LEGISLATIVE AUDITOR

STATE OF LOUISIANA

TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA

FINANCIAL STATEMENT AUDIT
ISSUED JANUARY 26, 2005

LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397

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		Page
Independent Auditor's Report on the Financial Statements		3
Management's Discussion and Analysis		5
	Statement	
Basic Financial Statements:		
Governmental Fund Balance Sheet and Statement of Net Assets	A	9
Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance and Statement of Activities	B	11
Notes to the Financial Statements		13
Other Supplementary 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, 2004		25
	Exhibit	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Basic Financial Statements Performed in Accordance With *Government Auditing Standards*	A	
	Appendix	
Management's Corrective Action Plans and Responses to the Findings and Recommendations	A	

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January 11, 2005

Independent Auditor's Report
on the Financial Statements

TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the debt service fund and governmental activities of the Tobacco Settlement Financing Corporation (Corporation), a blended component unit of the State of Louisiana, as of and for the year ended June 30, 2004, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management of the Corporation. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the debt service fund and governmental activities of the Corporation as of June 30, 2004, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1-M to the financial statements, the Corporation implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment to GASB Statement No. 3,* and GASB Technical Bulletin 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, for the year ended June 30, 2004. GASB Statement 40 requires additional deposit and investment disclosures but had no impact on the reported amounts of deposits, investments, net assets, or changes in net assets. As a result of implementing GASB Technical Bulletin 2004-1, the Corporation now recognizes tobacco settlement revenue and the related receivable when the domestic shipment of cigarettes (sales) occurs. In addition, the Corporation, previously reported as an enterprise fund on the full accrual basis of accounting, is now reported as a debt service fund on the modified accrual basis of accounting. The effect of this change is disclosed in note 7 to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2005, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

SGW:JMR:THC:dl

TSFC04

This section of the Tobacco Settlement Financing Corporation's (Corporation) annual financial report represents management's analysis of the Corporation's financial performance during the period from July 1, 2003, to June 30, 2004. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Corporation's net asset deficit decreased $25,108,536 (or 2.7%).
- The revenues of the Corporation decreased $54,630,921 (or 37.2%).
- The expenses of the Corporation decreased $2,305,664 (or 3.3%).
- Transfers to the State of Louisiana decreased $82,472 (or 100%).

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

Statement of Net Assets
June 30, 2004 and 2003

	June 30, 2004	June 30, 2003 (Restated)
Current assets	$194,006	$224,984
Noncurrent assets	209,160,403	209,284,935
Total assets	209,354,409	209,509,919
Current liabilities	34,464,655	8,408,701
Long-term liabilities	1,084,025,000	1,135,345,000
Total liabilities	1,118,489,655	1,143,753,701
Net assets - restricted for debt service	180,798,333	138,103,352
Net assets (deficit) - unrestricted	(1,089,933,579)	(1,072,347,134)
Total net assets (deficit)	($909,135,246)	($934,243,782)

Summary of Changes in Net Assets
For the Years Ended June 30, 2004 and 2003

	June 30, 2004	June 30, 2003 (Restated)
Revenues	$92,165,781	$146,796,702
Expenses	(67,057,244)	(69,362,908)
Excess of revenues over expenses	25,108,537	77,433,794
Transfers to the State of Louisiana	NONE	(82,472)
Increase in net assets	$25,108,537	$77,351,322

The amounts shown previously for fiscal year 2003 were restated for prior period adjustments as disclosed in note 7. These adjustments affected total assets, unrestricted net assets (deficit), and revenues.

FUND FINANCIAL STATEMENTS

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

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

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

BUDGET ANALYSIS

The Corporation's original budget for the year ending June 30, 2004, was approved on October 17, 2003, by the Joint Legislative Committee on the Budget. Budget amendments for the fiscal year ending June 30, 2004, were not required. Differences between budgeted and actual amounts were not material.

LONG-TERM DEBT ACTIVITY

At June 30, 2004, the Corporation has $1,110,310,000 in outstanding debt. The Corporation made bond payments totaling $25,035,000 during the year ended June 30, 2004. A description of this long-term debt activity is located at note 4.

CONTACTING THE TOBACCO SETTLEMENT FINANCING CORPORATION'S MANAGEMENT

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

TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA

Governmental Fund Balance Sheet and Statement of Net Assets, June 30, 2004

	DEBT SERVICE FUND	ADJUSTMENTS (NOTE 1-D)	STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES
ASSETS			
Current Assets:			
Cash (note 2)	$194,006		$194,006
Investments (note 3)	136,122,595	($136,122,595)	
Receivables (note 8)	1,067,005	(1,067,005)	
Total current assets	137,383,606	(137,189,600)	194,006
Noncurrent Assets:			
Unamortized bond issue cost		28,362,070	28,362,070
Restricted assets:			
Investments (note 3)		136,122,595	136,122,595
Tobacco settlement receivable (note 8)		44,552,883	44,552,883
Interest receivable (note 8)		122,855	122,855
Total noncurrent assets	NONE	209,160,403	209,160,403
Total Assets	$137,383,606	71,970,803	209,354,409
LIABILITIES			
Current Liabilities:			
Bank fees payable	$8,312		8,312
Accounts payable - State of Louisiana	10,000		10,000
Accrued interest payable	8,161,343		8,161,343
Bonds payable (note 4)		26,285,000	26,285,000
Total current liabilities	8,179,655	26,285,000	34,464,655
Noncurrent Liabilities - bonds payable (note 4)	NONE	1,084,025,000	1,084,025,000
Total Liabilities	8,179,655	1,110,310,000	1,118,489,655
FUND BALANCE/NET ASSETS			
Fund Balance - reserved for debt service	129,203,951	(129,203,951)	NONE
Total Liabilities and Fund Balance	$137,383,606		
Net Assets (Deficit):			
Restricted for debt service (note 5)		180,798,333	180,798,333
Unrestricted (note 6)		(1,089,933,579)	(1,089,933,579)
Total Net Assets (Deficit)		($909,135,246)	($909,135,246)

The accompanying notes are an integral part of this statement.

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TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA

Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance and Statement of Activities
For the Year Ended June 30, 2004

	DEBT SERVICE FUND	ADJUSTMENTS (NOTE 1-D)	STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES
REVENUES			
Tobacco settlement revenues (note 8)	$85,916,950	$1,122,332	$87,039,282
Investment income	5,126,498		5,126,498
Total revenues	91,043,448	1,122,332	92,165,780
EXPENDITURES/EXPENSES			
Bank fees	60,293		60,293
Professional services	49,056		49,056
Amortization of bond issue cost		147,577	147,577
Debt service:			
Principal retirement	25,035,000	(25,035,000)	
Interest and fiscal charges	66,614,780	185,538	66,800,318
Total expenditures/expenses	91,759,129	(24,701,885)	67,057,244
EXCESS (Deficiency) OF REVENUES OVER (Under) EXPENDITURES/EXPENSES	(715,681)	25,824,217	25,108,536
FUND BALANCE/NET ASSETS (Deficit) AT BEGINNING OF YEAR (Restated) (note 7)	129,919,632	(1,064,163,414)	(934,243,782)
FUND BALANCE/NET ASSETS (Deficit) AT END OF YEAR	$129,203,951	($1,038,339,197)	($909,135,246)

The accompanying notes are an integral part of this statement.

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INTRODUCTION

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

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

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

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

The Corporation is governed by a board consisting of 13 members as follows: (i) the Governor or 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; (vi) seven members appointed by the Governor from each of the seven congressional districts; and (vii) one additional member appointed from the state. The State Treasurer serves as the secretary-treasurer of the Corporation and the board. The Corporation is a blended component unit of the state and is included in the state's financial statements.

Operations of the Corporation were funded initially with a portion of bond proceeds and in subsequent years will be funded with Corporation investment income. The Corporation has no employees. R.S. 39:99.8(A) states the staff of the Department of the Treasury, including that of the State Bond Commission, may, pursuant to a cooperative endeavor agreement, serve as staff to the Corporation under the supervision of the state treasurer.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

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

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

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

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

C. FUND ACCOUNTING

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

D. ADJUSTMENTS

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

E. BUDGET PRACTICES

Annually, the Corporation is required under R.S. 39.99.6 (C) to submit an operating budget for approval to the State Bond Commission and to the Joint Legislative Committee on the Budget. The Corporation has an approved operating budget for the fiscal year ending June 30, 2004.

F. CASH AND INVESTMENTS

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

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

G. RESTRICTED ASSETS

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

H. CAPITAL ASSETS

The Corporation has no capital assets at June 30, 2004.

I. LONG-TERM OBLIGATIONS

Long-term obligations are reported at face value.

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

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

K. NET ASSETS

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

> Restricted net assets consist of external constraints placed on net asset use by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
>
> Unrestricted net assets consist of all other net assets that are not included in restricted net assets.

L. ESTIMATES

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

M. ADOPTION OF NEW ACCOUNTING STANDARDS

For the year ended June 30, 2004, the Corporation implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment to GASB Statement No. 3*. The implementation of this new accounting standard required additional disclosures but had no impact on the reported amounts of investments, net assets, or changes in net assets. Also, for the year ended June 30, 2004, the Corporation implemented GASB Technical Bulletin 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues.* Specifically, this bulletin allows for the recognition of an asset (receivable) and revenue once the domestic shipment of cigarettes (sales) takes place. The estimate of revenues and receivables to be recognized is derived from the next projected Tobacco Settlement Revenue payment from the Master Settlement Agreement (MSA) and requires a restatement of beginning fund balance at the full accrual level for revenues and receivables recognized in the prior year. The implementation of this technical bulletin also resulted in the Corporation changing from an enterprise fund reported on the full accrual basis of accounting to a debt service fund reported on the modified accrual basis of accounting.

2. CASH

At June 30, 2004, the Corporation has cash (book balances) totaling $194,006, which is held in a demand deposit account, as presented on Statement A. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The board has $100,000 in deposits (collected bank balances) that are secured from risk by federal deposit insurance. The remaining $94,006 is uninsured and uncollateralized. The Corporation does not have a formal policy for custodial credit risk for cash.

3. INVESTMENTS

At June 30, 2004, investments of $136,122,595, as presented on Statement A, consist of the following:

Investment Type	Fair Value	*Credit Quality Rating	Percentage of Investments	Maturity - Less Than 1 Year
One Group Government Money Market	$30,299,584	AAA	22.26%	$30,299,584
Morgan JP Chase & Company - Commercial Paper	91,055,292	A-1	66.89%	91,055,292
Briarwood Commercial Paper Trust - Commercial Paper	14,606,969	A-1+	10.73%	14,606,969
General Electric Capital Corporation - Commercial Paper	160,750	A-1	0.12%	160,750
Total investments	$136,122,595		100.00%	$136,122,595

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investment that are in the possession of an outside party. The Corporation does not have a formal investment policy for custodial credit risk. As of June 30, 2004, an amount of $105,823,011 of the Corporation's total investments of $136,122,595 was exposed to custodial credit risk since these investments were uninsured, unregistered, and held by the counterparty in the Corporation's name

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

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

Interest Rate Risk: This risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. To minimize this risk, the Corporation has entered into a reserve fund agreement with Lehman Brothers Special Financing Inc., that guarantees an annual investment rate of return of 4.36% on the 2001-A Liquidity Reserve Requirement balance and has entered into an agreement with Bayerische Hypo-Und Vereinsbank AG, New York Branch that guarantees an annual investment rate of return of 4.63% on the 2001-B Liquidity Reserve Requirement balance. These two investments account for 77.62% of total investments.

Reserve Requirements: Of the total investment balance of $136,122,595, an amount of $103,920,481 consists of the Liquidity Reserve Requirement provided for by the bond indenture. The 2001-A bond series reserve requirement is $14,764,534 and for the 2001-B bond series, the reserve requirement is $89,155,947**.** The Corporation met its reserve balance requirements at June 30, 2004**.**

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	$190,515,000
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	689,405,000
Total long-term debt	$1,110,310,000

The following is a summary of the debt obligation transactions for the year ended June 30, 2004:

	Long-Term Debt Payable at June 30, 2003	Additions	Deductions	Long-Term Debt Payable at June 30, 2004
Tobacco Settlement Asset-Backed bonds:				
Series 2001A (Taxable) due May 15, 2025	$215,550,000		$25,035,000	$190,515,000
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
Total	$1,135,345,000	NONE	$25,035,000	$1,110,310,000

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

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

The proceeds of this issue were used for the following:

Payment to the state for 60% of 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	17,695,296
Total Bond Proceeds	$1,202,770,000

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

	Term Bond Maturities		Sinking Fund Maturities		Turbo Maturities	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2005		$65,290,748		$65,290,748	$26,285,000	$65,290,748
2006		65,290,748		65,290,748	31,170,000	63,619,022
2007		65,290,748		65,290,748	34,390,000	61,636,610
2008		65,290,748		65,290,748	53,175,000	59,449,406
2009		65,290,748		65,290,748	58,125,000	56,067,476
2010-2014		326,453,739		326,453,739	369,740,000	224,570,050
2015-2019		326,453,739	$32,730,000	325,268,553	532,870,000	99,478,731
2020-2024		326,453,739	123,765,000	302,093,030	4,555,000	267,606
2025-2029	$190,515,000	277,986,726	210,530,000	254,466,791		
2030-2034	230,390,000	215,184,169	318,675,000	183,691,619		
2035-2039	689,405,000	202,512,719	424,610,000	75,481,706		
Total	$1,110,310,000	$2,001,498,571	$1,110,310,000	$1,793,909,178	$1,110,310,000	$630,379,649

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.

5. RESTRICTED NET ASSETS

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

Investments	$136,122,595
Tobacco settlement receivable	44,552,883
Interest receivable	122,855
Net assets restricted for debt service	$180,798,333

6. UNRESTRICTED NET ASSETS (DEFICIT)

On November 7, 2001, the Corporation issued $1,202,770,000 in Tobacco Settlement Asset-Backed Bonds. During the fiscal year ended June 30, 2002, a total of $1,069,510,895 was transferred to other funds of the State of Louisiana in accordance with state law. Of the remaining assets related to the bond issuance and other operations of the Corporation at June 30, 2004, a total of $180,798,333 is restricted for debt service, resulting in a deficit for unrestricted net assets of $1,089,933,579, as presented on Statement A.

7. RESTATEMENT OF PRIOR YEAR NET ASSETS (DEFICIT)

As discussed in note 1-M, the Corporation implemented GASB Technical Bulletin 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, for the current year. This implementation reduced the Corporation's previously reported net asset deficit of ($976,730,181) to ($934,243,782) for the recognition of prior year tobacco settlement receivables and revenue totaling $42,486,399.

8. TOBACCO SETTLEMENT REVENUES AND RECEIVABLE

Tobacco Settlement Revenues (TSRs) consist of the amounts to be received under the terms of an MSA among participating cigarette manufacturers and 46 states and six other U.S. jurisdictions (Settling States). The MSA is an industry wide settlement of litigation between the Settling States and the Original Participating Manufacturers (OPMs) and was entered into between the attorneys general of the Settling States and the OPMs on November 23, 1998. The MSA provides for other tobacco companies, referred to as Subsequent Participating Manufacturers (SPMs), to become parties to the MSA. The four OPMs together with the 30+ SPMs are referred to as the Participating Manufacturers (PMs). The settlement represents the resolution of a large potential financial liability of the PMs for smoking-related injuries, the cost of which 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 through April 15, 2017 (Strategic Contribution Payments). Before forming the Corporation, the PMs made the first of the three required Initial Payments and the Annual Payments due April 15, 2000 and 2001, none of which the Corporation had any right to receive.

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

Much of the TSRs represent a portion of future sales of tobacco products. Technical Bulletin No. 2004-1 clarified guidance relating to the recognition of revenues and receivables. Specifically, the bulletin allows for the recognition of revenue to be received based on the shipment of domestic cigarettes. The amount recognized is estimated to be 50% of the next projected payment due from the MSA. Accordingly, the Statement of Net Assets includes an estimated receivable of $43,608,733.

The composition of accounts receivable is as follows:

Estimated tobacco settlement receivable	$43,608,733
Tobacco settlement receivable from Vibo Corporation	944,150
Interest receivable	122,855
Total accounts receivable	$44,675,738

9. ADMINISTRATIVE EXPENSES

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

10. CONTINGENCIES

Certain smokers, consumer groups, cigarette manufacturers, cigarette importers, cigarette distributors, native American tribes, taxpayers, taxpayers' groups and other parties have instituted litigation against various tobacco manufacturers, including the PMs, as well as certain Settling States and other public entities. The lawsuits allege, among other things, that the MSA violates certain provisions of the United States Constitution, state constitutions, the federal antitrust laws, federal civil rights laws, state consumer protection laws and unfair competition laws, certain of which actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. The lawsuits seek, among other things, an injunction against one or more of the Settling States from collecting any monies under the MSA and barring the PMs from collecting cigarette price increases related to the MSA and/or a determination that the MSA is void or unenforceable. In addition, class action lawsuits have been filed in several federal and state courts alleging that under the federal Medicaid law, any amount of tobacco settlement funds that the Settling States receive in excess of what they paid through the Medicaid program to treat tobacco-related diseases should be paid directly to Medicaid recipients. To date, no such lawsuits have been successful. The enforcement of the terms of the MSA may, however, continue to be challenged in the future. In the event of an adverse court ruling, the Corporation may not have adequate financial resources to make payment on the Series 2001 Term Bonds.

In addition, the tobacco companies are involved in a case filed on September 22, 1999, by the United States (US Department of Justice vs. Phillip Morris, *et al* Civil Action 99-C V-0296) against the major cigarette manufacturers. The lawsuit contends that the manufacturers conspired to deceive the public regarding the effects of smoking and are being charged not only under the products liability provisions but under the Racketeer Influenced Corrupt Organizations Act (RICO) provisions.

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, 2004, no known asserted or unasserted claims or judgments were against the Corporation.

Members of the board and persons acting on the Corporation's behalf, while acting within the scope of their duties or employment, shall not be subject to any personal liability resulting from carrying out the powers and duties conferred on them pursuant to R.S. 39:99.5 and shall have the indemnification rights provided in R.S. 13:5108.1 with respect to such actions.

11. SUBSEQUENT EVENTS

On August 27, 2004, Vibo Corporation of Miami, Florida, joined the tobacco MSA as a Subsequent Participating Manufacturer. Under current market conditions, the State of Louisiana will receive approximately $43,000,000 over the next 10 years. The first payment of $944,150 was received by the Corporation in August 2004 and is accrued for the year ended June 30, 2004.

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

The following supplementary information presents the financial position of the Tobacco Settlement Financing Corporation as of June 30, 2004, 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.

____
(Agency Name)
STATE OF LOUISIANA
Annual Financial Statements
June 30, 20____

CONTENTS

TRANSMITTAL LETTER

AFFIDAVIT

MD&A

Statement of Net Assets and Governmental Funds Balance Sheet A

Statement of Revenues, Expenditures, and Changes in Fund Balance B

Simplified Statement of Activities C

Notes to the Financial Statements
- A. Summary of Significant Accounting Policies
- B. Adjustments
- C. Deposits with Financial Institutions and Investments
- D. Capital Assets
- E. Restricted Assets
- F. Long-Term Liabilities
- G. Litigation
- H. Related Party Transactions
- I. Accounting Changes
- J. In-Kind Contributions
- K. Defeased Issues
- L. Violations of Finance-Related Legal or Contractual Provisions
- M. Disaggregation of Receivable Balances
- N. Disaggregation of Payable Balances
- O. Subsequent Events
- P. Due to/Due from and Transfers
- Q. Liabilities Payable from Restricted Assets
- R Prior-Year Restatement of Fund Balance/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
- 5 Schedule of Adjusting Entries – Modified Accrual to Full Accrual Basis Reporting

Schedule Number

STATE OF LOUISIANA
Annual Financial Statements
Fiscal Year Ending June 30, 2004

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, Jerry Luke LeBlanc (Name) Chairman (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, 2004 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 3rd day of November, 2004.

Signature of Agency Official
Jerry Luke LeBlanc

NOTARY PUBLIC Maris E. LeBlanc #17020

Prepared by: ______

Title: ______

Telephone No.: ______

Date: ______

STATE OF LOUISIANA
TOBACCO SETTLEMENT FINANCING CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2004

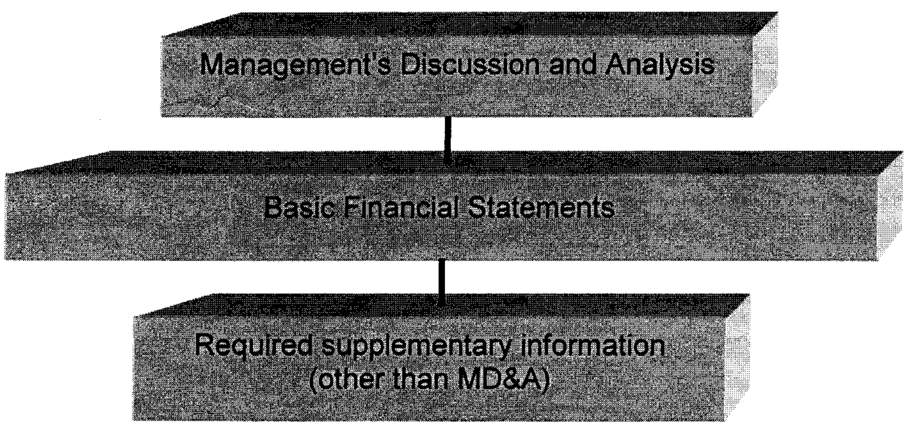
The Management's Discussion and Analysis of the Tobacco Settlement Financing Corporation's financial performance presents a narrative overview and analysis of Tobacco Settlement Financing Corporation's financial activities for the year ended June 30, 2004. This document focuses on the current year's 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 Tobacco Settlement Financing Corporation's financial statements, which begin on page ____.

FINANCIAL HIGHLIGHTS

- ★ Tobacco Settlement Financing Corporation's liabilities exceeded assets at the close of fiscal year 2004 by $909,136 which represents a 3.0% decrease from last fiscal year.
- ★ Tobacco Settlement Financing Corporation's operating revenue decreased $14,308,969 (or 13.7%)
- ★ The Tobacco Settlement Financing Corporation's operating expenses decreased by $2,305,666 (or 3.3%)
- ★ Transfers to the State of Louisiana decreased by $82,472 (or 100%)

OVERVIEW OF THE FINANCIAL STATEMENTS

The following graphic illustrates the minimum requirements for Special Purpose Governments engaged in governmental 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 as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Assets and Governmental Funds Balance

Sheet, the Statement of Revenues, Expenditures, and Changes in Fund Balance, and the Statement of Activities.

The Statement of Net Assets and Governmental Funds Balance Sheet (page __) presents the current and long term portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets. Net assets may provide a useful indicator of whether the financial position is improving or deteriorating. An adjustments column is presented showing the conversion of this fund from the modified accrual basis to the full accrual basis, as required by GASB Statement 34.

The Statement of Revenues, Expenditures, and Changes in Fund Balance (modified accrual)and the Statement of Activities (full accrual), shown on pages __, present information showing how 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.

FINANCIAL ANALYSIS OF THE ENTITY

Statement of Net Assets (Deficit)
as of June 30, 2004
(in thousands)

	Total	
	2004	2003
Current and other assets	$ 209,354	$ 167,024
Capital assets		
Total assets	209,354	167,024
Other liabilities	34,465	8,409
Long-term debt outstanding	1,084,025	1,135,345
Total liabilities	1,118,490	1,143,754
Net assets:		
Invested in capital assets, net of debt		
Restricted	180,798	138,103
Unrestricted	(1,089,934)	(1,114,833)
Total net assets	$ (909,136)	$ (976,730)

Restricted net assets represent those assets that are not available for spending as a result of legislative requirements, bond indentures, donor agreements, or grant requirements. Conversely, unrestricted net assets are those that do not have any limitations on how these amounts may be spent.

The net assets (deficit) of Tobacco Settlement Financing Corporation decreased by $67,594,935, or 6.9%, from June 30, 2003 to June 30, 2004. One of the major causes of this change is was the retirement of $25,035,000 of bonds payable during the period.

Statement of Revenues, Expenditures, and Changes in Fund Balances
for the years ended June 30, 2004
(in thousands)

	Total 2004	Total 2003
Operating revenues	$ 91,043	$ 104,310
Operating expenditures	(91,759)	(69,363)
Operating income(loss)	(716)	34,947
Non-operating revenues(expenditures)		
Income(loss) before transfers	(716)	34,947
Transfers in		
Transfers out		(82)
Net increase(decrease) in fund balance	$ (716)	$ 34,865

The Tobacco Settlement Financing Corporation's total revenues decreased by $13,267,000 or (12.7%). Total expenditures increased by $22,396,000 or 32.3%.

Statement of Activities
for the years ended June 30,2004
(in thousands)

	Total 2004	Total 2003
Operating Revenues	$ 92,166	$ 104,310
Operating Expenses	(67,057)	(69,363)
Operating income (loss)	25,109	34,947
Transfers in/out		(82)
Net increase(decrease) in net assets	$ 25,109	$ 34,865

Operating revenues decreased by $ 12,144,000 or (11.6%). The change in net assets decreased by $9,756,000 or 28%.

STATE OF LOUISIANA
TOBACCO SETTLEMENT FINANCING CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2004

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets At the end of 2004, the Tobacco Settlement Financing Corporation had no capital assets to report.

Debt The Tobacco Settlement Financing Corporation had $ 1,110,310,000 in bonds outstanding at year-end, compared to $ 1,135,345,000 last year, a decrease of 2.2% as shown in the table below.

Outstanding Debt at Year-end
(in thousands)

	2004	2003
General Obligation Bonds	$	$
Revenue Bonds and Notes	1,110,310,000	1,135,345,000
Totals	$ 1,110,310,000	$ 1,135,345,000

VARIATIONS BETWEEN ORIGINAL AND FINAL BUDGETS

The Tobacco Settlement Financing Corporation is required under R.S. 39:99.6(C) to submit a proposed operating budget to the Joint Legislative Committee on the Budget and the State Bond Commission. The Tobacco Settlement Financing Corporation budget was approved for the year ended June 30, 2004.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The _____________'s elected and appointed officials considered the following factors and indicators when setting next year's budget, rates, and fees. These factors and indicators include:

-
-
-
-

Management expects that next year's results will improve based on the following:

-
-
-

CONTACTING THE TOBACCO SETTLEMENT FINANCING CORPORATION'S 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 finances and to show the Tobacco Settlement Financing Corporation's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Tobacco Settlement Financing Corporation, Post Office Box 44154, Baton Rouge, LA 70804.

STATE OF LOUISIANA
TOBACCO FINANCING SETTLEMENT CORPORATION
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET
AS OF JUNE 30, 2004

	Debt Service Fund (modified accrual)	Adjustments (Note B)	Statement of Net Assets (full accrual)
ASSETS:			
Current Assets:			
Cash and cash equivalents (Note C1)	$ 194,006	$	$ 194,006
Investments (Note C2)	136,122,595	(136,122,595)	
Receivables (net) (Note M)	1,067,005	(1,067,005)	
Due from other funds (Note P)			
Other current assets			
Total current assets	137,383,606	(137,189,600)	194,006
Non-current Assets:			
Restricted assets:			
Cash and cash equivalents (Note C1)			
Investments(Note C2)		136,122,595	136,122,595
Receivables (net) (Note M)		44,675,738	44,675,738
Other non-current assets		28,362,070	28,362,070
Total non-current assets		209,160,403	209,160,403
TOTAL ASSETS	$ 137,383,606	$ 71,970,803	$ 209,354,409
LIABILITIES:			
Current liabilities:			
Accounts payable and accruals (Note N)	$ 18,312	$	$ 18,312
Due to other funds (Note P)			
Contracts and retainage payable			
Bonds payable		26,285,000	26,285,000
Other current liabilities	8,161,343		8,161,343
Total current liabilities	8,179,655	26,285,000	34,464,655
Non-current liabilities: (Note F)			
Contracts payable			
Liabilities payable from restricted assets			
Bonds payable		1,084,025,000	1,084,025,000
Other non-current liabilities			
Total non-current liabilities			
TOTAL LIABILITIES	8,179,655	1,110,310,000	1,118,489,655
FUND BALANCE/NET ASSETS:			
Fund Balance:			
Reserved	129,203,951	(129,203,951)	
Designated			
Unreserved, undesignated			
TOTAL FUND BALANCE	129,203,951	(129,203,951)	
TOTAL LIABILITIES AND FUND BALANCE	$ 137,383,606		
Net Assets:			
Restricted for:			
Debt service		180,798,333	180,798,333
Other specific purposes			
Unrestricted		(1,089,933,579)	(1,089,933,579)
Total net assets		$ (909,135,246)	$ (909,135,246)

The accompanying notes are an integral part of this statement

STATE OF LOUISIANA
TOBACCO FINANCING SETTLEMENT CORPORATION
STATEMENT OF REVENUES EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2004

	Debt Service Fund (modified accrual)
REVENUES:	
Intergovernmental revenues	$
Taxes	
Use of money and property	
Licenses, permits, and fees	5,126,498
Tobacco settlement revenue	85,916,950
Other	
Total revenues	91,043,448
EXPENDITURES:	
Cost of Sales and services	
Administrative	109,349
Debt service:	
Principal retirement	25,035,000
Interest and fiscal charges	66,614,780
Amortization	
Other	
Total expenditures	91,759,129
Excess (deficiency) of revenues over expenditures	(715,681)
Other financing sources(uses):	
Payments to refunded bond escrow agent	
Proceeds from issuance of long-term debt	
Other	
Transfers from other funds	
Transfers to other funds	
Total other financing sources(uses)	
Net change in fund balances	(715,681)
Fund Balance at beginning of year as restated (Note R1)	129,919,632
Fund Balance at end of year	$ 129,203,951

The accompanying notes are an integral part of this statement

(full accrual)

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
		Program Revenues			
Entity	$ 67,057,244	$	$	$	(67,057,244)
General revenues:					
Taxes					
State appropriations					
Grants and contributions not restricted to specific programs					
Interest					5,126,498
Tobacco Settlement Revenue					87,039,282
Other					
Special items					
Transfers					
Total general revenues, special items, and transfers					92,165,780
Change in net assets					25,108,536
Net assets – beginning (Note R2)					(934,243,782)
Net assets – ending					$ (909,135,246)

The accompanying notes are an integral part of this statement

STATE OF LOUISIANA
TOBACCO SETTLEMENT FINANCING CORPORATION
NOTES TO THE FINANCIALSTATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

INTRODUCTION

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. <u>BASIS OF ACCOUNTING</u>

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, Revenue Expenditures and Changes in Fund Net Assets, presents information only as to the transactions of the programs of the Tobacco Settlement Financing Corporation as authorized by Louisiana statutes and administrative regulations. The accounts of the Tobacco Settlement Financing Corporation are maintained in accordance with applicable statutory provisions and the regulations of the Division of Administration – Office of Statewide Reporting and Accounting Policy.

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

B. ADJUSTMENTS

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

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

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

1. DEPOSITS WITH FINANCIAL INSTITUTIONS

For reporting purposes, deposits with financial institutions include savings, demand deposits, time deposits, and certificates of deposit. Under state law the Tobacco Settlement Financing Corporation may deposit funds within a fiscal agent bank selected and designated by the Interim Emergency Board. Further, the agency 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.

Deposits in bank accounts are stated at cost, which approximates market. Under state law these deposits must be secured by federal deposit insurance.

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

Category 1 – Deposits that are covered by insurance (FDIC) or collateralized with securities that are held by the entity in the entity's name or registered in the entity's name. **(separate disclosure no longer required)**
Category 2 – Deposits that are not insured but are collateralized with securities that are held by the financial institution's trust department or agent and are in the entity's name. **(separate disclosure no longer required)**
Category 3 – Deposits that are not covered by insurance and also are not collateralized. Not collateralized includes when the securities (collateral) are held by the financial institution's trust department or agent and they are not in the entity's name. **(separate disclosure still required)**

GASB Statement 40 only requires any category 3 deposits to be disclosed in the custodial credit risk section of Note C. If an entity has deposits exposed to custodial credit risk category 3, it should disclose the amount of those balances, the fact that they are uninsured, and whether the balances are either uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the entity's name.

Deposits at June 30, 2004, consisted of the following:

	Cash	Certificates of Deposit	Other (Describe)	Total
Deposits in bank accounts per balance sheet	$ 194,006	$	$	$ 194,006
Bank balances **(category 3 only, if any) Identify amounts reported as category 3 by the descriptions below:**				
a. Uninsured and uncollateralized	$ 94,006	$	$	$ 94,006
b. Uninsured and collateralized with securities held by the pledging institution				-
c. Uninsured and collateralized with securities held by the pledging institution's trust department or agent but not in the entity's name				-
Total category 3 bank balances	$ 94,006	$ -	$ -	$ 94,006
Total bank balances **(All categories including category 3 reported above)**	$ 194,006	$	$	$ 194,006

NOTE: The "Total Bank Balances" will not necessarily equal the "Cash and cash equivalents" per the balance sheet.

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

Banking institution	Program	Amount
1. Bank One	None	$ 194,006
2.		
3.		
4.		
Total		$ 194,006

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 in 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

The Tobacco Settlement Financing Corporation does 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. **Beginning with fiscal year ending June 30, 2004, only risk category 3 has to be broken out separately. However, the total reported amount and fair value columns still must be reported for total investments (including category 3).**

Category 1 - Insured or registered in the entity's name, or securities held by the entity or its agent in the entity's name. **(separate disclosure no longer required)**
Category 2 - Uninsured and unregistered with securities held by the counterparty's trust department or agent in the entity's name. **(separate disclosure no longer required)**
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. **(separate disclosure still required)**

NOTE: GASB Statement 40 requires investments to be listed by type, and whether any of those are category 3 investments. If so, those category 3 investments are reported in one of two separate columns depending upon whether they are held by a counterparty, or held by a counterparty's trust department or agent not in the entity's name.

STATE OF LOUISIANA
TOBACCO SETTLEMENT FINANCING CORPORATION
NOTES TO THE FINANCIALSTATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

Type of Investment	Amount Reported in Risk Category 3, if Any: Held by Counterparty	Amount Reported in Risk Category 3, if Any: Held by Counterparty's Trust Dept. or Agent Not in Entity's Name	Total Reported Amount - All Categories (Including Category 3)	Total Fair Value - All Categories (Including Category 3)
Repurchase agreements	$	$	$	$
U.S. Government securities				
Common & preferred stock				
Commercial paper	105,823,011		105,823,011	105,823,011
Corporate bonds				
Other: (identify)				
Money Market Mutual Funds			30,299,584	30,299,584
Total investments	$ 105,823,011	$ -	$ 136,122,595	$ 136,122,595

The institution does not invest in **derivatives** as part of its investment policy. Accordingly, the exposure to risks from these investments is as follows:
credit risk **N/A**
market risk **N/A**
legal risk **N/A**

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. Losses during the year due to default by counterparties to deposit or investment transactions ______.

f. Amounts recovered from prior-period losses which are not shown separately on the balance sheet ______.

Legal or Contractual Provisions for Reverse Repurchase Agreements **N/A**

g. Source of legal or contractual authorization for use of reverse repurchase agreements ______________________.

h. Significant violations of legal or contractual provisions for reverse repurchase agreements that occurred during the year ______________________.

Reverse Repurchase Agreements as of Year-End **N/A**

i. 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 ______________________.

j. Commitments on ____________(fiscal close), to repurchase securities under yield maintenance agreements______________________.

k. Market value on ____________ (fiscal close), of the securities to be repurchased ______________________.

l. Description of the terms of the agreements to repurchase ______________________.

m. Losses recognized during the year due to default by counterparties to reverse repurchase agreements ______________________.

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

Fair Value Disclosures **N/A**

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

p. Basis for determining which investments, if any, are reported at amortized cost ______________________.

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

r. Whether the fair value of your investment in the external investment pool is the same as the value of the pool shares ______________________.

s. Any involuntary participation in an external investment pool ______________________.

t. 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 ______________________.

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

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

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

w. List, by amount and issuer (not including U.S. government securities, mutual funds, and investment pools), investments in any one issuer that represents 5% or more of total investments. **One Group Treasury Only Money Market Funds – 22.26%; JP Morgan Chase Commercial Paper – 66.89%; Briarwood CO Trust Commercial Paper – 10.73%.**

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

y. Disclose the credit risk of debt investments by credit quality ratings as described by rating agencies as of the fiscal year end. All debt investments regardless of type can be aggregated by credit quality rating (if any are unrated, disclose that amount. **All investments are rated A-1 or Aaa.**

z. Disclose the interest rate risk of debt investments by listing the investment type and the method that is used to identify and manage the interest rate risk of those investments (by, using one of the following 5 methods that is used to identify and manage interest rate risk: a) segmented time distribution, b) specific identification, c) weighted average maturity, d) duration, or e) simulation model.) **The weighted average maturity of investments is less than sixty days.**

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

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

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

	for the year ended June 30, 2004						
	Balance 6/30/2003	Prior Period Adjustment	Adjusted Balance 6/30/2003	Additions	Transfers*	Retirements	Balance 6/30/2004
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							

	for the year ended June 30, 2004						
	Balance 6/30/2003	Prior Period Adjustment	Adjusted Balance 6/30/2003	Additions	Transfers*	Retirements	Balance 6/30/2004
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 into fixed assets; not associated with transfers reported elsewhere in the packet.

E. RESTRICTED ASSETS

Restricted assets at June 30, 2004 (fiscal year end), reflected $180,798,333 in the non-current assets section on Statement A, and consist of $122,855 in interest receivable and $136,122,595 invested in commercial paper and money market mutual funds and $44,552,883 of tobacco settlement accounts receivable.

STATE OF LOUISIANA
TOBACCO SETTLEMENT FINANCING CORPORATION
NOTES TO THE FINANCIALSTATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

F. LONG-TERM LIABILITIES

The following is a summary of long-term debt transactions for the year ended June 30, 2004:

	Balance June 30, 2003	Additions	Reductions	Balance June 30, 2004	Amounts due within one year
	Year ended June 30, 2004				
Bonds and notes payable:					
Notes payable	$	$	$	$ --	$
Reimbursement contracts payable				--	
Bonds payable	1,135,345,000		25,035,000	1,110,310,000	
Total notes and bonds	1,135,345,000	--	25,035,000	1,110,310,000	--
Other liabilities:					
Contracts payable				--	
Capital lease obligations				--	
Liabilities payable from restricted assets				--	
Claims and litigation				--	
Other long-term liabilities				--	
Total other liabilities	--	--	--	--	--
Total long-term liabilities	$ 1,135,345,000	$ --	$ 25,035,000	$ 1,110,310,000	$ --

A detailed summary, by issue, of all debt outstanding at June 30, 2004, including outstanding interest of $8,161,343 is shown on Schedule 4. Schedule 4-D is an amortization schedule of the outstanding debt. (Send OSRAP a copy of the amortization schedule for any new debt issued.)

G. LITIGATION N/A

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

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

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

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

H. RELATED PARTY TRANSACTIONS N/A

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

____

I. ACCOUNTING CHANGES

Accounting changes made during the year involved adoption of GASB Statement No. 40 "Deposits with Financial Institutions, Investment (Including Repurchase Agreements) and Reverse Repurchase: and GASB Technical Bulletin 2004-1 "Tobacco Settlement Recognition and Financial Reporting Entity Issues".

J. IN-KIND CONTRIBUTIONS N/A

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

In-Kind Contributions	Cost/Estimated Cost/Fair Market Value/As Determined by the Grantor
____________	$ ____________
____________	____________
____________	____________
____________	____________
____________	____________
Total	$ -

K. DEFEASED ISSUES N/A

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

STATE OF LOUISIANA
TOBACCO SETTLEMENT FINANCING CORPORATION
NOTES TO THE FINANCIALSTATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

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

At ______________ (fiscal year end) ______________________ was not in compliance with the provisions of ______________________________________ Bond Reserve Covenant that requires ____________________ ______________. The ______________________________________ did ____________________ ____ to correct this deficiency.

M. DISAGGREGATION OF RECEIVABLE BALANCES

Receivables at June 30, 2004, were as follows:

Activity	Customer Receivables	Taxes	Receivables from other Governments	Other Receivables	Total Receivables
Tobacco Settlement Receivable	$	$	$	$ 44,552,883.00	$ 44,552,883.00
Interest Receivable				122,855.00	122,855.00
Gross receivables	$ -	$ -	$ -	$ 44,675,738.00	$ 44,675,738.00
Less allowance for uncollectible accounts	-	-	-	-	-
Receivables, net	$ -	$ -	$ -	$ 44,675,738.00	$ 44,675,738.00
Amounts not scheduled for collection during the subsequent year	$	$	$	$	$ -

N. DISAGGREGATION OF PAYABLE BALANCES

Payables at June 30, 2004, were as follows:

Activity	Vendors	Salaries and Benefits	Accrued Interest	Other Payables	Total Payables
Operating	$ Bank One	$	$	$ 8,312	$ 8,312
Operating	State of Louisiana			10,000	10,000
Total payables	$ -	$ -	$ -	$ 18,312	$ 18,312

O. SUBSEQUENT EVENTS

[Disclose any material event(s) affecting financial operations occurring between the close of the fiscal period and issuance of the financial statement.] Subsequent to year end Vibo Corporation of Miami Florida joined the Master Settlement Agreement as a participating manufacturer. Under current market conditions, the State of Louisiana will receive approximately $43 million over the next ten years. The first payment of $944,150 was received in August 2004.

P. DUE TO/DUE FROM AND TRANSFERS N/A

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

Type of Fund	Name of Fund	Amount
		$
Total due from other funds		$

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

Type of Fund	Name of Fund	Amount
		$
Total due to other funds		$

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

Type of Fund	Name of Fund	Amount
		$
Total transfers from other funds		$

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

Type of Fund	Name of Fund	Amount
		$
Total transfers to other funds		$

Q. LIABILITIES PAYABLE FROM RESTRICTED ASSETS

Liabilities payable from restricted assets at June 30, 2004 (fiscal year end) are $34,464,655 in the current liabilities section on Statement A, and consist of $18,312 in accounts payable, $26,285,000 in bonds payable, and $8,161,343 in interest payable.

Liabilities payable from restricted assets at June 30, 2004 (fiscal year end) are $1,084,025,000 in the non-current liabilities section on Statement A, and consist of $0.00 in accounts payable and $1,084,025,000 in bonds payable.

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

The following adjustments were made to restate beginning fund balance/net assets for June 30, 20040.

1. Modified Accrual:

Ending fund balance July 1, 2003, previously reported		Adjustments + or (-)		Beginning fund balance, July 1, 2003, As restated
(976,730,183)	$	1,106,649,815	$	129,919,632
				--
				--
				--
				--
	$		$	--

Each adjustment must be explained below in detail.

Previously reported fund balance on the full accrual basis. The adjustment for bonds payable of $1,135,345,000 and an adjustment for the bond issue cost unamortized premium of $28,695,185.

2. Full Accrual:

Ending net assets July 1, 2003, previously reported		Adjustments + or (-)		Beginning net assets, July 1, 2003, As restated
	$		$	--
				--
				--
				--
				--
	$		$	--

Each adjustment must be explained below in detail.

STATE OF LOUISIANA

____

SCHEDULE OF PER DIEM PAID TO BOARD MEMBERS
For the Year Ended ______________
(Fiscal Close)

Name	Amount
	$
	$

STATE OF LOUISIANA

____

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

	Description of Funding	Amount
1.		$
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		
	Total	$

STATE OF LOUISIANA

____

SCHEDULE OF REIMBURSEMENT CONTRACTS PAYABLE

______________, 20__

(Fiscal Close)

Issue	Date of Issue	Original Issue	Principal Outstanding 6/30/PY	Redeemed (Issued)	Principal Outstanding 6/30/CY	Interest Rates	Interest Outstanding 6/30/CY
______	______	$______	$______	$______	$______	______	$______
______	______	______	______	______	______	______	______
______	______	______	______	______	______	______	______
______	______	______	______	______	______	______	______
______	______	______	______	______	______	______	______
______	______	______	______	______	______	______	______
______	______	______	______	______	______	______	______
______	______	______	______	______	______	______	______
______	______	______	______	______	______	______	______
______	______	______	______	______	______	______	______
______	______	______	______	______	______	______	______
______	______	______	______	______	______	______	______
______	______	______	______	______	______	______	______
Total		$______	$______	$______	$______		$______

*Send copies of new amortization schedules

STATE OF LOUISIANA

____

SCHEDULE OF NOTES PAYABLE

______________, 20__

(Fiscal close)

Issue	Date of Issue	Original Issue	Principal Outstanding 6/30/PY	Redeemed (Issued)	Principal Outstanding 6/30/CY	Interest Rates	Interest Outstanding 6/30/CY
________	______	$______	$________	$________	$__________	______	$________
________	______	______	________	________	__________	______	________
________	______	______	________	________	__________	______	________
________	______	______	________	________	__________	______	________
________	______	______	________	________	__________	______	________
________	______	______	________	________	__________	______	________
________	______	______	________	________	__________	______	________
________	______	______	________	________	__________	______	________
________	______	______	________	________	__________	______	________
________	______	______	________	________	__________	______	________
________	______	______	________	________	__________	______	________
________	______	______	________	________	__________	______	________
________	______	______	________	________	__________	______	________
Total		$______	$________	$________	$__________		$________

*Send copies of new amortization schedules

STATE OF LOUISIANA
Tobacco Settlement Financing Corporation
SCHEDULE OF BONDS PAYABLE
JUNE 30, 2004
(Fiscal close)

Issue	Date of Issue	Original Issue	Principal Outstanding 6/30/PY	Redeemed (Issued)	Principal Outstanding 6/30/CY	Interest Rates	Interest Outstanding 6/30/CY
Series 2001A (Taxable) Due 05/15/2025	11/07/02	$282,975,000	$215,550,000	$25,035,000	$190,515,000	6.36%	$1,541,594
Series 2001B (Tax Exempt) Due 05/15/2030	11/07/02	230,390,000	230,390,000		230,390,000	5.5%	1,583,931
Series 2001B (Taxable) Due 05/15/2039	11/07/02	689,405,000	689,405,000		689,405,000	5.875%	5,035,818
Total		$1,202,770,000	$ 1,135,345,000	$ 25,035,000	$ 1,110,310,000		$ 8,161,343

*Send copies of new amortization schedules

STATE OF LOUISIANA

____

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

Fiscal Year Ending:	Principal	Interest
2005	$	$
2006		
2007		
2008		
2009		
2010		
2011		
2012		
2013		
2014		
2015		
2016		
2017		
2018		
2019		
2020		
2021		
2022		
2023		
2024		
2025		
2026		
2027		
2028		
2029		
Total	$ --	$ --

SCHEDULE 4-A

STATE OF LOUISIANA

____

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

Fiscal Year Ending:	Payment	Interest	Principal	Balance
2005	$	$	$	$ --
2006				--
2007				--
2008				--
2009				--
2010-2014				--
2015-2019				--
2020-2024				--
2025-2029				--
Total	$ --	$ --	$ --	$ --

SCHEDULE 4-B

STATE OF LOUISIANA

SCHEDULE OF NOTES PAYABLE AMORTIZATION

Fiscal Year Ending:	Principal	Interest
2005	$	$
2006		
2007		
2008		
2009		
2010-2014		
2015-2019		
2020-2024		
2025-2029		
Total	$ --	$ --

STATE OF LOUISIANA
Tobacco Settlement Financing Corporation
SCHEDULE OF BONDS PAYABLE AMORTIZATION
Term Maturities
For The Year Ended June 30, 2004

Fiscal Year Ending	Principal	Interest
2005	$	$ 65,290,748.00
2006		65,290,748.00
2007		65,290,748.00
2008		65,290,748.00
2009		65,290,748.00
2010		65,290,748.00
2011		65,290,748.00
2012		65,290,748.00
2013		65,290,748.00
2014		65,290,748.00
2015		65,290,748.00
2016		65,290,748.00
2017		65,290,748.00
2018		65,290,748.00
2019		65,290,748.00
2020		65,290,748.00
2021		65,290,748.00
2022		65,290,748.00
2023		65,290,748.00
2024		65,290,748.00
2025	190,515,000.00	65,290,749.00
2026		53,173,995.00
2027		53,173,995.00
2028		53,173,995.00
2029		53,173,995.00
2030	230,390,000.00	53,173,995.00
2031		40,502,543.00
2032		40,502,543.00
2033		40,502,543.00
2034		40,502,543.00
2035		40,502,543.00
2036		40,502,543.00
2037		40,502,543.00
2038		40,502,543.00
2039	689,405,000.00	40,502,543.00
Total	$ 1,110,310,000.00	2,001,498,571.00

STATE OF LOUISIANA
Tobacco Settlement Financing Corporation
SCHEDULE OF BONDS PAYABLE AMORTIZATION
Sinking Fund Maturities
For The Year Ended June 30, 2004

Fiscal Year Ending		Principal		Interest
2005	$		$	65,290,748.00
2006				65,290,748.00
2007				65,290,748.00
2008				65,290,748.00
2009				65,290,748.00
2010				65,290,748.00
2011				65,290,748.00
2012				65,290,748.00
2013				65,290,748.00
2014				65,290,748.00
2015				65,290,748.00
2016				65,290,748.00
2017		2,230,000.00		65,290,748.00
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
2029		49,680,000.00		46,198,343.00
2030		53,880,000.00		43,465,944.00
2031		58,450,000.00		40,502,543.00
2032		63,390,000.00		37,068,606.00
2033		68,670,000.00		33,344,443.00
2034		74,285,000.00		29,310,081.00
2035		80,050,000.00		24,945,837.00
2036		86,210,000.00		20,242,900.00
2037		86,250,000.00		15,178,062.00
2038		86,925,000.00		10,110,875.00
2039		85,175,000.00		5,004,031.00
Total	$	1,110,310,000.00		1,793,909,177.00

STATE OF LOUISIANA
Tobacco Settlement Financing Corporation
SCHEDULE OF BONDS PAYABLE AMORTIZATION
Turbo Maturities
For The Year Ended June 30, 2004

Fiscal Year Ending	Principal	Interest
2005	$ 26,285,000.00	$ 65,290,748.00
2006	31,170,000.00	63,619,022.00
2007	34,390,000.00	61,636,610.00
2008	53,175,000.00	59,449,406.00
2009	58,125,000.00	56,067,476.00
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	121,355,000.00	7,396,037.00
2020	4,555,000.00	267,606.00
2021		
2022		
2023		
2024		
2025		
2026		
2027		
2028		
2029		
2030		
2031		
2032		
2033		
2034		
2035		
2036		
2037		
2038		
2039		
Total	$ 1,110,330,000.00	630,379,649.00

STATE OF LOUISIANA
Tobacco Settlement Financing Corporation
SCHEDULE OF ADJUSTING ENTRIES
Modified Accrual to Full Accrual Basis Reporting
For the Year Ended June 30, 2004

Ref #	Accounts		Debit		Credit
	Restricted Investments	$	136,122,595	$	
	Current Investments				136,122,595
	Restricted Receivables		44,675,738		
	Other Non-Current Assets		28,362,070		
	Current Receivables				1,067,005
	Bonds Payable – Current				26,285,000
	Bonds Payable – Non Current				1,084,025,000
	Fund Balance Reserved for Debt Service		129,203,951		
	Net Assets		909,135,246		

OTHER REPORT REQUIRED BY

GOVERNMENT AUDITING STANDARDS

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

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

STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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January 11, 2005

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters 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 financial statements of the debt service fund and the governmental activities of the Tobacco Settlement Financing Corporation (Corporation), a blended component unit of the State of Louisiana, as of and for the year ended June 30, 2004, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated January 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Tobacco Settlement Financing Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 operation 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.

Internal Control Weaknesses Over Operations

For the third consecutive year, the Corporation's board has not hired staff, established an accounting system, or adequately monitored transactions of its bond 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.

Louisiana Revised Statute 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. In lieu of a cooperative endeavor agreement, a memorandum of understanding, effective for the fiscal year 2004, was executed between the Corporation and the Department of the Treasury. The memorandum states, "The Department of Treasury shall assume oversight over investment transactions activities as performed by the trustee; shall assume responsibility for transaction processing as necessary; and shall assume responsibility for financial recordation and reporting required to satisfy statutory and audit requirements." However, the memorandum was never distributed to the board or the Department of the Treasury; therefore, the responsibilities were not assumed by the Department of the Treasury staff.

Neither the board nor the staff of the Department of the Treasury exercised adequate oversight over the financial and legal affairs of the Corporation and no formal accounting records existed to support the financial statements. The trustee's activities were not reviewed for accuracy and compliance with laws, regulations, or the contractual requirements related to the bond indenture. In addition to the findings discussed under the legal compliance section of this report, the following weaknesses in control were noted:

- The Corporation's board 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 board 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.

- During the fiscal year, JPMorgan acquired Bank One's Corporate Trust Services, the Corporation's bond trustee. However, there was no review of the transfer of funds from Bank One's Corporate Trust Services to JPMorgan to ensure that all funds were transferred correctly and in the correct amount. As a result, a difference of $184,496 in the Liquidity Reserve 2001A Account occurred and was not detected by the board. Furthermore, the board was not aware that the trustee's investment statement for May 2004 had not been received. Although the investment statement has since been received and the difference corrected, the Corporation's assets were subject to an unnecessary risk of loss or abuse.

- In fiscal year 2003, an amount of $41,920 of operating expenses were incorrectly paid from the Cost of Issuance Account instead of the Operating Account. During fiscal year 2004, management partially corrected this error by transferring $31,920 from the Operating Account to the Millennium Trust. On August 27, 2003, management requested that the remaining $10,000 be transferred. As of November 16, 2004, this $10,000 transfer had not taken place.

Without adequate monitoring and an accounting system, there is an increased risk that errors and noncompliance with laws, regulations, or the contractual requirements related to the bond indenture 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 enforce the memorandum of understanding with the Department of the Treasury. Furthermore, the board should establish an accounting system and internal control procedures, including monitoring of the trustee's activities and investment earnings. Lastly, the board should transfer $10,000 from the operating account to the Millennium Trust. Management concurred in part with this finding. Management did not concur with the portion of the finding relating to the lack of books of original entry. Furthermore, management did not concur with the portion of the finding relating to the monitoring of investment activity and investment earnings maximization and stated that those portions of the finding are in error and represents a misunderstanding of the account in question (see Appendix A, pages 1-2).

Additional Comments: We continue to believe that a lack of monitoring exists based on information available through the State Treasurer's Office. Monthly investment statements were the only evidence of monitoring provided to the auditors, and as indicated in this finding, the Corporation was unaware that statements were missing until the statements were requested by the auditor two months later. There was no indication that other records were maintained (inclusive of spreadsheets) or that investment activity was monitored.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tobacco Settlement Financing Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement 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 instance of noncompliance that is required to be reported under *Government Auditing Standards*.

Board of Directors Did Not Meet and Did Not Elect a Chairperson

For the third consecutive year, the Corporation's board of directors (board) failed to meet as required by state law. In addition, the board failed to elect a chairperson. Louisiana Revised Statute (R.S.) 39:99.5(C), as amended by Act 22 of 2004, requires the board to meet at least annually and elect a chairperson each year. However, a majority of the board members did not call for the board to meet during fiscal year 2004. Without meeting and electing a chairperson, the board cannot effectively fulfill its oversight responsibilities relative to the Corporation. Furthermore, the board is in noncompliance with state law.

The board should meet at least annually and elect a chairperson in accordance with state law. Management concurred in part with the finding but stated that the correct citation should have been a failure to meet quarterly in accordance with R.S. 39.99.5(C) since Act 22 of 2004 was not effective until August 15, 2004. Furthermore, management contends that the election of a new chairperson was not required until July 1, 2004 (see Appendix A, page 3).

Additional Comments: We agree that Act 22 of 2004 was not effective until August 15, 2004. However, because Act 22 of 2004 changed the meeting requirement for the board from quarterly to at least annually, this act was cited to more appropriately support our recommendation for the coming year. Furthermore, R.S. 39.99.5(C) requires the board to annually elect a chairperson. However, because the board failed to meet in 2004, there was no such election as required by state law.

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,

Steve J. Theriot, CPA
Legislative Auditor

SGW:JMR:THC:dl

TSFC04

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

Tobacco Settlement Financing Corporation
Post Office Box 94095
Baton Rouge, Louisiana 70802-9095
Telephone: 225-342-7000
Fax: 225-342-1053

December 17, 2004

Mr. Steve J. Theriot, CPA
Legislative Auditor
P. O. Box 94397
Baton Rouge, Louisiana 70804-9397

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

Dear Mr. Theriot

This is being provided to you in response to your November 16, 2004, correspondence on the aforementioned audit finding.

Finding: The Tobacco Settlement Finance Corporation ("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 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.

Finding: During the fiscal year, JP Morgan acquired Bank One's Corporate Trust Services, the Corporation's bond trustee. However, there was no review of the transfer of funds from Bank One's Corporate Trust Services to JP Morgan to ensure that all funds were transferred correctly and in the correct amount. As a result, a difference of $184,496 in the Liquidity Reserve 2001A account occurred and was not detected by the board. Furthermore, the board was not aware that the trustee's statement for the month of May 2004 had not been received. Although the investment statement has since been received and the difference corrected, the Corporation's assets were subject to unnecessary risk of loss or abuse.

Response: We do not concur with the finding that 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 Liquidity Reserve Account Forward Delivery Agreement and the Reserve Fund Agreement. Consequently, the statement that a difference of $184,496, which implies a loss of funds, is misleading and in error.

Finding: Operating expenses totaling $41,920 was incorrectly paid from the Cost of Issuance Account instead of the Operating Account. During Fiscal Year 2004, management partially corrected this error by transferring $31,920 from the Operating Account to the Millennium Trust. On August 27, 2003, management requested that the remaining $10,000 be transferred. As of November 16,2004, this $10,000 transfer had not taken place. The expenses were not related to the issuance of the bonds, but were for professional services

Response: We agree with the finding. To correct this issue the Chairman, on December 13, 2004, requested the Treasurer to move $10,000 from the Operating Account to the Millennium Trust Fund.

The Board would further note that while formal signed cooperative endeavors were not entered into by the Corporation with both the Treasurer's Office for investment monitoring and advisory services and Department of Justice for legal representation, those entities did provide the aforementioned services during the audit period in question. A formal cooperative endeavor for legal representation services in Fiscal Year 2004-2005 has been completed with the Department of Justice. The formal cooperative endeavor for investment advisory and management services is awaiting final signature with the Department of Treasury.

The Tobacco Settlement Finance Corporation appreciates the opportunity to have addressed these issues. Should you have any questions please contact me or Mr. Whitman Kling, Deputy Undersecretary, Division of Administration, at 342-7000.

Sincerely,

Jerry Luke LeBlanc
Chairman

JLL/WK/lb

Tobacco Settlement Financing Corporation
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Fax: 225-342-1057

November 4, 2004

Mr. Steve J. Theriot, CPA
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

RE: Tobacco Financing Corporation Audit Finding – The Board Did Not Meet

Dear Mr. Theriot:

This is being provided to you in response to the September 22, 2004, correspondence from your office delineating the aforementioned audit finding.

Response: We concur in part with the finding.
The Board did not meet during Fiscal Year 2003-04; however, the reference provided (Act 22 of 2004) is inapplicable as a citation since it was not effective until August 15, 2004, or the Fiscal Year 04-05. The correct citation would have been a failure to meet quarterly as in accordance with LA R.S. 39.99 (C), which was effective through August 14, 2004.

The finding is further in error with regard to the fact the board failed to elect a Chairperson. The Board was duly constituted and remained so until such time as the Governor made new appointments effective July 1, 2004. Consequently no election of a new board chairman was required until July 1, 2004, or the Fiscal Period 2004-2005.

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

Sincerely,

Jerry Luke LeBlanc, Chairman
Tobacco Finance Settlement Corporation

JLL/lb