087	100%	$ 1,209,538	$ 372,243,549

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above table identifies the Authority's recurring fair value measurements as of June 30, 2020. The Authority's investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications. Market indicators and industry and economic events are also monitored which could require the need to acquire further market data (Level 2 inputs).

Interest Rate Risk – The Authority limits investments in money market funds to those that are payable on demand or on a specified date no more than three months after the date of issuance. The Trust Indenture requires that investments in commercial paper mature in not more than 270 days from the date of issuance.

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. At June 30, 2020 all of the Authority's investments were held by the Trustee, U.S. Bank, and were not insured.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the Authority. Credit risk ratings are not required for obligations of the U.S. government or those obligations explicitly guaranteed by the U.S. government. The Trust Indenture limits investments in Commercial Paper to those rated at least "A-1" by S&P, "P-1" by Moody's, and "F1" by Fitch (if rated by Fitch). All other investments are limited to either those same ratings, or the three highest rating categories of each rating agency.

Concentration of Credit Risk – Concentration of Credit Risk is the risk of loss attributed to the magnitude of the government's investment in a single issuer. The Authority does not have a policy that limits concentration of credit risk in regard to the money market fund and commercial paper described above.

4. Restricted Assets

As of June 30, 2020, the Authority had restricted cash/cash equivalent and investment balances in the following accounts:

2007 and 2020 Bond Issuance - Collection Accounts	$	7,785
2020 Refunding Bonds - Senior Turbo Redemption Account		5,321
2007 and 2020 Bond Issuance - Senior Debt Service Accounts		110,620,303
2020 Refunding Bonds - Cost of Issuance Account		123,797
2007 and 2020 Bond Issuance - Liquidity Reserve Accounts		262,384,142
	$	373,141,348

Other restricted assets included accrued interest and the tobacco settlement receivable.

5. Bonds Payable

Series 2007 Bonds

The Authority is authorized by the Ohio General Assembly to issue and to sell obligations, the aggregate principal amount of which shall not exceed six billion dollars, exclusive of obligations issued to refund, renew, or advance refund other obligations issued or incurred.

On October 29, 2007, the Authority issued asset-backed bonds totaling $5,531,594,541 pursuant to a Trust Indenture between the Authority and U.S. Bank National Association, as trustee, dated as of October 1, 2007 (the "Trust Indenture"). The bonds are special revenue obligations of the Authority and are payable solely from the Pledged Tobacco Receipts and the other Collateral pledged under the Trust Indenture.

The Tobacco Settlement Asset-Backed Bonds, Series 2007, are comprised of the following:

Bond Type	Issued Amount
Series 2007A-1 Senior Current Interest Serial Bonds	$ 211,350,000
Series 2007A-2 Senior Current Interest Turbo Term Bonds due June 1, 2024, with interest of 5.375%. Projected Final Turbo Redemption Date: June 1, 2017.	200,000,000
Series 2007A-2 Senior Current Interest Turbo Term Bonds due June 1, 2024, with interest of 5.125%. Projected Final Turbo Redemption Date: June 1, 2017.	949,530,000
Series 2007A-2 Senior Current Interest Turbo Term Bonds due June 1, 2030, with interest of 5.875%. Projected Final Turbo Redemption Date: June 1, 2020.	687,600,000
Series 2007A-2 Senior Current Interest Turbo Term Bonds due June 1, 2034, with interest of 5.750%. Projected Final Turbo Redemption Date: June 1, 2022.	505,200,000
Series 2007A-2 Senior Current Interest Turbo Term Bonds due June 1, 2042, with interest of 6.000%. Projected Final Turbo Redemption Date: June 1, 2026.	250,000,000
Series 2007A-2 Senior Current Interest Turbo Term Bonds due June 1, 2047, with interest of 6.500%. Projected Final Turbo Redemption Date: June 1, 2028.	750,000,000
Series 2007A-2 Senior Current Interest Turbo Term Bonds due June 1, 2047, with interest of 5.875%. Projected Final Turbo Redemption Date: June 1, 2028.	1,383,715,000
Series 2007A-3 Senior Convertible Capital Appreciation Turbo Term Bonds due June 1, 2037 with interest after the conversion date of 6.250%. Projected Final Turbo Redemption Date: June 1, 2023. Converted December 1, 2012.	274,751,138
Series 2007B First Subordinate Capital Appreciation Turbo Term Bonds due June 1, 2047. Projected Final Turbo Redemption Date: June 1, 2030.	191,265,480
Series 2007C Second Subordinate Capital Appreciation Turbo Term Bonds due June 1, 2052. Projected Final Turbo Redemption Date: June 1, 2031.	128,182,923

These bonds were refunded in March 2020 with the issuance of the Series 2020 Refunding Bonds.

Series 2020 Senior Bonds (Refunding Bonds)

In March 2020, the Authority issued $5,352,196,396 in refunding bonds. The proceeds of the bonds were used to refund the Authority's outstanding 2007 Series Bonds. At the date of the refunding, $5,817,155,014 was deposited in an irrevocable trust to provide for all future payments on the refunded bonds. As of June 30, 2020 $5,695,243,011 of these bonds are considered defeased. As of June 30, 2020 $375,800,000 of the Series 2007A-3 are still outstanding.

The Tobacco Settlement Asset-Backed Bonds, Refunding Bonds, Series 2020 Senior, are comprised of the following:

Bond Type	Interest Rate	Final Maturity Date	Issued Amount
2020 A-1 Class 1 Senior Serial Bonds	1.54% - 2.00%	June 1, 2027	$ 328,400,000
2020 A-2 Class 1 Senior Serial Bonds	4.00% - 5.00%	June 1, 2039	557,840,000
2020 A-2 3% Class 1 Senior Term Bonds	3.00%	June 1, 2048	250,000,000
2020 A-2 4% Class 1 Senior Term Bonds	4.00%	June 1, 2048	331,670,000
2020 B-1 Class 2 Senior Taxable Turbo Term Bonds	1.85%	June 1, 2029	100,000,000
2020 B-2 Class 2 Senior Turbo Term Bonds	5.00%	June 1, 2055	3,380,000,000
2020 B-3 Class 2 Senior Turbo CAB's	5.625%	June 1, 2057	404,286,396

Interest on the Series 2020 Bonds (excluding Capital Appreciation Bonds "CAB's") is payable semiannually on each June 1 and December 1. Interest on the Series 2020 B-3 Class 2 Senior Turbo CAB's will not be payable currently and will accrete from the delivery date and be compounded on each December 1 and June 1 until maturity or earlier redemption.

The $404,286,396 Series 2020 B-3 Class 2 Senior Turbo Capital Appreciation Bonds represent bonds that were issued at stated interest rates significantly below their effective interest rates, resulting in a substantial discount. The implicit interest, i.e., discount (unaccreted appreciation), is not paid until the bonds begin to mature. Therefore, the net value of the bonds "accretes" each year. The accreted book value is $409,742,826 as of June 30, 2020.

The Series 2020 Senior Bonds were issued with a premium of $511,874,965, which is reported as an increase to bonds payable. The amount is being amortized to interest expense over the maturity life of 2020 Bonds using the straight-line method. The issuance costs of $28,516,445 have been expensed.

Changes in bonds payable during the year ended June 30, 2020 were as follows:

	Principal Outstanding 7/1/2020	Additions	Reductions	Refunded	Principal Outstanding 7/1/2020	Due Within One Year
2007 Series						
2007 A-2 Series Turbo Bonds	$ 4,539,345,000	$0	$ (185,000)	$ (4,539,160,000)	$0	$0
2007 A-3 Capital Appreciation Bonds	274,751,138	0	0	(274,751,138)	0	0
Accretion on Capital Appreciation Bonds	101,048,862	0	0	(101,048,862)	0	0
2007 B Capital Appreciation Bonds	191,265,480	0	0	(191,265,480)	0	0
Accretion on Capital Appreciation Bonds	245,303,430	24,982,530	0	(270,285,960)	0	0
2007 C Capital Appreciation Bonds	128,182,923	0	0	(128,182,923)	0	0
Accretion on Capital Appreciation Bonds	172,744,515	17,804,133	0	(190,548,648)	0	0
Discount on 2007 Bond Issuance	(44,768,274)	0	2,314,304	42,453,970	0	0
Premium on 2007 Bond Issuance	19,019,151	0	(468,018)	(18,551,133)	0	0
2020 Series						
2020 A1 & A2 Seral and Term Bonds	0	1,467,910,000	(52,945,000)	0	1,414,965,000	40,045,000
2020 B1 Taxable Turbo Bonds	0	100,000,000	(69,930,000)	0	30,070,000	0
2020 B2 Turbo Bonds	0	3,380,000,000	0	0	3,380,000,000	0
2020 B3 Turbo Capital Appreciation Bonds	0	404,286,396	0	0	404,286,396	0
Accretion on Capital Appreciation Bonds	0	5,456,430	0	0	5,456,430	0
Premium on 2020 Refunding Bonds	0	511,874,965	(5,718,308)	0	506,156,657	0
Total Outstanding Long-Term Obligations	$ 5,626,892,225	$ 5,912,314,454	$ (126,932,022)	$ (5,671,340,174)	$ 5,740,934,483	$ 40,045,000

The Series 2020 Bond issuance resulted in a significant economic gain for the Authority. The cash flows required to service the Series 2007 Bonds to maturity as of March 4, 2020 totaled $16,148,017,097. As of the closing of the Series 2020 Bonds on March 4, 2020, the cash flows required to service the Series 2020 Bonds was $10,248,569,687. This reduction in debt service to maturity totaled $5,899,447,410

As of June 30, 2020, the Bonds are subject to the following debt service to maturity requirements. The years shown for Turbo Term Bonds represent the Turbo Redemption Dates beginning with fiscal year 2020 based on the TSR forecast from the Series 2020 Bond issuance.

	Series A-1 and A-2, Class 1 Senior and Term Bonds		Series B-1 Class 2, Turbo Term Bonds	
Fiscal Year	Principal	Interest	Principal	Interest
2021	$ 40,045,000	$ 51,928,662	$ 30,070,000	$ 556,295
2022	40,690,000	51,296,130	0	0
2023	41,365,000	50,632,884	0	0
2024	42,065,000	49,950,362	0	0
2025	42,810,000	49,231,470	0	0
2026 - 2030	219,355,000	227,274,638	0	0
2031 - 2035	204,590,000	178,390,750	0	0
2036 - 2040	258,175,000	124,964,800	0	0
2041 - 2045	310,875,000	72,528,300	0	0
2046 - 2050	214,995,000	15,567,850	0	0
Total	$ 1,414,965,000	$ 871,765,846	$ 30,070,000	$ 556,295

	Series B-3, Class 2 Capital Appreciation Bonds		Series B-2, Class-2 Turbo Term Bonds	
Fiscal Year	**Principal**	**Interest**	**Principal**	**Interest**
2021	$ 0	$ 0	$ 93,530,000	$ 169,000,000
2022	0	0	73,700,000	164,323,500
2023	0	0	75,415,000	160,638,500
2024	0	0	77,005,000	156,867,750
2025	0	0	79,115,000	153,017,500
2026 - 2030	0	0	488,950,000	701,344,000
2031 - 2035	0	0	698,955,000	556,961,000
2036 - 2040	0	0	910,475,000	362,006,000
2041 - 2045	113,998,959	336,874,939	882,855,000	110,761,750
2046 - 2050	290,287,437	1,099,767,812	0	0
	$ 404,286,396	$ 1,436,642,751	$ 3,380,000,000	$ 2,534,920,000

	Total	
Fiscal Year	**Principal**	**Interest**
2021	$ 163,645,000	$ 221,484,957
2022	114,390,000	215,619,630
2023	116,780,000	211,271,384
2024	119,070,000	206,818,112
2025	121,925,000	202,248,970
2026 - 2030	708,305,000	928,618,638
2031 - 2035	903,545,000	735,351,750
2036 - 2040	1,168,650,000	486,970,800
2041 - 2045	1,307,728,959	520,164,989
2046 - 2050	505,282,437	1,115,335,662
	5,229,321,396	$ 4,843,884,892

Less: Unamortized premium/discount on bonds payable	506,156,657
Plus: Accreted interest on capital appreciation bonds	5,456,430
Bonds payable	5,740,934,483

The preceding schedule includes (i) serial bond maturities that the Authority must pay as of specific distribution dates in order to avoid an event of default under the Trust Indenture, (ii) turbo term bond payments that the Authority would pay according to the Trust Indenture if sufficient TSRs are collected; however, a failure to pay before final maturity does not constitute an event of default under the Trust Indenture, and (iii) capital appreciation turbo term bond maturities.

Turbo Redemptions

The Authority has covenanted to apply 100% of all surplus collections of TSRs, if any, to the special mandatory redemption ("Turbo Redemption") of the 2020 Turbo Bonds at the principal amount or accreted value thereof on each distribution date (or a special redemption date pursuant to the Trust Indenture) in accordance with the payment priorities as further set forth in the Trust Indenture. Turbo Redemptions are not scheduled amortization payments and are to be made only from surplus collections, if any. Failure to pay Turbo Redemptions on turbo term bonds does not constitute an event of default. Amounts in the Senior Liquidity Reserve Accounts above the required funding levels are available to make Turbo Redemptions.

6. Contingencies and Commitments

While the Authority's share of the total base payments to the states through 2057 will not change over time, estimating the amount of annual payments that actually will be received in any given year can be complex, since under the terms of the MSA, payments are subject to a number of adjustment factors, including an inflation adjustment, a volume adjustment, and a potential adjustment for market share losses of participating manufacturers. Some of these adjustments, such as the inflation adjustment, result in the Authority receiving higher payments. Other factors such as the volume adjustment and the market share adjustment can and have worked to reduce the amount of the Authority's annual payments.

In addition to the base payments, in 2008 through 2017, the Authority received payments from the Strategic Contribution Fund. The Strategic Contribution Fund was established to reward states that played leadership roles in the tobacco litigation and settlement negotiations. Allocations from the fund were based on a state's contribution to the litigation and settlement with the tobacco companies. These payments were also subject to the adjustment factors outlined in the MSA. Strategic contribution payments ended in 2017. Beginning in 2018, annual payments consist solely of the base payment plus amounts, if any, paid by participating manufacturers relating to prior years and amounts, if any, released from the disputed payment account.

During fiscal year 2020, the Authority received $286,502,937 (including $110 released from disputed payment accounts in connection with prior fiscal year deposits into those accounts), which is $47,593,827 or 14.25 percent less than the base and strategic contribution fund payments estimated at the time of the Series 2020 Refunding Bond issuance for fiscal year 2020. As of June 30, 2020, the estimated tobacco settlement receivable included $488,672,986 for payments withheld from the Authority in fiscal years 2008 through 2020 by the cigarette manufacturers when they exercised the market share loss provisions of the MSA. These moneys were either withheld or are on deposit in an escrow account until pending litigation between the States and the manufacturers is resolved. The Authority contends it has met its obligations under the MSA and is due the disputed and withheld payments.

A schedule of pre-adjusted base payments (as reported in the March 2020 Offering Circular for the bonds) for the Authority in future years follows:

Year Ending		Base Payments
2021	$	327,716,729
2022		324,044,612
2023		322,070,167
2024		319,878,450
2025		318,116,197
2026-2030		1,586,662,961
2031-2035		1,600,905,944
2036-2040		1,613,570,769
2041-2045		1,621,512,145
2046-2050		1,628,281,804
2051-2055		1,635,906,945
2056-2057		657,210,894
Total	$	11,955,877,617

The State has an ownership interest in excess TSRs to be received by the Authority after the Bonds, and related operating expenses, have been fully paid. The ownership interest is evidenced by a "Residual Certificate." Since the *Purchase and Sale Agreement* entered into between the State and the Authority includes TSRs to be received under the MSA on or after October 29, 2007 until the bonds have been fully repaid, the amount of excess TSRs cannot be estimated.

7. Other Credit Risks

The Bonds are secured by and payable solely from TSRs and investment earnings pledged under the Trust Indenture and amounts established and held in accordance with the Trust Indenture. The Bonds are payable only from the assets of the Authority. In the event that the assets of the Authority have been exhausted, no amounts will thereafter be paid on the Bonds. The Bonds are not legal or moral obligations of the State, and no recourse may be had thereto for payment of amounts owing on the Bonds. The Authority has no taxing power.

The amount of pledged tobacco receipts received by the Authority is dependent upon many factors, including future domestic cigarette consumption, financial capability of the PMs, litigation affecting the MSA and potential payment decreases under the terms of the MSA.

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 or are on appeal. 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 Authority may not have adequate financial resources to make payment on the Series 2020 Bonds (the Series 2007 Bonds have been defeased).

8. Financial Statement Reconciliation

The following is a detailed explanation for the amounts included in the "Reconciliation" column of the accompanying financial statements:

A. Governmental Fund Balance Sheet / Statement of Net Position

Total Governmental Fund Balances		$ 4,307,166,133
Net Position of Governmental Activities is different because:		
Unamortized loss on refunding represents deferred outflows, which do not provide current financial resources and, therefore, are not reported in the funds.		143,819,967
Some of the Authority's assets are not available to pay for current period expenditures, and therefore, are reported as deferred revenue in the funds:		
Tobacco Settlement Revenue		652,531,351
Long term liabilities and related accounts are not due and payable in the current period and therefore are not reported in the governmental funds:		
Accrued Interest Payable	(18,457,095)	
Bonds Payable, Net of Premium	(5,740,934,483)	(5,759,391,578)
Net Position of Governmental Activities		$ (655,874,127)

B. Statement of Governmental Fund Revenues, Expenditures, and Change in Fund Balance / Statement of Activities

Net Change in Fund Balance - Total Governmental Funds		$ (119,004,130)
The change in net position of governmental activities is different because:		
Some of the Authority's revenues in the statement of activities do not provide current financial resources; therefore, they are not reported as revenues in the funds:		
Tobacco Settlement Revenue	$ 35,205,646	
Interest Revenue	(871,278)	34,334,368
Debt proceeds issued in the governmental funds that increase long-term liabilities in the statement of net position are not reported as revenues.		
Proceeds from Debt Refunding	(5,352,196,396)	
Premium on Debt Refunding Issuance	(511,874,965)	(5,864,071,361)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		
Bond Principal Repayments	123,060,000	
Payment to Refunded Escrow Agent	5,817,155,014	5,940,215,014
In the statement of activities, interest is accrued on outstanding bonds, and bond discount/premium and the gain/loss on refunding are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when bonds are issued.		
Accrued Interest Payable	10,041,194	
Amortization of Discount/Premium on Bonds	3,872,020	
Amortization of Refunding (net)	(1,123,593)	
Accretion of Capital Appreciation Bonds	(48,243,093)	(35,453,472)
Net Change in Net Position of Governmental Activities		$ (43,979,581)

9. Implementation of New Accounting Principles

For the fiscal year ended June 30, 2020, the Authority has implemented Governmental Accounting Standards Board (GASB) Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance.* GASB Statement No. 95 postpones the effective dates of certain provisions in the statements that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The following statements are postponed by one year:

- Statement No. 84, *Fiduciary Activities*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*

Certain provisions in the following statements are postponed by one year:

- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*

The following statement is postponed by 18 months:

- Statement No. 87, *Leases*

For the fiscal year ended June 30, 2020, the Authority has early implemented all GASB's that have the option to postpone under GASB Statement No. 95

GASB Statement No. 84 establishes specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business type activities should report their fiduciary activities. Due to the implementation of GASB Statement No. 84, the Authority will no longer be reporting agency funds. The implementation of GASB Statement No. 84 did not have an effect on the financial statements of the Authority.

GASB Statement No. 87 has an objective to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The implementation of GASB Statement No. 87 did not have an effect on the financial statements of the Authority.

GASB Statement No. 89 requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The implementation of GASB Statement No. 89 did not have an effect on the financial statements of the Authority.

GASB Statement No. 90 improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. The implementation of GASB Statement No. 90 did not have an effect on the financial statements of the Authority.

GASB Statement No. 91 defines conduit debt obligations for accounting and financial reporting purposes and establishes related standards for recognition, measurement, and disclosure for issuers. The implementation of GASB Statement No. 91 did not have an effect on the financial statements of the Authority.

GASB Statement No. 93 establishes accounting and financial reporting requirements related to the replacement of IBOR's in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The implementation of GASB Statement No. 93 did not have an effect on the financial statements of the Authority.

GASB Statement No. 92 enhances comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The implementation of GASB Statement No. 92 did not have an effect on the financial statements of the Authority.

10. Settlement Agreement

On October 29, 2007, the Authority entered into a Reserve Fund Agreement (the "RFA") with Lehman Brothers Special Financing, Inc. ("Lehman"), pursuant to which Lehman guaranteed the Authority a rate of return of 4.682% per annum on the approximately $389 million held in the Senior Liquidity Reserve Account. On September 15, 2008, Lehman filed for bankruptcy, which constituted an event of default under the RFA and provided the Authority with the right to terminate the RFA. In September 2008, the Authority terminated the RFA and filed a proof claim asserting that Lehman owed the Authority not less than $29,442,000, plus accrued interest and costs.

The Authority and Lehman subsequently engaged in a mediation process aimed at resolving the dispute, which was unsuccessful. On July 1, 2016, Lehman filed a Complaint in the United States Bankruptcy Court for the Southern District of New York, asserting that the Authority owes Lehman $20,677,906, plus interest. On August 23, 2016, the Authority filed its Answer and Counterclaim, denying Lehman's allegations and asserting a counterclaim in the amount of not less than $29,442,000, plus accrued interest and costs. On October 18, 2016, the parties entered into a settlement agreement, pursuant to which the Authority received allowed non-priority general unsecured claims against Lehman (the "Allowed Claims"), with payment on the Allowed Claims not to exceed $13,500,000. No assurances can be provided by the Authority as to the timing or amount, if any, of future distributions on the Allowed Claims. Below are the amounts received and reported as Proceeds from Settlement in the years collected:

Year	Amount
2017	$ 8,473,441
2018	508,646
2019	180,342
2020	62,986

11. Subsequent Event

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Authority. In addition, the impact on the Authority's future MSA payments impacted by any potential changes in tobacco consumption cannot be estimated

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

September 30, 2020

Buckeye Tobacco Settlement Financing Authority
30 East Broad Street, 34th Floor
Columbus, Ohio 43215

To the Authority:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities and Debt Service Fund of the Buckeye Tobacco Settlement Financing Authority, (the Authority), a blended component unit of the State of Ohio, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated September 30, 2020, wherein we noted as discussed in Note 11, the financial impact of COVID-19 and the ensuing emergency measures may impact subsequent periods

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Authority's internal control. Accordingly, we have not opined on it.

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Rea & Associates, Inc.

Rea & Associates, Inc.
Gahanna, Ohio

OHIO AUDITOR OF STATE
KEITH FABER

BUCKEYE TOBACCO SETTLEMENT FINANCING AUTHORITY OF OHIO

FRANKLIN COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

This is a true and correct copy of the report, which is required to be filed pursuant to Section 117.26, Revised Code, and which is filed in the Office of the Ohio Auditor of State in Columbus, Ohio.

Certified for Release 12/8/2020

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