

VTSF

VIRGINIA TOBACCO
SETTLEMENT FOUNDATION



2006 Annual Report



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Letter from the Chairman

Greetings!

The Virginia Tobacco Settlement Foundation (VTSF) Board of Trustees is pleased to announce that we've had another successful year in our fight to prevent and eliminate the use of tobacco products by Virginia's young people.

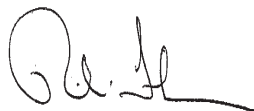
In FY 2006 the VTSF provided more than \$3.6 million in grants to schools, community groups and faith-based organizations for educational programs to warn children statewide about the dangers of using tobacco products and to teach them how to lead healthier, safer lives. The VTSF also continued supporting cutting-edge research through the Virginia Research Consortium, bringing us closer to understanding how best to combat adolescent nicotine addiction and tobacco use. (Participating institutions in the consortium include The College of William & Mary, George Mason University, James Madison University, Old Dominion University, the University of Virginia, Virginia Commonwealth University, Virginia State University and Virginia Tech.)

The VTSF's award-winning ydouthink marketing campaign continues to maintain an awareness level of more than 75 percent among Virginia youths. We also now have more than 1,700 teen volunteers in the Y St. group, bringing the message about the dangers of tobacco use to their peers and younger children as well.

Despite our many accomplishments, more challenges lie ahead of us, however. The VTSF Board of Trustees needs to continue to show our commitment to Virginia's young people by being vocal in our support of efforts that protect children's health.

The VTSF Board members have been given an honorable gift - the opportunity to save the lives of children - and we are passionate about our mission and sharing it with others. Working together, we can accomplish great things.

Thank you,



Rickie E. Fulcher

Chairman

Virginia Tobacco Settlement Foundation Board of Trustees



Letter from the Executive Director

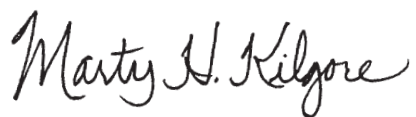
As the Virginia Tobacco Settlement Foundation continues our mission of preventing tobacco use by Virginia youth, we are constantly looking at both new ways to reach youth and new groups of youth to reach.

At the Fifth Annual Grantee Training Conference in September 2006 in Roanoke, we encouraged our program grantees to learn more about youth culture in order to better communicate with the kids they educate. The 150 conference participants learned about the importance of understanding youth sub-cultures. Additionally, grantees learned about proven strategies for working with vulnerable populations such as girls, African-American youth, and youth who live in rural communities.

Going forward into 2007, the VTSF is expanding our already extensive youth street-marketing campaigns by introducing 2up2down (named for the finger symbols for VA). Working in collaboration with community groups and law enforcement, this new initiative is aimed at reducing tobacco use and violence among at-risk urban, African-American youth in Virginia who identify with hip-hop culture.

About 80 percent of today's adult smokers began smoking as teens, many as early as ages 12 to 13. Youth culture is constantly changing and the VTSF remains committed to keeping up with the trends to ensure that today's and tomorrow's teens will be happy, healthy adults.

Sincerely,



Marty H. Kilgore
Executive Director
Virginia Tobacco Settlement Foundation (VTSF)



Board of Trustees

Chairman

Rickie E. Fulcher, of Stuart, director of retail operations, Clark Gas & Oil Co.
(term expires June 30, 2010)

Vice Chairman

Patrick J. Hughes, of Richmond, director of operations, Richmond Cold Storage Inc.
(term expires June 30, 2007)

Members

Sanjeev K. Aggarwal, M.D., of Arlington, Georgetown University Hospital, Radiation Medicine (term expires June 30, 2009)

Richard Bennett, M.D., of Richmond, private practice (term expired June 30, 2006)

Daniel Cawley of Portsmouth, director of marketing and sales, Virginia Sports Hall of Fame (term expired June 30, 2006)

Curtis Coleburn, chief operating officer, Virginia Department of Alcoholic Beverage Control

Edda Collins Coleman, of Fairfax, Department of Federal Affairs, American Academy of Pediatrics (term expires June 30, 2007)

Kevin R. Cooper, M.D., of Midlothian, professor, Virginia Commonwealth University School of Medicine (term expires June 30, 2009)

Richard Crittenden, of Richmond, youth member (term expires June 30, 2009)

Pamela J. Daffern, M.D., of Glen Allen, Allergy, Asthma & Sinus Center of Central Virginia (term expires June 30, 2009)

Jose F. Dimas, of Vienna, legislative representative, National Center for State Courts (term expires June 30, 2009)

Audrey Douglas-Cooke, of Virginia Beach, manager for outpatient services, Sentara Virginia Beach Hospital (term expires June 30, 2007)

Lolly Gilmore, of Midlothian, citizen member (term expired June 30, 2006)

The Honorable Emmett W. Hanger Jr., State Senator representing the 24th District (concurrent with Senate term)

The Honorable William R. Janis, Member of the House of Delegates, representing the 56th District (concurrent with House term)

Debra Keith, of Gate City, school nurse coordinator, Scott County Public Schools (term expires June 30, 2007)

Maria D. Kelly, M.D., of Charlottesville, associate professor, University of Virginia Health Systems, Department of Radiation Oncology (resigned prior to term expiring)

Rakesh C. Kukreja, Ph.D., of Richmond, professor, VCU Medical Center, Cardiology Division (term expires June 30, 2007)

James Lund McDaniel, M.D., of Franktown, attending physician and medical director, respiratory therapy, Shore Sleep Diagnostic Center & Pulmonary Function Laboratory, Shore Memorial Hospital, Nassawadox, president and chief administrative officer, Eastern Shore Physicians & Surgeons Inc. (term expires June 30, 2010)

The Honorable John H. O'Bannon, III, M.D., Member of the House of Delegates, representing the 73rd District (concurrent with House term)

Robert B. Stroube, M.D., M.P.H., commissioner of health, Virginia Department of Health

Tobin G. Van Ostern, of Richmond, youth member (resigned prior to term expiring)

The Honorable John Watkins, State Senator representing the 10th District (concurrent with Senate term)



VTSF STAFF

CENTRAL OFFICE STAFF

701 East Franklin Street, Suite 501
Richmond, Virginia 23219

Marty Kilgore, *Executive Director*

Margaret White, *Deputy Director*

Rita Angelone, *Resource Development Coordinator*

Terri-ann Brown, *Program Specialist*

Eloise Burke, *Senior Executive Assistant*

Richard Foster, *Public Affairs Coordinator*

Donna Gassie, *Director of Programs*

Wilma Jordan, *Business Manager*

Charlie McLaughlin Jr., *Program Specialist*

Danny Saggese, *Director of Marketing*

FIELD STAFF

North Region

Lisa Brown, *Grants Program Administrator*

2465 Centreville Road #J17-106

Herndon, VA 20171

Central Region

Henry Harper, *Grants Program Administrator*

2878 James Madison Hwy.

Bremo Bluff, VA 23022

Southeast Region

Judy Link, *Grants Program Administrator*

7100 Route 17, Suite 14

Yorktown, VA 23692

Southwest Region

Jenny Martin, *Grants Program Administrator*

Research Building VII

1700 Kraft Drive, Suite 2416

Blacksburg, VA 24060

Background

MASTER SETTLEMENT AGREEMENT

In 1998, the Attorneys General of 46 states, including Virginia, signed the Master Settlement Agreement (MSA) with the four largest tobacco manufacturers in the United States to settle state suits to recover costs associated with treating smoking-related illnesses. The spirit and intent of the MSA was to provide states with funding for tobacco-use prevention programs that would ultimately lower the prevalence of tobacco use, thus lowering long-term medical costs to care for citizens with tobacco-related diseases. According to the MSA, the tobacco manufacturers are projected to pay the settling states in excess of \$200 billion over the next 25 years. Virginia is expected to receive \$4 billion.

CREATION OF VTSF

In 1999, the Virginia General Assembly established the Virginia Tobacco Settlement Foundation (VTSF) to lead Virginia's youth tobacco-use prevention efforts by funding education, research and enforcement programs. The General Assembly allocated 10% of Virginia's MSA funds to the VTSF to lead the Commonwealth's youth tobacco-use prevention efforts.

The VTSF Board of Trustees expanded its goals and objectives to include:

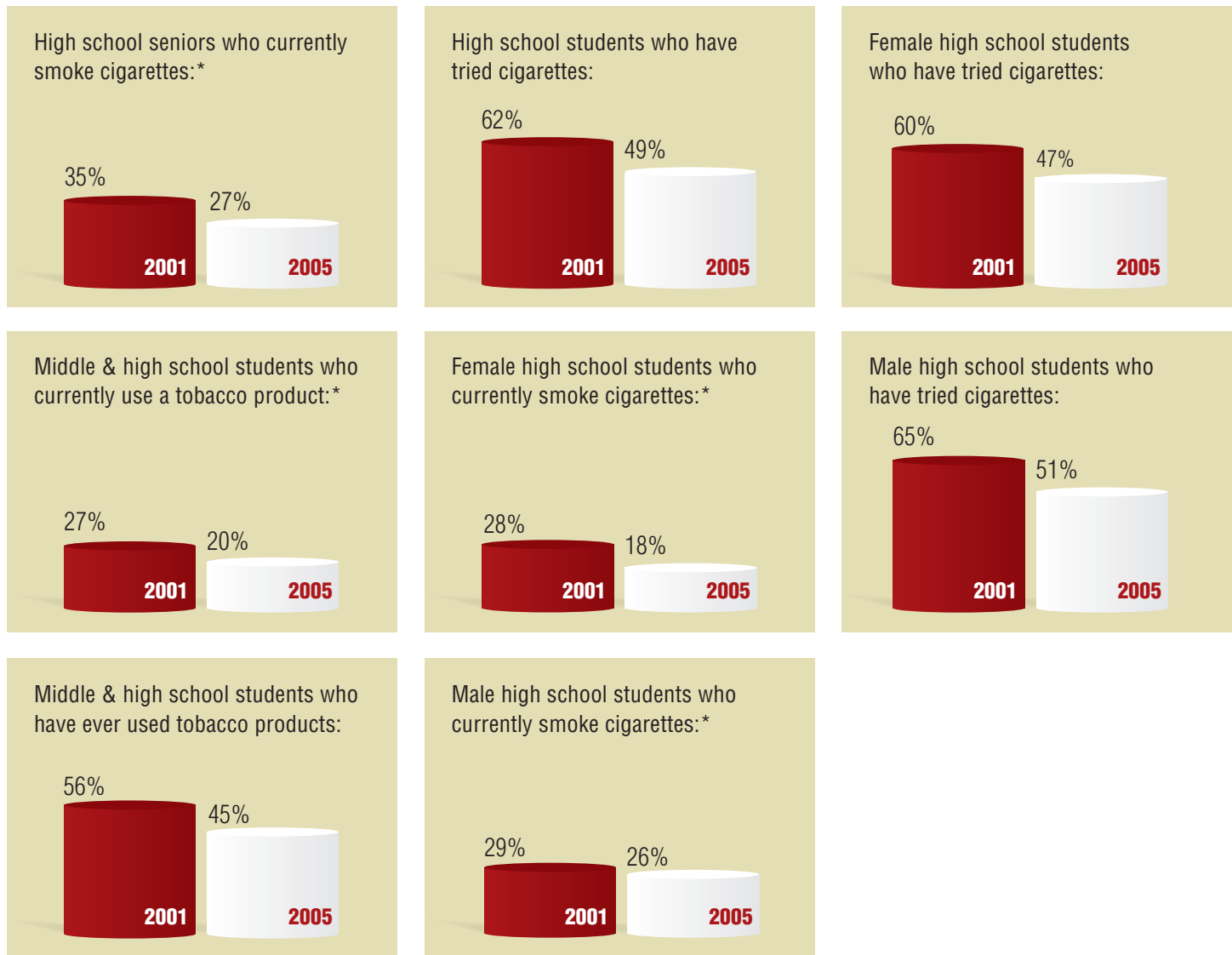
- Educating youth about the adverse health, economic and social effects of tobacco use
- Educating parents and guardians about the adverse health, economic and social effects of tobacco use on their children
- Promoting school and community-based programs that target youth tobacco-use reduction
- Serving as an advocate/resource to Virginia lawmakers on legislative initiatives to reduce youth tobacco use
- Promoting research to study ways to reduce the deleterious effects of tobacco as well as to reduce the social, economic and environmental effects of tobacco use by youth
- Developing marketing strategies to promote the efforts of the foundation
- Serving as the hub of all youth tobacco-use reduction efforts in the Commonwealth by creating a comprehensive approach to the issue
- Leveraging the resources of the Foundation to encourage private-sector investments in order to develop public/private partnerships to address this issue.

Virginia Youth Tobacco Survey

Since 2001, The Virginia Tobacco Settlement Foundation (VTSF) has commissioned the biennial Virginia Youth Tobacco Survey (YTS) of middle school and high school students. Public school students in grades 6 through 12 were surveyed about tobacco use, availability of tobacco products, environmental tobacco smoke, tobacco prevention education, tobacco advertisements and depictions of tobacco use in the media.

The latest survey was conducted in fall 2005 by Virginia Commonwealth University's Survey and Evaluation Research Laboratory (SERL) and Community Health Research Initiative (CHRI). Results were released in spring 2006. More than 2,200 students (1,124 middle school students and 1,090 high school students) were surveyed in schools across the Commonwealth. The VTSF awarded VCU \$133,571 to conduct the survey.

Some Sample Data:



Calculated margin of sampling error: +/- 1% to +/- 5%
 * Being a current smoker is defined as smoking on one or more days in the past month.



Janet Young

Teaching About Tobacco-Use Dangers: Not Just Work

Janet Young is the first to tell you that teaching Fairfax County kids about the dangers of using tobacco isn't just a job for her.

"I'm here because it's important to me," Young says. "Both my parents were smokers, and my sister started smoking at age 13. At 39, she was diagnosed with lung cancer and at 42, she passed away."

Young teaches Project TNT (Toward No Tobacco Use) and Project TND (Toward No Drug Abuse) to middle and high school students through a grant from the Virginia Tobacco Settlement Foundation to the Fairfax County Department of Community and Recreation Services.

One of the first things she does before every new class of students is to show the kids photos of her late sister, Belinda Gibson, who died in 1998, leaving behind two young daughters, ages 6 and 13. "I have pictures I show my kids of my sister when she was healthy and when she lost her hair, and her two kids. I share what they went through by losing their mother."

Young, who has taught prevention classes in schools, teen centers, community centers and youth outpatient and residential treatment centers since 2003, wants kids to know how tobacco use can affect whole families. ■

Programs

The VTSF Board of Trustees supports a comprehensive approach to achieving the Foundation's goals. The Board recognizes that reducing or preventing tobacco use is a complex challenge requiring a variety of techniques and initiatives to achieve success. The Foundation's approach includes community programs and education, a youth-focused marketing campaign, research projects and enforcement of Virginia's tobacco-access laws. Individually, these strategies would not be nearly as effective as a combined approach.

COMMUNITY PROGRAMS & EDUCATION

The VTSF is committed to involving Virginia's communities in the effort to prevent youth tobacco use. These local community programs provide direct interaction with young people throughout their childhood and are a key element in changing youth attitudes and behaviors about tobacco use. These changes will ultimately help prevent the initiation of tobacco use by young people.

During FY 06, VTSF funded 70 renewal grant programs totaling \$3.5 million. These programs impacted a total of 44,000 Virginia youth. The grant recipients included nonprofit organizations, faith groups, schools and other community groups.

VTSF also provided funding to organizations

throughout the state through two different mini-grant award projects. Special Project Mini-Grants were awarded to 40 organizations for a total of \$122,000. These one-time project grants were in the range of \$800 to \$4,000 each and provided the resources necessary to further the tobacco-use prevention and cessation efforts through the purchase of materials, sponsorships of smoke-free proms, and a variety of other activities.

Community Services Board (CSB) Mini-Grants were awarded to 29 CSB's, totaling \$63,000. These mini-grant funds were used by CSB's across the state to purchase tobacco-use prevention education materials in an effort to help educate local communities about tobacco-use prevention issues.



VTSF Compendium Of Programs

All of the funded renewal grants were implementing programs found in the Foundation's Compendium of Tobacco Use Prevention Programs for Youth. The Compendium programs address issues relative to tobacco-use prevention including primary tobacco-use prevention education, tobacco cessation, early tobacco intervention and reduction, advocacy, youth empowerment and social-skills building. These evidence-based programs are recognized by national, state and nonprofit organizations as model, promising or effective tobacco-use prevention programs.

VTSF COMPENDIUM PROGRAMS

Across Ages	Creating Lasting Families
Families & Schools Together	Helping Teens Stop Using Tobacco
Know Smoking	NICoteen
Positive Action	Project Toward No Tobacco Use
Skills for Action	Strengthening Families
All Stars	Dare To Be You
Families in Action	Here's Looking At You
Know Your Body	Not On Tobacco
Project Alert	Project Toward No Drug Use
Skills for Adolescence	Too Good for Drugs
AI Pal's	Ending Nicotine Dependence
Get Real About Tobacco	Intervening with Teen Tobacco Users
Life Skills Training	Personal/Social Skills Lessons
Project Charlie	Science, Tobacco & You
Skills for Growing	Living Free of Tobacco

Program Evaluation

Virginia Commonwealth University's (VCU) Survey and Evaluation Research Laboratory (SERL) was contracted by the VTSF to provide a comprehensive evaluation of the 70 renewal grant programs. The VTSF awarded VCU \$250,000 for these evaluation services.

TRAINING CONTRACTS

Tobacco Technical Assistance Consortium (TTAC)

\$32,616

To help increase tobacco control knowledge and build capacity among statewide tobacco-use prevention and substance-abuse professionals throughout the Commonwealth.

James Madison University (JMU)

\$76,185

Assist new and experienced prevention practitioners integrate basic science-based prevention information into practice; understand the need, value, and necessity of evaluating programs; and understand the importance of cross-agency collaboration.

FY2006 VTSF Program Grantees

Organization	Grant Amount	Organization	Grant Amount
Alexandria Community Services Board	\$70,567.00	Henry County Schools	\$33,837.00
Alliance for Families and Children of Central Virginia	\$55,581.00	Historic Triangle Substance Abuse Coalition	\$58,661.00
American Lung Association of Virginia/Southwest	\$62,735.00	Inova Health Source	\$61,832.00
American Lung Association of Virginia/Northeast	\$28,359.00	Loudoun County Department of Parks, Recreation & Community Services	\$67,686.00
American Lung Association of Virginia/East	\$62,421.00	Medical Home Plus, Inc.	\$52,539.00
American Lung Association of Virginia/Central	\$69,321.00	Medicorp Health System	\$67,975.40
American Lung Association of Virginia/North	\$64,550.00	Middle Peninsula-Northern Neck CSB	\$52,503.00
American Lung Association/Southside	\$59,827.00	Mount Rogers Community Services Board	\$39,934.00
Appomattox County Schools	\$43,440.00	Mountain View Youth & Family Services	\$47,239.00
Baptist General Convention of Virginia	\$55,374.00	Mount Sinai Church	\$22,481.00
Bland County Public Schools	\$26,129.00	New River Valley Community Services	\$60,959.00
Blue Ridge Behavioral Healthcare	\$48,620.00	New River Valley Community Services	\$58,982.00
Boys & Girls Clubs of Emporia/Greenville	\$20,627.00	Northern Virginia Family Service, Inc.	\$62,704.00
Boys and Girls Club of Southeast Virginia	\$73,560.00	Parkside Elementary	\$54,270.00
Boys and Girls Clubs of the Virginia Peninsula	\$60,299.00	Petersburg Public Schools	\$39,959.00
Bristol Youth Services	\$26,656.00	Piedmont Community Services	\$70,106.00
Buckingham County Public Schools	\$19,955.00	Prince William Interfaith Volunteer Caregivers	\$74,474.00
C. Waldo Scott Center for H.O.P.E.	\$23,816.00	Richmond Behavioral Health Authority	\$48,764.00
Chesterfield County Community Service Board, Prevention Services Unit	\$5,306.00	Roanoke County Public Schools	\$75,000.00
Child and Family Services, Inc.	\$43,076.00	Rockbridge Area Community Services	\$55,525.00
Children, Youth and Family Services	\$66,633.00	Rockbridge County Public Schools	\$71,500.00
Commonwealth Center for Children and Adolescents	\$51,460.00	Sentara Healthcare	\$33,675.00
Culpeper County Sheriff's Office	\$54,670.00	Shenandoah County Department of Social Services	\$64,653.00
Cumberland Mountain Community Services	\$42,578.00	Southside Area Health Education Center	\$51,320.00
Cumberland Mountain Community Services	\$35,289.00	Southside Area Health Education Center	\$39,977.00
Danville-Pittsylvania Community Services	\$53,072.00	Three Rivers Health District	\$33,751.00
Ethiopian Community Development Council, Inc.	\$66,252.00	Total Action Against Poverty	\$22,729.00
Fairfax County Department of Community and Recreation Services	\$59,578.00	Twin County Prevention Coalition	\$12,599.00
Fairfax-Falls Church CSB	\$54,710.00	Virginia Cooperative Extension, Northampton County	\$44,909.00
Fauquier CADRE, Inc.	\$58,007.00	Virginia Rural Health Resource Center	\$73,001.00
Fluvanna County Public Schools	\$32,450.00	Vanguard Services Unlimited	\$68,554.00
Giles County Partnership for Excellence Foundation, Inc.	\$43,125.00	Washington County Public Schools	\$54,000.00
Girls on the Run of Southwest Virginia	\$39,414.00	Western Tidewater Community Service Board	\$66,783.00
Halifax County Public Schools	\$39,634.00	William A. Hunton UMCA	\$52,645.00
Henrico Area Mental Health, Mental Retardation, & Substance Abuse Services	\$44,739.00	YMCA of South Hampton Road-Community Services Branch	\$46,078.00
			\$3,503,434.40

FY2006 Special Projects Mini-Grants

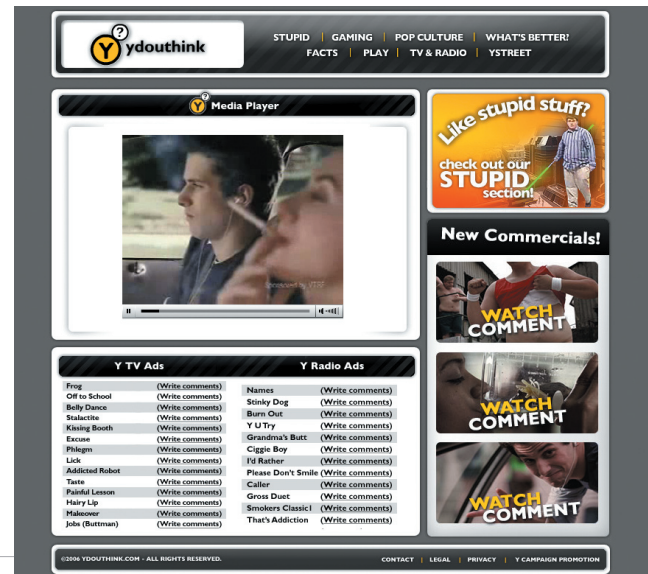
Organization	Amount	Organization	Amount
Alexandria Community Services Board Alexandria, VA	\$2,881.00	Mount Sinai Church Martinsville, VA	\$1,438.00
American Lung Association Norfolk, VA	\$2,100.00	Mountain View Youth & Family Services Hillsville, VA	\$1,769.45
Believers Center of the Future Academy Hampton, VA	\$3,600.00	Northampton County Public Schools Machipongo, VA	\$2,381.00
Born To Be Great II Richmond, VA	\$4,000.00	Northern Virginia Family Service, Inc. Oakton, VA	\$1,850.00
Boys and Girls Clubs of Southeast Virginia Norfolk, VA	\$3,924.00	Parry McCluer High School Buena Vista, VA	\$2,125.00
Boys and Girls Clubs of the Virginia Peninsula Newport News, VA	\$1,050.00	Peninsula Metropolitan YMCA-Richmond County Family YMCA Warsaw, VA	\$4,000.00
Chilhowie Elementary School Chilhowie, VA	\$1,010.00	Peninsula Metropolitan YMCA-Westmoreland Family YMCA Montross, VA	\$4,000.00
District 19 CSB Petersburg, VA	\$4,000.00	Prince William 4-H Program Manassas, VA	\$832.80
Eastern Shore Community Services Board Nassawadox, VA	\$4,000.00	Project Right Start Marion, VA	\$4,000.00
Fairfax County Community and Recreation Services Fairfax, VA	\$3,571.00	Providence Elementary School Richmond, VA	\$3,975.00
Fauquier County Public Schools Warrenton, VA	\$3,852.00	Regional Alliance for Substance Abuse Prevention Danville, VA	\$3,274.00
Fluvanna County Extended Education Palmyra, VA	\$1,308.00	Richmond County Schools After Prom Celebration Committee Warsaw, VA	\$2,050.00
Focus/Teensight Charlottesville, VA	\$3,500.00	Rosemont Middle School Norfolk, VA	\$2,200.00
Halifax County High School South Boston, VA	\$2,620.00	Safe Youth Coalition, Inc. Fairfax Station, VA	\$3,996.00
Henry Fork Service Center, Inc. Rocky Mount, VA	\$2,000.00	Scott County Public Schools Gate City, VA	\$3,580.00
Liberty High School PTSA Bedford, VA	\$2,000.00	Sussex County Department of Social Services Sussex, VA	\$3,989.65
Life Changing Community Development Corp. Crewe, VA	\$4,000.00	Virginia Beach Department of Human Services Virginia Beach, VA	\$3,823.00
Lime Kiln Arts, Inc. Lexington, VA	\$4,000.00	YMCA of South Hampton Roads Norfolk, VA	\$3,746.00
Midlothian High School Midlothian, VA	\$4,000.00	York County Foundation for Public Education Yorktown, VA	\$3,952.50
Mount Airy Elementary School Gretna, VA	\$3,433.00	YWCA Virginia Peninsula Newport News, VA	\$4,000.00
			\$121,831.48

FY2006 Community Services Board Mini-Grants

Colonial Services Board	\$2,468.56	Northwestern Community Services	\$2,447.06
Henrico Mental Health, Mental Retardation Services	\$2,358.29	Alexandria Community Services Board	\$2,450.41
Portsmouth Department of Behavioral Healthcare Services	\$2,367.15	Fairfax-Falls Church Community Services Board	\$2,489.76
Va Beach Department of Human Services, MHSA Division	\$2,385.18	Western Tidewater Community Service Board	\$2,074.00
Planning District One Behavioral Health Services	\$2,464.02	New River Valley Community Services	\$1,752.41
Valley Community Services Board	\$1,156.68	Rockbridge Area Community Services	\$2,492.10
Rappahanock Area Community Services Board	\$1,468.69	Norfolk Community Services Board	\$2,360.83
Harrisonburg-Rockingham Community Services Board	\$1,647.92	Loudoun County Mental Health Mental Retardation Services	\$2,442.58
Cumberland Mountain Community Services	\$2,473.00	Mt Rogers Community Services Board	\$2,480.54
Piedmont Community Services	\$2,422.00	Hanover Community Services	\$2,433.90
District 19 Community Services Board	\$2,370.17	Dickenson County Behavioral Health Services	\$2,260.44
Prince William Community Services Board	\$1,444.93	Chesterfield Community Service Board	\$1,963.12
Danville-Pittsylvania Community Services	\$2,380.05	Region Ten Community Services Board	\$445.98
Crossroads Prevention Services	\$2,485.94	Middle Peninsula Northern Neck Community Services Board	\$2,476.98
Central Virginia Community Services	\$2,472.93		
			\$62,935.62

Marketing

The mission of the “Y Campaign” is to reduce youth tobacco use in Virginia by empowering Virginia youths to choose a healthy lifestyle. The focus market of the campaign, which is based on the most extensive youth marketing research ever conducted in Virginia, is youths 10 to 17 years old, with a special emphasis on “tweens” ages 10 to 14. The tagline of the Y Campaign asks kids, “Can anybody tell us why smoking isn’t stupid?” The campaign’s powerful message targets youth through a multimedia marketing effort including television and radio commercials, an interactive Web site – www.ydouthink.com – cinema advertising and street-marketing activities.



CAMPAIGN OVERVIEW

The marketing campaign funded four contracts to continue the campaign in FY06. These included:

Barber Martin Advertising — \$4 million

Continued implementation of the Virginia Tobacco Settlement Foundation’s current marketing initiative: the Y Campaign. This includes the purchasing of media to place current and new advertisements in various medium outlets, the development of new creative concepts and ideas, and the production of ideas into finished advertising deliverables.

Rescue Productions — \$675,000

Continued implementation of the Virginia Tobacco Settlement Foundation’s current street-marketing initiative that supports the Y Campaign. This includes scheduling and managing all campaign events (totaling approximately 950 in FY06); employing personnel to conduct events; training and managing youth volunteers; and developing and implementing new concepts and ideas for reaching youth.

Continued implementation of the Virginia Tobacco Settlement Foundation’s current interactive

initiative of the Y Campaign: www.ydouthink.com. This includes Web-site development and management, hosting, interactive media development and interactive media planning/purchasing/placement.

Southeastern Institute of Research — \$175,000

Continued implementation of the Virginia Tobacco Settlement Foundation’s current evaluation efforts associated with the Y Campaign. This includes conducting a tracking survey twice a year, analyzing data and preparing reports for each survey, as well as proposing and implementing other tools for evaluating the campaign’s effectiveness.

Research was conducted in April 2006 to provide an assessment of the awareness level of the VTFS youth tobacco-use prevention marketing campaign.

After 4 years, the awareness level of the VTFS’s ydouthink Campaign has reached its highest level yet at 79% awareness among its target audience:

Virginia kids ages 10-17. The Campaign’s awareness has now been consistently strong (between 74% and 79%) for 30 consecutive months. Additional key

findings from the study include:

- The ydouthink campaign continues to appeal to youth overall, with a very high “ease of understanding” (91%) and “believability” (91%).
- More youths now consider ydouthink to be a “friend” (50%, up from 45% in 2005).
- There remains a high association of non-smokers with being “cool” (77%), “popular” (66%) and “trustworthy” (88%) versus smokers.
- About 94% of youth who are aware of the ydouthink campaign were also able to recall something specific about it.

Television and Radio

In June 2006, VTFS released three new 30-second television spots entitled “Belly Fat,” “Frog” and “Off to School.” The total ydouthink campaign library now includes 30 half-minute TV spots and 23 one-minute radio spots. Over the years, the VTFS’s creative work has been recognized for its excellence. Among the VTFS’s most recent awards:

- VTFS TV commercial “Belly Dance” was chosen as one of the “TV Spots of the Week” by Advertising Age.



P.J. Calhoun

Y St.: The Place for Teen Volunteers to Be

There's one big reason why Heather Baker is in Y St.: her uncle, Reginald "Peck" Moore.

"He was very close to me," says Heather, 17, a junior at Lord Botetourt High School in Botetourt County. "Uncle Peck passed away June 2004. He had been battling cancer all over his body. He passed away from a brain tumor. It started in his lungs. He was a smoker since he was a teenager."

His death, she says, "made the biggest impact on me." She wanted to do something to prevent others from dying of smoking-related illnesses and in early 2005 she found Y St.

She volunteers for Y St. by talking to other teens about the dangers of smoking and by handing out fact cards at local teen hangouts. "I've been to football games, I've been to the movies, I've been to the mall, to restaurants, just passing things out to kids."

For P.J. Calhoun, 17, a junior at Hanover High School in Hanover County, his father was a major reason he joined Y St.

"My dad's got emphysema. I think he could possibly have lung cancer, but he won't go to the doctor. As long as I've been alive, my dad's been smoking. He's just literally killing himself and he can't stop," P.J. says.

So now, "Anti-smoking is my thing. . . . I want to get out there and make a difference and let people know what smoking can do to them." ■

- VTSF TV commercial "Makeover" was awarded the Richmond Ad Club's Silver Cannonball award in the category of Public Service Television, Single at the 2005 Richmond Show.
- VTSF TV commercial "Kissing Booth" was an award finalist in the 2005 Telly Awards in the "Miscellaneous" category under the Regional TV & Multi-Market Cable category. The international Telly Awards honor outstanding local, regional and cable television commercials and programs as well as video and film productions.
- "Belly Dance," "Makeover" and "Kissing Booth" join "Lick" and "Jobs" within the group of award-winning TV commercials produced by the VTSF.

Street Marketing

In 2004, the Y St. street-marketing campaign was launched in Virginia to recruit teen volunteers for ydouthink, the VTSF's tobacco-use prevention campaign focused on 10- to 14-year-old tweens. The Y St. campaign believes in the power of youth-to-youth (Y2Y) interactions in cultural settings, such as skate parks, high school sporting events, malls, movies theaters, concerts, festivals, bowling alleys and other youth-frequented places. With street marketing, Y St. has been able to overcome the challenge faced by many other youth-based tobacco-prevention programs with declining participation between trainings. Y St. focuses on an integrated social marketing approach by not only training youth, but also creating a system for sustained youth involvement. In the initial 18 months of Y St., the 1,432 trained Y St. members volunteered some 1,667 times. In these

18 months, there were 25,005 Y2Y interactions that occurred through the volunteer model. That's a monthly average of 1,389 Y2Y interactions – 1,389 times that youths throughout Virginia were directly engaged by another youth in a cultural setting to discuss being smoke-free, EVERY MONTH!

Ydouthink.com

Web site and online activity statistics through June 30, 2006:

- More than 1 million site visits (15,000 to 20,000 per month)
- More than 200 million total impressions
- More than 150,000 total Virginia visitors to www.ydouthink.com

VTSF was awarded the Gold Cannonball and "Best in Show - Interactive" for its youth-oriented Web site, www.ydouthink.com, at the Richmond Ad Club's 2005 Richmond Show.

Enforcement

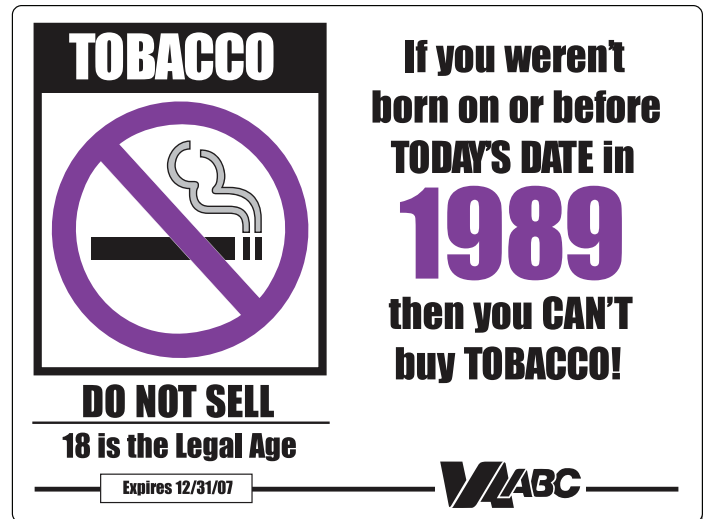
The Centers for Disease Control and Prevention (CDC) states that without aggressive enforcement of tobacco-access laws, there will be no decrease in the purchase of tobacco products by minors. As a result, enforcement is an important component of the VTSF's comprehensive youth tobacco-use prevention program.

The VTSF funds the state Department of Alcoholic Beverage Control (ABC) to conduct approximately 360 compliance checks per month, during which ABC agents randomly test tobacco retailers to see if retailers will sell tobacco products to underage buyers.

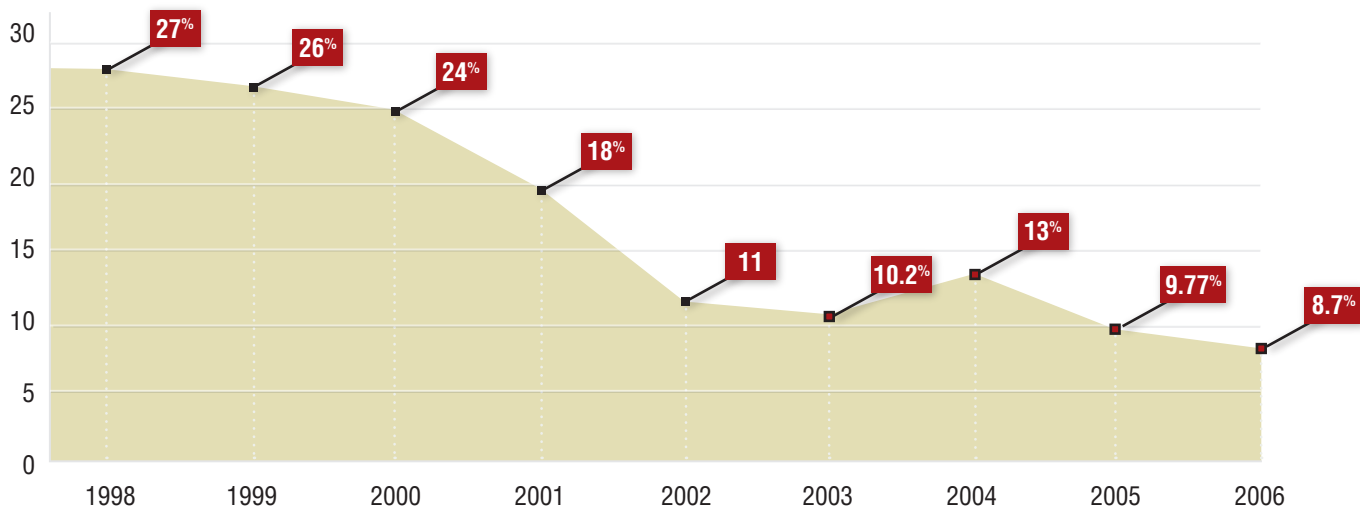
ABC regularly reports the results of these compliance checks to the VTSF. Since 1998, the noncompliance rate has decreased from 27% to 8.7%.

The Enforcement Process

One ABC special agent accompanies an Underage Buyer (UAB) into a tobacco-selling retail establishment. The UAB then attempts to purchase tobacco products from the retailer. As undercover agents under the enforcement authority of the state ABC, the agency's UABs can purchase tobacco products from retailers with immunity and are paid as part-time state employees. Should a violation occur, the UAB returns to a secondary special agent outside the retail establishment. Witnessing the violation, the secondary special agent issues a state summons to the retail clerk.



Non-Compliance Rates





Why is nicotine more addictive for adolescents?

That's the key question that researchers seek to answer at George Mason University's Department of Psychology, through a three-year grant from the Virginia Tobacco Settlement Foundation.

Dr. Robert F. Smith, a psychology professor at GMU, says that research his laboratory has conducted with rats suggests that nicotine use in early adolescence can create "a more addiction-labile adult brain. You can actually get structural changes that persist into adulthood, which we measure using digital imaging of neural branching in slices of brain tissue."

Humans and rats possess similar brain development patterns. By observing rats dosed with nicotine vs. a control group dosed with saline, Smith's team has reached some interesting conclusions. For instance, rats given nicotine as early adolescents self-administer cocaine more than rats that were not exposed to nicotine.

Adolescent nicotine use also has "long-lasting emotional effects," Smith says. Adult rats dosed with nicotine in adolescence tend to be "more anxious and more fearful" than nicotine-free rats. Perhaps the most surprising result is that the first dose of nicotine can generate changes that persist into adulthood. One adolescent nicotine injection starts the chain of events that leads to later addiction, even if there's no more nicotine use until later in life, Smith says.

"What we're really interested in now is characterizing the whole sequence of events that leads from adolescent nicotine [use] to [creating] the more addiction-labile adult brain," Smith says. "And once we've defined all the events, can we find a place [in the chain of events] where we can interrupt that sequence?" ■

Research

Virginia Research Consortium

The VTSF continued its work facilitating the Tobacco Control Research Consortium in FY06. This consortium, which was established by the VTSF, is an unprecedented collaborative effort between eight Virginia universities to conduct research into youth tobacco-use and prevention issues. The VTSF invests about \$1.7 million annually in consortium research.

Participating institutions include the College of William & Mary; George Mason University; James Madison University; Old Dominion University; the University of Virginia; Virginia Commonwealth University; Virginia State University; and Virginia Tech.

Overall, VTSF research initiatives have resulted in more than 50 internal collaborations within universities, at least 25 external collaborations across universities, five new grant proposals being submitted to outside funding sources to leverage VTSF funds, and a number of published articles and presentations at various conferences.

The following lead universities are coordinating the projects described (all of which include collaboration with other institutions):

James Madison University



Intervention with youth with Attention Deficit Hyperactivity Disorder, \$240,000

The project findings demonstrate that JMU's multimodal treatment program for middle school students with ADHD impacted functioning and predictors of tobacco use in the sample. Specifically, significant group differences in symptoms and functioning were evident as well as differences in outcome measures related to attitudes and beliefs about smoking, peer delinquency and actual experimentation with tobacco. It is noteworthy that these differences were obtained using a very inexpensive treatment delivery system designed for rural areas that capitalized on educators, school counselors and physicians who were already in the communities.

University of Virginia



Genomic effects of tobacco exposure, \$487,500

This research project's purpose was to identify molecular biomarkers that would help identify individuals most at risk for suffering the health related consequences of tobacco use. Investigators gathered molecular profiles of individuals with tobacco-related cancers from U.Va., the VCU Health System, and INOVA Fairfax in partnership with GMU. Each institution reviewed genomic effects within the tissue samples collected. Biomarkers have been identified and will continue to be studied using external resources. In addition, a Core Facility has been developed at VCU and will continue to have emphasis on tobacco-related cancers. U.Va. and the collaborating universities

have engaged additional faculty, published and presented results through numerous mechanisms, and have acquired external funding to continue and expand this area of research.

Virginia Commonwealth University



Virginia Youth Tobacco Project, \$499,817

VCU studied a number of youth tobacco-use prevention issues through its primary grant and small grants program. Key findings include:

- Cultural factors can either increase or reduce the chances that a young person will become a tobacco user.
- In a longitudinal twin study it is reported that genetic factors have less impact on smoking behavior when parental discipline is strict.
- Exposure to nicotine during adolescence impairs cognitive processes such as short-term memory.
- Nicotine's rewarding effects in animal models are greater in adolescent males than adults. Negative effects of nicotine withdrawal are enhanced in adolescent females compared to adults.
- Nonsmoking behavior in youth is impacted by protective factors including personal beliefs, friends, and parental approval.

- The propensity to use tobacco and the difficulty of quitting are affected and complicated by psychological factors in individuals, such as co-occurring psychiatric disorders.
- Social impairment and beliefs about peer smoking in youth with ADHD are strongly related to their personal beliefs about smoking, to intentions to smoke in the near future, and to a history of having tried smoking.

VCU also coordinated with the Virginia Youth Tobacco Project coalition to enhance collaboration among researchers and universities. The project team coordinated a conference to disseminate research findings and to begin the process to establish "research to practice" translation workgroups consisting of researchers and prevention professionals.

George Mason University



Behavioral genomic effects of adolescent nicotine exposure, \$440,000

This project defined how adolescent nicotine modifies the late development of the brain, to sculpt a brain prone to addiction and emotional disorders. GMU documented that adolescent nicotine:

- Induces expression of a number of genes, including some related to addiction, nerve cell growth, brain chemistry, and emotional regulation
- Induces lasting sensitization to nicotine
- Induces an enduring preference for nicotine
- Leads to greater effort to self-administer another addictive drug, cocaine
- Leads to stronger negative emotions in adults
- Produces persisting changes in brain chemistry
- Leads to persisting changes in anatomy of nerve cells important for addictive behavior.

These multiple changes are beginning to bring together a coherent picture that adolescent nicotine induces lasting brain changes, lasting susceptibility to addiction, and lasting negative emotional behaviors. GMU also found that the early adolescent period is a time of particular sensitivity to many of these effects of nicotine, and that nicotine-induced addictive brain changes may begin with a single dose of nicotine during the critical adolescent period. The picture that emerges from this work is that adolescent nicotine powerfully alters the late development of the brain, with multiple and serious consequences.

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS

BALANCE SHEET

As of June 30, 2006

REVENUES:

Master Settlement payments (Note 6)	\$ 11,963,023
Interest Income (Note 6)	163,626
Proceeds from securities lending transactions (Note 1)	52,716

Total Revenues **\$ 12,179,365**

EXPENDITURES:

	Expenses	Adjustments	Net (Expense) Revenue and Changes in Net Assets
Tobacco Settlement Expense:			
Administration (Note 7)	\$ 1,406,892	\$ 0	\$ -1,406,892
Depreciation Expense (Note 3)	925	0	-925
Expenses for Securities Lending (Note 1B)	52,716	0	-52,716
Marketing (Note 4 D)	5,105,740	0	-5,105,740
Program Expense (Note 8)	3,956,036	0	-3,956,036
Research and Evaluation (Note 9)	2,017,409	0	-2,017,409
Inter-Agency Expenses (Note 10)	65,715	0	-65,715
State General Fund Transfers Out (Note 11)	78,843	0	-78,843

Total Expenditures **\$ 12,684,276** **0** **\$ -12,684,276**

Excess (deficiency) of revenue over expenditures **\$ -504,911**

Fund Balance/Net Assets, July 1, 2005	7,049,228
Fund Balance/Net Assets, June 30, 2006	\$ 6,544,317

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS

BALANCE SHEET

As of June 30, 2006

	Governmental Funds Special Revenue
ASSETS:	
Cash and cash equivalents held by the Treasurer of Virginia (Note 1-A)	\$ 7,247,729
Investments Held by the Treasurer (Note 1-B)	2,402,587
Lease Deposits (Note 2)	6,749
Prepaid Rent	0
Prepaid Expenses	0
Capital Assets, net of accumulated depreciation: (Note 3)	
Operating equipment	0
TOTAL ASSETS	\$ 9,657,065
LIABILITIES:	
Accounts Payable (Note 4-A)	\$ 17,228
Accrued Payroll (Note 4-B)	21,424
Obligations Under Security Lend (Note 1-B)	2,402,587
Grants Payable (Note 4-C)	608,941
Contractual Obligations (Note 4-C)	0
Compensated absences (Note 5)	62,568
Total Liabilities	\$ 3,112,747
NET ASSETS:	
Investment in Capital Assets, net of related debt	\$ 0
Unrestricted	6,544,317
Total net assets	\$ 6,544,317

The accompanying notes are an integral part of the financial statements



Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

October 12, 2006

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Virginia Tobacco Settlement Foundation** (Foundation) for the year ended June 30, 2006. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

INDEPENDENT AUDITOR'S REPORT

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Foundation's internal controls, and test compliance with applicable laws and regulations.

Audit Scope and Methodology

The Foundation's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

- Master Settlement Agreement payments
- Contract and grant management
- Vendor payments
- Small purchase charge card
- Foundation's board approved budget

We performed audit tests to determine whether the Foundation's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, vouchers, small purchase charge card receipts and reconciliations, marketing and research contracts, program grants, and observation of the Foundation's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Foundation properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Foundation records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting systems and the Foundation's records.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

EXIT CONFERENCE AND REPORT DISTRIBUTION

We discussed this report with management on October 17, 2006.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.



AUDITOR OF PUBLIC ACCOUNTS

GDS:sk
sk: 46

Notes To Financial Statements

AS OF JUNE 30, 2006

Note 1: Cash, Cash Equivalents, And Investments

A. Cash and Cash Equivalents

Cash and cash equivalents represent cash in the General Account at the Department of the Treasury. Treasury manages the General Account Investment Portfolio. Information related to the composition of this portfolio is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

B. Securities Lending Transactions

Investments and cash equivalents held by the Treasurer of Virginia represent the Virginia Tobacco Settlement Foundation's (VTSF) allocated share of cash collateral received and reinvested and securities received for the State Treasury's securities lending program. Information related to the credit risk of these investments and the State Treasury's securities lending program is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

Cash with the Treasurer of Virginia	\$ 7,247,729
Investments held by the Treasurer of Va.	\$ 2,402,587
Total cash, cash equivalents and investments	\$ 9,650,316

Note 2: Lease Deposits

VTSF rents office space at 701 E. Franklin for the main office and had field staff offices located in Brems Bluff, Blacksburg, Midlothian, Herndon and Grafton, Virginia. Four leases required deposits. The Richmond office is \$5,126.00, Midlothian office is \$350.00, the Grafton office is \$225.00 and the Herndon office is \$1048.00, for a total of \$6,749.00 in deposits for rental leases. The office located in Herndon was closed prior to the fiscal year end but the deposit had not been received by VTSF at the completion of the financial statements

Note 3: Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5000.00 and an estimated life in excess of two years. The Virginia

Tobacco Settlement Foundation did share capital assets consisting of a server with the Tobacco Indemnification and Community Revitalization Commission. The Commission showed the full expenditure amount and depreciation in the Commonwealth's FAACS system, but through internal tracking of expenses and depreciation with VTSF they are allocated and reported accordingly. The net balance was completely depreciated as of June 30, 2006. All other purchases did not meet the capital asset requirements and are therefore maintained in an internal inventory control system by the VTSF.

Note 4: Liabilities

A. Accounts payable

Operating expenses accrued but unpaid as of June 30, 2006 totaled \$17,228

B. Accrued Payroll

All VTSF employees are paid on a semi-monthly schedule. Accrued payroll expenses of \$21,424 represents work performed between June 25 and June 30, 2006 but not paid prior to June 30, 2006.

C. Grants/Contractual payables

The VTSF awarded funding to programs all over the Commonwealth for the prevention of tobacco use by youths. The VTSF contracted with higher education universities to conduct research, surveys and evaluations on tobacco use and prevention. They also have a contract with Barber Martin Advertising, a marketing agency to lead a major campaign geared toward youths throughout Virginia on the prevention of tobacco use. At the end of the fiscal year we had outstanding payables for which we had received invoices in the amount of \$608,941.

Note 5: Compensated Absences

Compensated absences represent the amounts of annual, disability credits, and compensatory leave earned by VTSF employees, but not taken as of June 30, 2006. The \$62,568 represents the balances at the fiscal year end provided by the Commonwealth's leave liabilities tracking program. To determine how much of this amount should be recorded as long-term liability, calculations were made by adding estimated additional earned leave and subtracting estimated leave to be taken during FY07. Balances for staff with longer years

Notes To Financial Statements Continued

of service were based on the allowable carry forward amounts. As a result, it has been determined that \$31,245 of the entire amount should be reported as a long-term liability and the remainder is considered a short-term liability.

Note 6: Revenues

The VTSF is funded by receiving 10% of Virginia's share of the Master Settlement Agreement (MSA) negotiated between the various Attorneys General and the cigarette manufacturers in 1998. In FY 2006, the VTSF received \$11,963,023 in MSA payments and interest payments from MSA funds of \$163,626.

Note 7: Administration

Administrative costs are all of the operating expenses needed for the maintenance of the VTSF. These include expenses of the Board of Trustees, Payroll (including accrued leave liabilities), rents, utilities, insurances, equipment (repairs, maintenance, rental and purchases), furniture and supplies, postage and delivery, printing, state vehicle fees, employee travel and trainings. In addition, it includes expenses incurred for professional services provided by private industries such as temporary employees, marketing services, website design and maintenance, etc.

Note 8: Program

Program Expenses include funding provided to local organizations to conduct tobacco use prevention programs with youth and funding provided to the Department of Alcoholic Beverage Control for retail compliance checks.

Note 9: Research & Evaluation

These expenses include the contracts and agreements with higher education universities in Virginia focused on the research, evaluation of tobacco use prevention programs, evaluation of the statewide marketing campaign as well as a statewide Youth Tobacco Survey.

Note 10: Inter-agency Expense

These include expenses incurred as a result of Memorandums of

Understanding with agencies such as the Department of Health for fiscal and payroll support and VITA for system support.

Note 11: Transfers

Transfers out are to reimburse the General Fund for expenses by the Office of the Attorney General, Department of Taxation and for savings due to the suspension of the state employee group life employer contribution rate.



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VTSF
VIRGINIA TOBACCO
SETTLEMENT FOUNDATION