COMMONWEALTH OF VIRGINIA

Department of the Treasury

J. BRAXTON POWELL
TREASURER OF VIRGINIA

P. O. BOX 1879
RICHMOND, VA. 23218

November 3, 2008

Ms. Beverly Lewis
Division of Legislative Automated Systems
General Assembly Building
Richmond, VA 23219

Via Email

Dear Ms. Lewis:

In accordance with the provisions of §§ 23-30.36, 22.1-171 C, 2.2-2263, and 3.2-3109, I hereby submit the unaudited annual financial statements for the Virginia College Building Authority, the Virginia Public School Authority, the Virginia Public Building Authority, and the Tobacco Settlement Financing Corporation for the fiscal year ended June 30, 2008.

The financial statements have been prepared by the Department of the Treasury, whose management is responsible for their integrity and objectivity. The financial statements are considered by management to fairly present these public bodies' financial position and results of operations. We believe the data presented is accurate in all material respects and that all disclosures necessary to enable the reader to obtain a thorough understanding of the financial statements have been included.

Sincerely,

Evelyn R. Whitley
Director of Debt Management

Attachments

VIRGINIA TOBACCO SETTLEMENT FINANCING CORPORATION

Financial Statements

For the Year Ended June 30, 2008

VIRGINIA TOBACCO SETTLEMENT FINANCING CORPORATION

Table of Contents

This section of the annual financial report of the Virginia Tobacco Settlement Financing Corporation ("the Corporation") presents an analysis of the Corporation's financial performance during the fiscal year that ended on June 30, 2008. This information should be considered in conjunction with the information contained in the financial statements, which follow this section.

Corporation Activities and Highlights

The Corporation is a public body corporate and an independent instrumentality of the state created by the Tobacco Settlement Financing Corporation Act, Chapters 482 and 488 of the 2002 Virginia Acts of the General Assembly (the "Act"). The Corporation is authorized under the Act to purchase up to fifty percent of the annual amount received by the Commonwealth of Virginia (the "Commonwealth") under the Master Settlement Agreement (MSA) between cigarette manufacturers and 46 states and other United States jurisdictions (the "Tobacco Assets").

In fiscal year 2007, the Corporation issued $1,149,273,283 in Tobacco Settlement Asset-Backed Bonds, Series 2007 A, B, C and D (the "2007 Bonds"). Under an amended and restated Purchase and Sale Agreement, the 2007 Bonds financed the purchase of the Commonwealth's future right, title and interest to fifty percent (an additional twenty-five percent) of the Commonwealth's allocation under the MSA. A portion of the proceeds of the 2007 Bonds was used to defease and refund all of the outstanding Series 2005 Bonds, which were issued in May 2005 for $448,260,000.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Corporation's basic financial statements, which are comprised of two components: 1) government-wide and fund financial statements and 2) 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. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting, similar to the accounting used by most private-sector companies. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. The Statement of Net Assets presents all of the Corporation's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases and decreases in net assets measure whether the Corporation's financial position is improving or declining.

The Statement of Activities presents information showing how the Corporation's net assets changed during the most recent fiscal year. Changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements

The fund financial statements provide detailed information about the Corporation using 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 using a governmental fund type. 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 assists in determining whether there will be adequate financial resources available to meet the current needs of the Corporation.

The focus of the governmental fund financial statements is narrower than that of the government-wide financial statements. Therefore, 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 fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented in the adjustment column in each of the financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements.

Government-wide Financial Analysis of the Corporation

The Corporation was formed to purchase Tobacco Assets from the Commonwealth. The purchase was financed with the issuance of bonds. The Virginia Department of the Treasury provides staff support for the Corporation. Operating costs of the Corporation are funded from corporation income. Current assets of the Corporation are funds held to pay costs of issuance on the bonds and to pay operating costs of the Corporation over the next year. Current assets also include revenues received that will be used for the next interest payment on the outstanding bonds. Noncurrent assets are primarily bond proceeds held in the capitalized interest and liquidity reserve accounts and restricted to the payment of debt service on the Bonds. The Corporation owns no capital assets.

Following is summarized financial data for the fiscal years ended June 30, 2008 and 2007:

Condensed Statements of Net Assets
(in thousands)

	June 30, 2008	June 30, 2007
Current assets	$ 34,633	$ 3,184
Noncurrent assets	127,903	147,673
Total assets	162,536	150,857
Current liabilities	6,685	10,905
Noncurrent liabilities	1,115,355	1,107,091
Total liabilities	1,122,040	1,117,996
Net assets:		
Restricted	153,114	138,955
Unrestricted	(1,112,618)	(1,106,094)
Total net assets (deficit)	$ (959,504)	$ (967,139)

Condensed Statements of Activities
(in thousands)

	Years ended June 30, 2008	Years ended June 30, 2007
Revenues	$ 84,435	$ 40,656
Expenses	76,800	636,469
Change in net assets	7,635	(595,813)
Net assets (deficit), beginning of year	(967,139)	(371,326)
Net assets (deficit), end of year	$ (959,504)	$ (967,139)

Revenues for the year are comprised of tobacco settlement revenues, interest on investments and the net increase in the market value of investments. Expenses reflect bond interest expense and amortization of issuance costs, loss on refunding, and bond discounts. The increase in net assets resulted primarily from tobacco settlement revenues exceeding interest expense on the outstanding bonds.

Financial Analysis of the Corporation's Funds

All balances of the corporation relate to the issuance of the Series 2007 Bonds.

Debt Administration

As a financing entity, the business of the Corporation is debt administration. In 2007, the Corporation issued Bonds to purchase Tobacco Assets from the Commonwealth and to refinance bonds previously issued to purchase Tobacco Assets from the Commonwealth. The outstanding Bonds are secured solely by fifty percent of future tobacco settlement revenues allocated to the Commonwealth and investment earnings. As of June 30, 2008, there were no plans for the Corporation to issue additional debt. The table below summarizes bond activity during the year.

Summary of Bond Obligations
(in millions)

	Tobacco Settlement Asset-Backed Bonds	
Outstanding, 7/1/07	$	1,108
Issued during year		-
Principal payments during year		(5)
Unamortized discount and other deferrals		14
Outstanding, 6/30/08	$	1,117

Requests for Information

The financial report is designed to provide an overview of the Corporation's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Department of the Treasury, Division of Debt Management, P. O. Box 1879, Richmond, Virginia, 23218-1879.

VIRGINIA TOBACCO SETTLEMENT FINANCING CORPORATION

Statement of Net Assets and Governmental Fund Balance Sheet
As of June 30, 2008

	DEBT SERVICE FUND	ADJUSTMENTS (NOTE 1-C)	STATEMENT OF NET ASSETS
ASSETS			
Current Assets:			
Cash equivalents	$ 34,330,484	$ -	$ 34,330,484
Restricted:			
Interest receivable	284,752	-	284,752
Prepaid expenses	17,717	-	17,717
Total current assets	34,632,953	-	34,632,953
Noncurrent Assets:			
Unamortized bond issuance costs	-	8,718,816	8,718,816
Restricted assets:			
Investments	85,629,064	-	85,629,064
Tobacco settlement receivable	-	33,554,705	33,554,705
Total noncurrent assets	85,629,064	42,273,521	127,902,585
Total Assets	$ 120,262,017	42,273,521	162,535,538
LIABILITIES			
Current Liabilities:			
Bonds payable	$ -	1,500,000	1,500,000
Accrued expenses payable	-	-	-
Accrued interest payable	-	5,185,372	5,185,372
Total current liabilities	-	6,685,372	6,685,372
Noncurrent liabilities - bonds payable	-	1,115,354,587	1,115,354,587
Total Liabilities	-	1,122,039,959	1,122,039,959
FUND BALANCE/NET ASSETS			
Fund Balance - reserved for debt service	120,262,017	(120,262,017)	-
Total Liabilities and Fund Balance	$ 120,262,017		
Net Assets (Deficit)			
Restricted for debt service		153,113,645	153,113,645
Unrestricted		(1,112,618,066)	(1,112,618,066)
Total Net Assets (Deficit)		$ (959,504,421)	$ (959,504,421)

The accompanying notes are an integral part of this statement.

VIRGINIA TOBACCO SETTLEMENT FINANCING CORPORATION

Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2008

	DEBT SERVICE FUND	ADJUSTMENTS (NOTE 1-C)	STATEMENT OF ACTIVITIES
REVENUES			
Tobacco settlement revenues	$ 66,355,806	$ 12,285,185	$ 78,640,991
Investment interest	5,329,882	-	5,329,882
Net increase in fair value of investments	463,723	-	463,723
Total revenues	72,149,411	12,285,185	84,434,596
EXPENDITURES/EXPENSES			
General & administrative	52,213	-	52,213
Amortization of bond issuance costs and discount	-	8,190,567	8,190,567
Debt service:			
Principal retirement	5,000,000	(5,000,000)	-
Interest	67,425,518	1,131,254	68,556,772
Total expenditures/expenses	72,477,731	4,321,821	76,799,552
Deficiency of revenues under expenditures/expenses	(328,320)	N/A	N/A
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses and other financing uses	(328,320)	328,320	-
Change in net assets	N/A	7,635,044	7,635,044
Fund balance/net assets (deficit) at beginning of year	120,590,337	(1,087,729,802)	(967,139,465)
Fund balance/net assets (deficit) at end of year	$ 120,262,017	$ (1,079,766,438)	$ (959,504,421)

The accompanying notes are an integral part of this statement.

ORGANIZATION AND NATURE OF ACTIVITIES

The Tobacco Settlement Financing Corporation (Corporation) was created by the Tobacco Settlement Financing Corporation Act, Chapters 482 and 488 of the Acts of the General Assembly of the Commonwealth of Virginia (Commonwealth) during the 2002 General Session. The Corporation is a public corporate entity and an independent instrumentality of the state, managed by a six-member board, including the State Treasurer.

The purpose of the Corporation is to purchase from the Commonwealth portions of its future right, title and interest in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement and the Consent Decree and Final Judgment (MSA). The MSA resolved tobacco-related litigation between the settling states and the Participating Manufacturers (PMs), released the PMs from past and present tobacco-related claims of the settling states, and provides for a continuing release of future tobacco-related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things.

In May 2005, pursuant to a Purchase and Sale Agreement with the Commonwealth, the Commonwealth sold to the Corporation 25% of its future right, title and interest in the TSRs. Specifically, these rights include a 25% share of TSRs received by the Commonwealth starting May 15, 2005, and in perpetuity under the MSA. Consideration paid by the Corporation to the Commonwealth for TSRs consisted of a cash amount deposited into an endowment to fund the long-term spending plan approved by the Tobacco Indemnification and Community Revitalization Commission.

In May 2007, the Corporation issued $1,149,273,282 of its Tobacco Settlement Asset-Backed Bonds, Series 2007 A, B-1, B-2, C and D. Proceeds of the sale were used to fully defease the Corporation's outstanding Tobacco Settlement Asset-Backed Bonds Series 2005. Pursuant to an Amended and Restated Sale Agreement dated as of May 1, 2007, net proceeds from the sale in the amount of $613,994,236 were transferred to the Tobacco Indemnification and Community Revitalization Endowment Fund as consideration for the purchase of an additional 25% share of TSRs received by the Commonwealth starting April 27, 2007, and in perpetuity under the MSA.

The bonds of the Corporation are asset-backed instruments secured solely by the TSRs, and the Corporation's right to receive TSRs is expected to produce funding for its obligations. The TSR payments are dependent on a variety of factors, some of which are:

- the financial capability of the participating cigarette manufacturers to pay TSRs,
- future cigarette consumption which impacts the TSR payment, and
- future legal and legislative challenges against the tobacco manufacturers and the master settlement agreement providing for the TSRs.

Changes in these factors could affect the amount of funds available to pay scheduled debt service requirements.

Operations of the Corporation are funded with Corporation income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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 Governmental Accounting Standards Board (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.

B. 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.

C. ADJUSTMENTS

The adjustments column represents the recording of bonds payable liabilities, unamortized bond issuance costs, and discounts on issued bonds 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.

D. CASH EQUIVALENTS AND INVESTMENTS

Cash equivalents consist of money market funds. Investments consist of direct investments in interest bearing and discounted commercial paper. Investments are stated at fair value, as determined by quoted market values, in accordance with GASB Statement No. 31.

E. RESTRICTED ASSETS

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

F. CAPITAL ASSETS

The Corporation has no capital assets at June 30, 2008.

G. LONG-TERM OBLIGATIONS

Long-term obligations are reported net of unamortized discounts and loss on defeasance.

H. DEFERRED BOND ISSUANCE COSTS

Bond issuance costs of $8,980,194 relating to the issued bonds are being amortized using the straight-line method over the life of the bonds. This is a change from the prior year in which the effective interest method was used for the initial amortization period. Straight-line amortization is the preferred accounting treatment for issuance costs and the calculation has been revised accordingly.

I. 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.

J. 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.

K. ESTIMATES

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

2. CASH EQUIVALENTS

At June 30, 2008, the Corporation has cash equivalents (book balances) totaling $34,330,484, which is held in JPMorgan US Government money market funds, as presented on the Statement of Net Assets and Debt Service Fund Balance Sheet.

3. INVESTMENTS

At June 30, 2008, investments of $85,629,064, as presented on the Statement of Net Assets and Debt Service Fund Balance Sheet, consist of the following:

Investment Type	Fair Value	Percentage of Investments	Maturity - Less Than 1 Year	Moody's Ratings
Coral				
Interest Bearing Commercial Paper	84,941,038	99.20%	32,636,077	P1
General Electric Capital Services Inc -				
Interest Bearing Commercial Paper	688,026	0.80%	52,404,199	P1
Total investments	85,629,064			

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.

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 Standard & Poor's, P-1 or higher by Moody's Investors Service, and F-1 or higher 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. Investments that represent more than 5 percent of the Corporation's net investments are noted above.

Interest Rate Risk: This risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. The Corporation mitigates interest rate risk by structuring investment maturities to meet cash requirements as outlined in the indenture.

Reserve Requirements: The total investment balance of $85,629,064, is held for the Senior Liquidity Reserve Requirement. These investments cover the Corporation's reserve balance requirement of $85,392,039 at June 30, 2008**.**

All investments of the Corporation must follow the restrictive guidelines as outlined in the bond documents.

4. LONG-TERM DEBT

Activity in the bonds payable and related accounts for fiscal year 2008 was as follows:

	Balance at June 30, 2007	Increases	Decreases	Balance at June 30, 2008	Amount due Within One Year
Total bonds outstanding	$ 2,041,825,000	$ -	$ (5,000,000)	$ 2,036,825,000	$ 1,500,000
Less:					
Unamortized discount - capital appreciation bonds	(891,383,285)	-	7,882,491	(883,500,794)	-
Unamortized issuance discounts	(6,903,174)	-	56,252	(6,846,922)	-
Derferral on debt defeasance	(35,647,653)	-	6,024,956	(29,622,697)	-
	$ 1,107,890,888	$ -	$ 8,963,699	$ 1,116,854,587	$ 1,500,000

Long-term debt is comprised of the following:

Series 2007A Turbo Term Bonds due June 1, 2046, with interest of 6.706% due semiannually June 1 and December 1, commencing on December 1, 2007	$ 677,650,000
Series 2007B-1 Turbo Term Bonds due June 1, 2047, with interest of 5% due semiannually June 1 and December 1, commencing on December 1, 2007	335,625,000
Series 2007B-2 Senior Convertible Bonds due June 1, 2046, convertible to interest bearing bonds on December 1, 2011 with interest of 5.2% due semiannually June 1 and December 1, commencing on June 1, 2012	28,455,803
Series 2007C First Subordinate Capital Appreciation Bonds due June 1, 2047, with approximate yield of 5.67%, maturity value $724,870,000	82,557,514
Series 2007D Second Subordinate Capital Appreciation Bonds due June 1, 2047, with approximate yield of 5.77%, maturity value $264,770,000	29,035,889
Total long-term debt	1,153,324,206
Unaccreted Capital Appreciation Bonds	883,500,794
Total Outstanding Maturities	$ 2,036,825,000

In May 2007, the Corporation issued $1,149,273,282 of its Tobacco Settlement Asset-Backed Bonds, Series 2007 A, B-1, B-2, C and D. Proceeds from the issuance were used to fully defease the Corporation's outstanding Tobacco Settlement Asset-Backed Bonds Series 2005. The debt defeasance resulted in an accounting loss that is deferred and amortized over the remaining life of the old debt. Therefore, Bonds

Payable has been reduced by $29,622,697 to reflect the remaining deferral on debt defeasance at June 30, 2008.

The bonds were also issued to finance the Corporation's purchase of an additional 25% of the Commonwealth's future receipts from the MSA with participating cigarette manufacturers. The bonds are secured by the Corporation's claim to 50% of these future receipts. The claim is on parity with the claim of the Commonwealth to the ownership of the remaining 50% of all amounts expected to be paid to the Commonwealth 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 capital appreciation bonds were issued at an aggregate discount from par of $892,551,718. The discount is being amortized using the effective interest method over the life of the bonds.

The bond indenture states that the Series 2007 Bonds shall not be deemed to be nor constitute a debt or obligation of the Commonwealth or a pledge of the full faith or credit of the Commonwealth or any political subdivision thereof. The Corporation has no taxing power. No assets or revenues of the Commonwealth 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 2007B-2, 2007C, and 2007D Bonds have Capital Appreciation Bonds with unaccreted values of $5,454,197, $642,312,485, and $235,734,112, respectively, as of June 30, 2008.

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

Fiscal Year	Sinking Fund Installments and Term Bond Maturities	Interest	Term Bond Maturities	Interest
2009	$ 1,500,000	$ 62,174,164	$ -	$ 62,224,459
2010	2,400,000	62,043,397	-	62,224,459
2011	2,940,000	61,864,347	-	62,224,459
2012	2,640,000	61,677,249	-	63,253,062
2013	2,800,000	61,494,846	-	63,987,779
2014-2018	28,700,000	303,279,628	-	319,938,895
2019-2023	65,600,000	286,987,401	-	319,938,895
2024-2028	93,500,000	260,595,938	-	319,938,895
2029-2033	135,680,000	222,722,462	-	319,938,895
2034-2038	194,145,000	167,840,725	-	319,938,895
2039-2043	254,545,000	96,142,833	-	319,938,895
2044-2047	262,735,000	27,387,375	1,047,185,000	203,412,272
	$ 1,047,185,000	$ 1,674,210,365	$ 1,047,185,000	$ 2,436,959,860

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 2007 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 by the indenture for debt service. The composition of restricted net assets is as follows:

Cash Equivalents and Investments	$	119,274,568
Tobacco settlement receivable		33,554,705
Interest receivable		284,372
Net assets restricted for debt service	$	153,113,645

6. UNRESTRICTED NET ASSETS (DEFICIT)

Generally accepted accounting principles direct that governmental funds recognize revenues in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. The Tobacco Settlement Asset-Backed Bonds issued in fiscal year 2007 are secured by future TSRs. TSRs are computed annually based on tobacco-related sales combined with other factors and the future payment amounts are not known at this time. Accordingly, outstanding obligations are reported on the Statement of Net Assets while the related future revenues have not yet been reported. Therefore as of June 30, 2008, the Corporation reflects deficit net assets of $959,504,421 on the Statement of Net Assets.

7. 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 attorney 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 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 on April 15, 2008, and continuing through April 15, 2017 (Strategic Contribution

Payments). Before forming the Corporation, the PMs made all five required Initial Payments and the Annual Payments due April 15, 2000 through 2005, 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. GASB 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 $33,554,705.

8. ADMINISTRATIVE EXPENSES

Administration expenses for the year ending June 30, 2008 were $52,213, for trustee, accounting and rating agency fees.

9. CONTINGENCIES

Tobacco Litigation Risk

The amount of revenue recognized by the Corporation could be adversely impacted by certain third party litigation involving tobacco companies and others.