



*10<sup>th</sup> Anniversary*

**VTSEF**

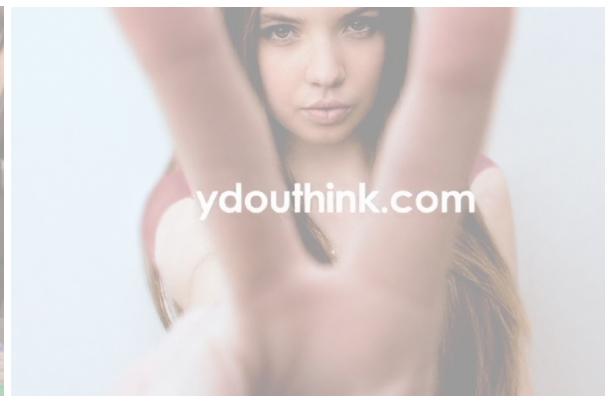
VIRGINIA TOBACCO  
SETTLEMENT FOUNDATION

*1999 - 2009*

**2008 Annual Report**

## Table of Contents

|                                    |    |
|------------------------------------|----|
| Letter from the Chairman           | 2  |
| Letter from the Executive Director | 3  |
| Background                         | 4  |
| Board of Trustees                  | 5  |
| Virginia Youth Tobacco Survey      | 6  |
| Programs                           | 8  |
| Marketing                          | 12 |
| Enforcement                        | 17 |
| Research                           | 19 |
| Financial Statements               | 24 |
| Notes to Financial Statements      | 26 |
| Auditor's Letter                   | 28 |



## Greetings from the Virginia Tobacco Settlement Foundation Board of Trustees!



**W**e are pleased to announce another successful year in our fight to reduce and eliminate the use of tobacco products by the youth of Virginia.

Over the past 36 months, our marketing campaign has continued to maintain high awareness levels among Virginians ages 10 to 17. Our television, radio and Internet marketing efforts give us the ability to get our message out to an ever-changing market. And we are constantly looking for new opportunities to reach our young people through innovative programs such as Y Street, VTSF's high school volunteer initiative. These also support VTSF-funded grassroots educational programs that are conducted on a daily basis within schools, after-school, community, civic and faith-based programs by dedicated individuals statewide who want our children to grow up healthy and tobacco-free.

Despite our successes this year, VTSF's Board of Trustees did suffer a disappointment during the 2008 General Assembly when we were unsuccessful in attempting to secure additional funding from a MSA balloon payment. Aided by the American Cancer Society, American Lung Association and the American Heart Association, VTSF's trustees campaigned to secure this additional funding, which would have made a dramatic impact on VTSF's budget. We will approach our legislators again in 2009 about securing this funding, as it could significantly reduce underage smoking as well as lower future Medicare and Medicaid costs due to tobacco-related illnesses. Prevention is the key to long-term positive impacts.

As we face difficult times with uncertainties lying ahead, we cannot fail in our responsibility to the children of Virginia. We must be willing to take up the banner to fight for them, to put their health and well-being first in our efforts. By placing them first, we will secure that their futures will be bright, healthy and full of opportunities.

Thank you for your support and work with our Foundation over the past year. It is only through your dedication to our mission that we are able to bring you the successes shared within our Annual Report. Those successes give us a strong foundation from which to continue our efforts. I look forward to and welcome your continued support. Together, we can make a difference in the lives of our children and grandchildren.

Thank you,

A handwritten signature in black ink, appearing to read 'Rickie E. Fulcher'.

Rickie E. Fulcher  
Chairman

Virginia Tobacco Settlement Foundation Board of Trustees

## Greetings from the Virginia Tobacco Settlement Foundation Executive Director!



Ten years ago, the General Assembly created the Virginia Tobacco Settlement Foundation to prevent and reduce youth smoking statewide.

A decade later, we are thrilled to announce that tobacco use among Virginia's youth is at an all-time low. Last September, VTSF released the results of the latest Virginia Youth Tobacco Survey. This scientific survey of more than 2,600 public middle and high school students statewide found that the percentage of high school students has dropped from 28.6 percent in 2001 to 15.5 percent in 2007 – well below the national average of 20 percent!

VTSF attributes Virginia's continuing decline in youth smoking to our multifaceted approach to prevention. Our educational programming in schools, youth centers and faith-based organizations statewide has reached more than 800,000 children across the Commonwealth over the last decade. Furthermore, VTSF's award-winning "Y" campaign has enjoyed an awareness level of about 75 percent among Virginia teens for more than five years, reaching out to youth in new and entertaining ways through television and radio ads, volunteer youth groups, youth events and Internet sites. VTSF also funds retailer compliance checks to ensure that youth under age 18 can't illegally purchase tobacco products, as well as providing funding for cutting-edge university research that is finding new, more effective ways to reduce and eliminate youth tobacco use.

Despite all our successes, VTSF must remain ever-vigilant in our goal of eliminating under-age smoking. After all, about 80 percent of today's adult smokers started smoking as teens, many in middle school.

As VTSF enters its second decade, we hope to see youth smoking decline even more as we continue to stay on top of youth culture and continue guiding Virginia's young people to make smart, healthy lifestyle choices.

Sincerely,

A handwritten signature in cursive script that reads "Marty H. Kilgore".

Executive Director  
Virginia Tobacco Settlement Foundation



### 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  
**Oloise 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 George Washington  
Memorial Highway, Building B,  
Suite 14  
Yorktown, VA 23692

##### Southwest Region

Jenny Martin, Grants Program Administrator  
Research Building VII  
1700 Kraft Drive, Suite 2416  
Blacksburg, VA 24060

**The Virginia Tobacco Settlement Foundation's nationally recognized** youth tobacco-use prevention methods focus on four major initiatives: Programs, Marketing, Research and Enforcement. VTSF estimates that this comprehensive approach to reducing and preventing tobacco use annually helps prevent about 48,500 Virginia children from becoming new smokers, and will reduce tobacco-related deaths by about 15,000 per year in the coming decades. Due in large part to the VTSF's efforts to prevent youth from becoming adult smokers, VTSF estimates that the Commonwealth will save about \$840 million in smoking-related health care costs in coming decades.

### 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 in a 25-year period. 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. VTSF achieves this goal through funding education, research, marketing and enforcement initiatives. 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 developed 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.

**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, 2011)

**Members**

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

**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, 2011)

**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)

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

**Don Gehring**, of Richmond, Vice President Government Relations and Health Policy, Virginia Commonwealth University and VCU Health System Authority  
(term expires June 30, 2010)

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

**John O. James Jr.**, of Charlottesville, Program Director, News Radio WINA 1070 AM  
(term expires June 30, 2010)

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

**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)

**Keith Newby Sr., M.D.**, of Norfolk, Cardiologist, Cardiology & Arrhythmia Consultants Inc.  
(term expires June 30, 2010)

**Ralph Northam, M.D.**, of Norfolk, Pediatrician, Division of Neurology, Children's Hospital of the King's Daughter  
(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)

**Carlos Quintela**, of Oakton, teaching assistant for Fairfax County Public Schools, youth member  
(term expires June 30, 2009)

**Karen Remley, M.D.**, Commissioner of Health, Virginia Department of Health

**Claudia Tellez**, of Loudoun County, Director of Project Access, Medical Society of Northern Virginia  
(term expires June 30, 2009)

**Rosa I. Villoch-Santiago**, of Alexandria, Director of Hispanic and International Initiatives, American Cancer Society, South Atlantic Division  
(term expires June 30, 2011)

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

At a Sept. 9, 2008, press conference held at Chesterfield County's Manchester Middle School, Virginia Gov. Timothy M. Kaine announced that youth smoking rates in Virginia had plummeted to the lowest point this decade.

Releasing the results of VTSF's 2007 Virginia Youth Tobacco Survey, Kaine stated that Virginia's percentage of high school smokers is now well below the national average. An estimated 15.5 percent of Virginia high school students are current cigarette smokers, compared to 20 percent nationally. "For a state like Virginia, which has been a tobacco-growing state, that is very, very impressive," Kaine said.

The Washington, D.C.-based Campaign for Tobacco-Free Kids issued a press release, stating that Virginia "should be commended for its commitment to reducing the devastating toll of tobacco use – especially among our children – by

continually investing in tobacco prevention efforts." William V. Corr, executive director of the Campaign, said, "Virginia has shown remarkable progress over the past two years in its efforts to keep kids from smoking – and these new results provide additional evidence that tobacco prevention is a good investment for states."

Since 2001, VTSF has commissioned the biennial Virginia Youth Tobacco Survey (YTS) of public middle school and high school students. More than 2,600 students in grades 6 through 12 were surveyed, answering questions about tobacco use; accessibility of tobacco products; attitudes toward tobacco use and advertising; and other factors such as secondhand smoke exposure.

The latest survey was conducted in fall 2007 by Virginia Commonwealth University's Survey and Evaluation Research Laboratory (SERL) and Community Health Research



Initiative (CHRI). Results were released in September 2008.

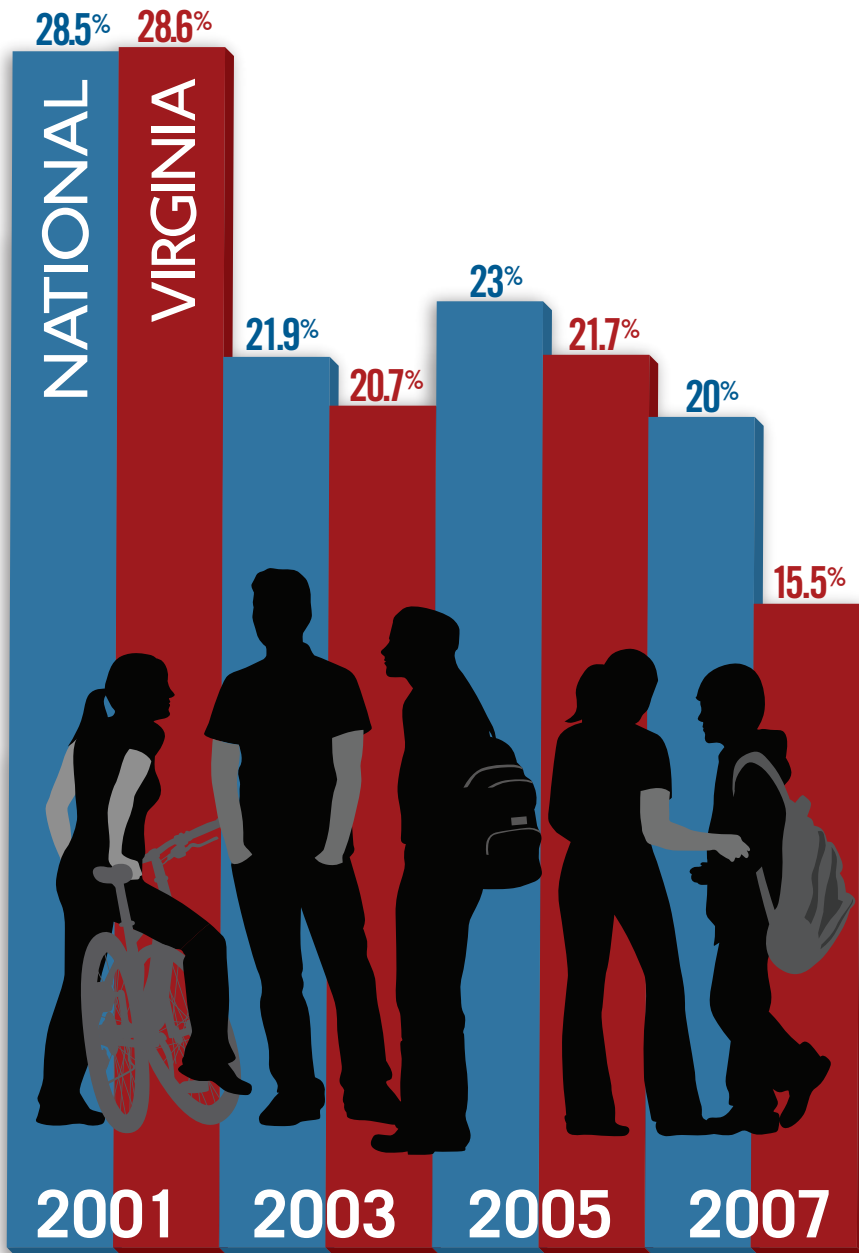
VTSF awarded VCU \$133,571 in FY07 for the fall 2007 YTS.



# VTSF

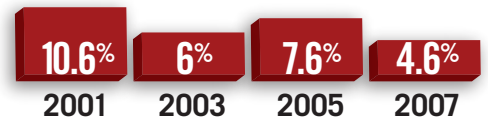
VIRGINIA TOBACCO  
SETTLEMENT FOUNDATION

## Cigarette Smoking Rates Among High School Students 2001-2007



## Virginia Youth Tobacco Survey

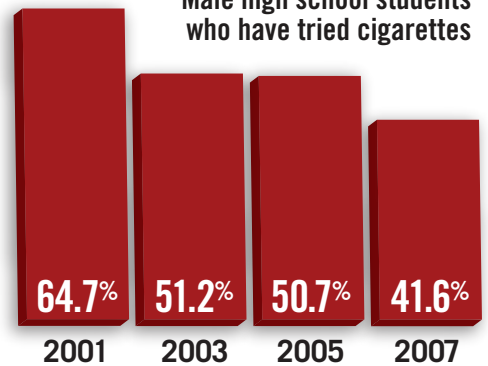
Middle school students  
who are current smokers



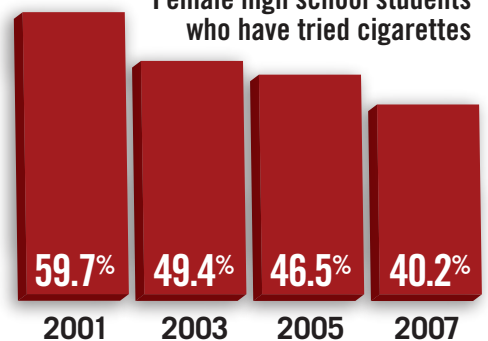
Middle and high school students  
who are current smokers



Male high school students  
who have tried cigarettes



Female high school students  
who have tried cigarettes



SOURCES: Virginia Youth Tobacco Survey, 2001-2007, Virginia Tobacco Settlement Foundation; National Youth Risk Behavior Surveys, 2001-2007, Centers for Disease Control and Prevention (CDC).



# Programs

Students at Manchester Middle School in Chesterfield County participate in a lesson from the VTSF-funded Life Skills Training program. LST increases students' knowledge of the immediate consequences of substance use while providing necessary skills to resist peer pressure and reduce psychosocial motivations to smoke, drink and/or use drugs.



**VTSF is committed to involving Virginia's communities in the effort to prevent youth tobacco use** through tobacco-use prevention and cessation programs. Taught at hundreds of public schools, community recreation centers, faith centers, day cares and preschools statewide, VTSF's evidence-based community educational programs provide direct interaction with young people throughout their childhood and are a key element in changing youth attitudes and behaviors about tobacco use.

During FY 2008, VTSF directly served 63,000 youth across Virginia through 93 grant programs funded at a total of \$4.2 million. VTSF awarded 36 one-year grants in FY 2008. An additional 49 grants were previously awarded for three-year program grants. These three-year grantees conducted their second year of programming in FY '08. Grant recipients included nonprofit organizations, faith groups, schools and other community groups.



### VTSF COMPENDIUM PROGRAMS

All of the funded grants were implementing programs found in VTSF'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 provides extensive training for grantee classroom facilitators, teaching instructors how to more effectively reach young people through VTSF compendium programs.

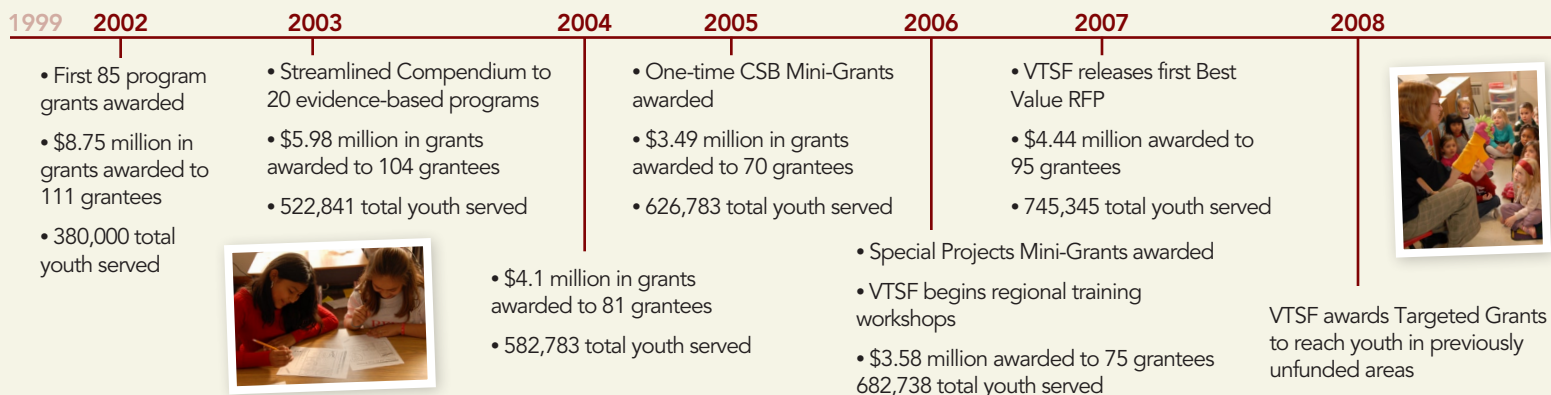
### VTSF COMPENDIUM PROGRAMS

|                                     |                               |
|-------------------------------------|-------------------------------|
| All Stars                           | Not On Tobacco                |
| Al Pal's                            | Positive Action               |
| Creating Lasting Families           | Project Alert                 |
| Ending Nicotine Dependence          | Project EX                    |
| Helping Teens Stop Using Tobacco    | Project Toward No Drug Use    |
| Intervening with Teen Tobacco Users | Project Toward No Tobacco Use |
| Know Your Body                      | Skills for Adolescence        |
| Life Skills Training                | Too Good for Drugs            |

### PROGRAM EVALUATION

VTSF conducts rigorous evaluations of our programs to track the success and reach of VTSF funded programs. Evaluations measure such factors as a student's ability to resist peer pressure and their knowledge of harmful effects of tobacco use. VTSF contracted with Virginia Commonwealth University's (VCU) Survey and Evaluation Research Laboratory (SERL) to provide a comprehensive evaluation of 74 of the grant programs. The VTSF awarded VCU \$258,973 for these evaluation services.

### VTSF Programs Timeline



Three Year Program Grantees

|   |          |   |
|---|----------|---|
| Alexandria Community Services Board       | \$73,900 | Al's Pals   |
| Alliance for Families and Children        | \$54,889 | Life Skills Training  |
| Alternatives                              | \$63,790 | Al's Pals   |
| American Lung Association                 | \$71,383 | Not on Tobacco  |
| American Lung Association of Virginia     | \$71,872 | Not on Tobacco  |
| American Lung Association of Virginia     | \$68,821 | Not on Tobacco  |
| American Lung Association (Fairfax)       | \$70,227 | Not on Tobacco  |
| American Lung Association of Virginia     | \$67,149 | Not on Tobacco  |
| Boys and Girls Club of the VA Peninsula   | \$69,400 | Positive Action   |
| Boys and Girls Club SE VA                 | \$39,640 | Positive Action   |
| Bland County Schools                      | \$29,337 | Life Skills Training  |
| Blue Ridge Behavioral Healthcare          | \$57,050 | Too Good for Drugs, All Stars   |
| Boys and Girls Club of Metro Richmond     | \$23,472 | Positive Action   |
| Buckingham County Schools                 | \$24,299 | Life Skills Training  |
| C. Waldo Scott Center                     | \$21,226 | Too Good for Drugs  |
| Central Shenandoah Valley Office on Youth | \$35,166 | Positive Action   |
| Chesapeake CSB                            | \$10,597 | All Stars   |
| Chesterfield County Schools               | \$67,318 | Life Skills Training  |
| Children, Youth & Family Services         | \$75,000 | Al's Pals   |
| Cumberland Mountain Community Services    | \$22,726 | Life Skills Training  |
| Danville Pittsylvania Community Services  | \$54,242 | END, Too Good for Drugs   |
| Ethiopian Community Development Council   | \$68,176 | Life Skills Training  |
| Fairfax County Community and Rec Services | \$73,885 | Project TNT and TND   |
| Fairfax/Falls Church CSB                  | \$63,708 | Al's Pals   |
| Fauquier Cadre                            | \$62,356 | Too Good for Drugs  |
| Fluvanna County Schools                   | \$34,884 | Intervening w/Teen Tob. Users, TNT, Project Alert, Too Good for Drugs |
| Giles County Partnerships                 | \$60,735 | Positive Action, Too Good for Drugs, Life Skills Training, TEG        |
| Hampton-Newport News CSB                  | \$64,940 | Life Skills   |
| Historic Triangle Substance Abuse Council | \$64,510 | Al's Pals, Too Good for Drugs and Project Alert                       |
| Inova Healthsource                        | \$66,964 | Life Skills Training  |
| LCCDC                                     | \$18,011 | Too Good for Drugs  |
| Loudoun County Mental Health              | \$65,741 | Life Skills Training  |
| Medical Home Plus                         | \$62,888 | Al's Pals   |
| Medicorp Health System                    | \$64,291 | Too Good for Drugs  |
| Middle Peninsula-Northern Neck CSB        | \$75,000 | Life Skills   |
| Mt. Rogers Community Services             | \$29,740 | Life Skills Training, Youth Media Network                             |
| New River Valley Community Services       | \$66,763 | Life Skills Training, Project TND                                     |
| Northern Virginia Family Service          | \$70,936 | Too Good for Drugs  |
| Page County Schools                       | \$7,558  | Al's Pals   |
| Piedmont Community Services               | \$49,511 | Too Good for Drugs  |
| Richmond Behavioral Health Authority      | \$65,932 | Too Good for Drugs  |
| Rockbridge County Public Schools          | \$62,220 | Too Good for Drugs, Intervening w/Teen Tobacco Users                  |
| Southside AHEC                            | \$74,726 | Al's Pals   |
| Southside CSB                             | \$34,770 | Al's Pals & Strengthening Families                                    |
| The UP Center                             | \$69,429 | Creating Lasting Family Connections                                   |
| Three Rivers Health District              | \$29,883 | Ending Nicotine Dependence  |
| Twin County Prevention Coalition          | \$35,886 | Life Skills Training  |
| William Hunton YMCA                       | \$65,190 | Positive Action   |
| YMCA - South Hampton Roads                | \$58,831 | Positive Action   |



## Targeted Program Grants

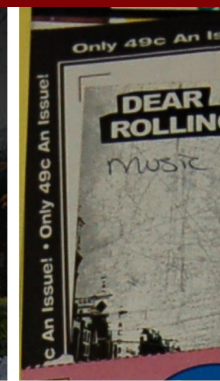
|                  |                          |          |   |
|------------------|--------------------------|----------|---|
| <b>North</b>     | Fairfax-Falls Church CSB | \$86,371 | Too Good For Drugs  |
|                  | Alexandria CSB           | \$70,283 | Too Good for Drugs  |
| <b>Central</b>   | Goochland/Powhatan       | \$75,951 | Life Skills Training                                      |
| <b>Southwest</b> | Highlands Comm. Services | \$92,022 | Life Skills Training; Too Good for Drugs                  |
|                  | Dickenson Valley BH      | \$20,355 | Positive Action   |
|                  | NRValley                 | \$17,834 | Life Skills Training; Intervening with Teen Tobacco Users |
| <b>Southeast</b> | MP-NN CSB                | \$73,069 | Life Skills Training                                      |
|                  | Hampton-NN CSB           | \$96,122 | Life Skills Training                                      |

## One Year Program Grantees

|  |          |  |
|--|----------|--|
| <b>Accomack County Public Schools, Accomack, VA</b>  | \$43,189 | Too Good for Drugs, Life Skills Training   |
| <b>Alternatives, Inc., Hampton, VA</b>   | \$49,638 | Al's Pals: Kids Making Healthy Choices   |
| <b>Appomattox County Schools, Appomattox, VA</b>   | \$30,231 | Al's Pals, Al's Pal's Booster Program  |
| <b>Boys &amp; Girls Club of Greater Washington (Prince Wm Co-Dumfries and Dale City) Silver Spring, MD</b> | \$31,666 | Life Skills Training   |
| <b>Boys &amp; Girls Club of Northern Shenandoah Valley, Winchester, VA</b>                                 | \$17,695 | Positive Action, Inc.  |
| <b>Boys &amp; Girls Clubs of Emporia/Greenville, Emporia, VA</b>   | \$18,594 | Too Good for Drugs   |
| <b>Boys and Girls Club of Bristol, Bristol, VA</b>   | \$14,700 | Too Good for Drugs   |
| <b>Boys and Girls Clubs of Harrisonburg and Rockingham County, Harrisonburg, VA</b>                        | \$14,484 | Positive Action  |
| <b>Bristol Youth Services, Bristol, VA</b>   | \$62,721 | Life Skills Training, NICoteen   |
| <b>Caroline County Public Schools, Bowling Green, VA</b>   | \$11,825 | Project Alert, Coole School  |
| <b>Child &amp; Family Services of Eastern Virginia, Inc., Norfolk, VA</b>                                  | \$67,166 | Creating Lasting Family Connections  |
| <b>Chilhowie Elementary School, Chilhowie, VA</b>  | \$34,181 | Too Good for Drugs;<br>Youth Media Network   |
| <b>City of Virginia Beach Youth Opportunities Office, Virginia Beach, VA</b>                               | \$16,802 | Too Good for Drugs   |
| <b>Community Youth Program at St. John's Inc., Roanoke, VA</b>   | \$14,647 | Creating Lasting Family Connections  |
| <b>County of Goochland, Goochland, VA</b>  | \$51,921 | Know Your Body, All Stars  |
| <b>East District Family Resource Center, Richmond, VA</b>  | \$48,970 | Creating Lasting Family Connections  |
| <b>East End ACADEMY, Newport News, VA</b>  | \$14,241 | Life Skills  |
| <b>Family Development Center of Va., Warsaw, VA</b>  | \$8,300  | Al's Pals-Kids Making Healthy Choices  |
| <b>Friends of the Portsmouth Juvenile Court, Portsmouth, VA</b>  | \$11,849 | Project Alert  |
| <b>Girls Inc., Hampton, VA</b>   | \$15,014 | Life Skills Training ES,<br>Life Skills Training MS  |
| <b>Grayson County Public Schools, Independence, VA</b>   | \$54,992 | Life Skills Training, Coole School   |
| <b>Metropolitan Family Services, Inc., Richmond, VA</b>  | \$65,468 | Al's Pals  |
| <b>Middle Peninsula- Northern Neck Community Services Board, Saluda, VA</b>                                | \$49,997 | Life Skills Training Program   |
| <b>Mountain View Youth &amp; Family Services, Hillsville, VA</b>   | \$39,495 | Life Skills Training   |
| <b>Orange County Office on Youth, Orange, VA</b>   | \$24,295 | Life Skills Training Program   |
| <b>Pittsylvania County Community Action, Inc., Chatham, VA</b>   | \$24,033 | Too Good for Drugs   |
| <b>Pulaski County Schools, Pulaski, VA</b>   | \$84,352 | Postive Action; Life Skills Training;<br>Project Towards No Drug Use;<br>Intervening with Teen Tobacco Users |
| <b>Roanoke County Public Schools, Roanoke, VA</b>  | \$64,320 | LifeSkills Training  |
| <b>Rockbridge Area Community Services, Lexington, VA</b>   | \$65,400 | Too Good for Drugs; Postive<br>Action; Life Skills Training  |
| <b>Rockingham Memorial Hospital, Harrisonburg, VA</b>  | \$61,498 | TNT - Toward No Tobacco Use  |
| <b>Second Chance Supportive Services, Inc., Richmond, VA</b>   | \$38,792 | Positive Action  |
| <b>Support to Eliminate Poverty (STEP), Inc., Rocky Mount, VA</b>  | \$26,564 | Al's Pals  |
| <b>Virginia Rural Health Resource Center, Blacksburg, VA</b>   | \$73,620 | Too Good for Drugs; Project<br>Towards No Tobacco; Coole School  |
| <b>Virginia Wilderness Institute, Oakwood, VA</b>  | \$7,152  | Intervening with Teen Tobacco<br>Users (TEG)   |
| <b>Western Tidewater Community Service Board, Suffolk, VA</b>  | \$65,872 | Al's Pals  |
| <b>Youth Apostles Institute, McLean, VA</b>  | \$24,883 | All Stars Booster  |



DANIELLA



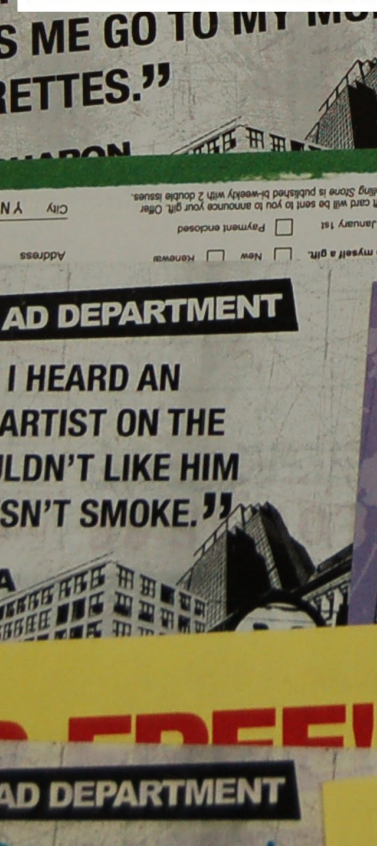
NOOR



CHARLES



STEPHEN



BETHANY



OLGA

# Marketing

VTSF's teen Y St. volunteers organized the GlamRock campaign, aiming to get Rolling Stone and Glamour magazines to cease running tobacco ads. Virginia teens sent in more than 23,000 subscription cards bearing anti-smoking messages. Y St. teens believe that magazines with millions of young readers should not expose teens to glamorized depictions of tobacco use.

**VTSF's award-winning multimedia Y Campaign marketing initiative** (also known as *ydouthink*) prevents youth tobacco use and empowers Virginia's young people to make healthy lifestyle choices. The focus market of the campaign, which is based on the most extensive youth marketing research ever conducted in Virginia, is youth 10 to 17 years old, with a special emphasis on "tweens" ages 10 to 14. The Y Campaign's tagline asks kids, "Can anybody tell us why smoking isn't stupid?" The campaign's powerful message targets youth through a variety of mediums including: television and radio commercials; interactive Web sites; cinema advertising; and street marketing.



## Campaign Partners

The marketing campaign funded the following contractors to promote the Y Campaign in FY08:

### Barber Martin Advertising (\$4 million)

Award made for continued implementation of the Virginia Tobacco Settlement Foundation's multimedia efforts. This includes the purchasing of traditional and nontraditional media to place advertisements in various outlets, the development of new creative concepts and ideas, and the production of ideas into finished advertisements or commercials.

### RescueSCG (\$850,000)

Award made for continued implementation of the street-marketing and interactive initiatives supporting the Y Campaign. This includes the scheduling and managing of all campaign events, the employment of personnel to conduct events, the training and management of youth volunteers and the development and implementation of new advocacy projects for Virginia youth. RescueSCG is also responsible for the Y Campaign's interactive initiatives, including VTSF's award-winning Web site *ydouthink.com*. This includes site development and management, hosting, interactive media development and interactive media planning/purchasing/placement.

### Southeastern Institute of Research (\$175,000)

Award made for continued implementation of the Virginia Tobacco Settlement Foundation's evaluation efforts associated with the Y Campaign. This includes conducting a biannual tracking survey, analyzing data and preparing reports for each survey, as well as proposing and implementing other tools for evaluating the campaign's effectiveness.

## Market Research

After six years, the awareness level of the VTSF's *ydouthink* campaign remains high, reaching 75% of the target audience (Virginians ages 10 to 17), according to an April 2008 market research study conducted by the Southeastern Institute of Research. The campaign's awareness has been consistently strong statewide (between 74% and 79%) for 60 consecutive months.

## TV & Radio

VTSF released three new 30-second television spots in spring 2008: "Kiss," "Revolution" and "Meatbelt." Over the years, VTSF's creative work has been recognized for its excellence. Among the most recent awards:

- "Belly Dance" was chosen as one of the "TV Spots of the Week" by Advertising Age.
- Three VTSF TV ads ("Makeover," "Off to School," and "Frog") and three VTSF radio ads were selected to participate in the 2006 Centers for Disease Control/Office on Smoking and Health National Tobacco Control Program and Evaluation Meeting's AdFest 2006. The event highlighted the best tobacco-prevention ads from around the country within the CDC's Media Campaign Resource Center's database.

## Street Marketing



### Y Street

VTSF launched Y St. in 2004 to recruit teen volunteers for *ydouthink*. Through street marketing, Y St. has overcome the challenge of declining participation between trainings faced by many other youth tobacco-prevention programs. Y St. focuses on an integrated





social marketing approach by training youth and creating a system for sustained youth involvement. In the initial 18 months of Y St., there were 1,667 volunteer instances throughout Virginia, resulting in more than 25,000 youth-to-youth interactions that occurred through the volunteer model. After the most recent round of Y St. Trainings, there are now more than 2,000 youth statewide that have successfully completed the Y St. Trainings and have

championed the *ydouthink* tobacco-use prevention movement. In FY08, Y St. youth completed a total of 171 projects, equaling nearly 1,000 volunteer hours.

### GlamRock Campaign

One of Y St.’s major initiatives in FY 2008 was the GlamRock Campaign. Although the 1999 Master Settlement Agreement (MSA) established that tobacco companies could not advertise to people under age 18, there are no specific rules

addressing magazine advertisements. Therefore, Y Streeters are petitioning two magazines with more than 100,000 youth readers in Virginia – Rolling Stone and Glamour – to stop accepting tobacco ads. Y St. members acquired more than 23,000 subscription cards from Glamour and Rolling Stone. Personalized messages urging the magazines to stop accepting tobacco ads were collected by Y St. members at events and online, and then attached to the subscription cards, which were mailed directly to the magazines.

### Research of youth subcultures in Virginia

The Virginia Tobacco Settlement Foundation (VTSF) and Rescue Social Change Group (RSCG) have released the report from a comprehensive research project that is part of the VTSF’s ongoing research into smoking related attitudes among Virginia middle and high school students. Entitled “Functional Analysis For Cultural Interventions On Virginia Teen Smoking,” this study’s primary goal is to further understand the associations between identity and smoking for

## VTSF Marketing Timeline

1999 2002



**April 2002** – www.ydouthink.com is launched.

**March 2002** – After the most extensive youth marketing research ever conducted in the state of Virginia, the *ydouthink* campaign and its tagline – “Can anyone tell us why smoking isn’t stupid?” – is born. The focus market is Virginia youth ages 10 to 17, with an emphasis on youth ages 10 to 14.

2003

**October 2003** – *ydouthink* hosts the “*ydouthink* slam ‘n’ jam,” a statewide battle of the bands, 3-on-3 basketball tournament and concert series that featured national recording artists Aaron Carter, Monica and Mario.

**September 2002** – *ydouthink* hosts the “Y Tour,” a statewide battle of the bands and concert series that featured national recording artists Ashanti, Hoobastank and Fat Joe.



2004

**August 2004** – Seeing a need to develop a teens-only brand to enhance the efforts of *ydouthink*, the “Y St.” brand is born.

2005

**July 2005** – After 3+ years, 661 event visits, 120,000 miles traveled and more than 300,000 interactions with youth throughout Virginia, the “Rantmobile” retires.



these individuals. The entire project involved 19 focus groups at five middle schools, two high schools, and one community library involving 137 youth from the counties of Essex, Montgomery, Washington and Henrico, as well as the cities of Norfolk and Virginia Beach. The focus group activities consisted of various identity-projection exercises, such as discussing the perceived smoking habits of teens based on pictures only. Participants were selected based on their responses to a screening survey, administered to a total of 283 teenagers. Some of the study's findings:

- Seven prominent subcultures were identified within Virginia teen culture: Preppy, Skater/Rocker, Emo/ Goth, Flashy Hip Hop, Hard Hip Hop, Mainstream Floaters, and Southern.

- Smoking rates within subcultures ranged from 3% (Mainstream Floaters) to 35% (Hard Hip Hop).
- Teens with higher levels of social concern have greater odds of being or becoming a smoker. Immediate, environmental stimulation, social approval and establishment of popularity are all outcomes desired by teenagers who are more likely to smoke.

Perhaps the main implication from this study for VTSF's marketing effort is that VTSF needs to become a social leader within the subcultures that are farthest away from the center of teen culture in Virginia (Mainstream Floaters) because smoking prevalence within those groups is significantly greater. While the *ydouthink* brand has played a huge role in drastically reducing

tobacco use among teens in Virginia, the reduction has been mostly concentrated amongst teens in the Mainstream Floater group (only 5% prevalence despite 18% population), and its messages would not be ideal for groups on the fringe of teen subculture in Virginia, such as Hard Hip Hop or Emo/Goth.



| 2006   | 2007  | 2008  | 2009  |
|--|---|---|---|
| <p><b>October 2006</b> – VTSF launches the social brand “2UP2DOWN,” its most recent marketing effort to reduce smoking among youth on the streets of Virginia. The focus market for 2UP2DOWN is comprised of teens who identify with hip hop culture and smoke (cigarettes or Black and Milds) in Southeastern and Central Virginia.</p> |   | <p><b>February 2008</b> – Y St. completes “Glamrock Campaign” initiative with more than 23,000 subscription cards with personalized messages mailed directly to magazines discouraging them from accepting advertising for tobacco.</p> |   |
| <p><b>November 2005</b> – ydouthink holds statewide dance competition: “ydouthinkucandance”</p>  | <p><b>February 2007</b> – ydouthink launches “Veeay,” the first online social network for tweens in Virginia.</p> |   | <p><b>November 2008</b> – The ninth New Member Trainings for Y St. are held. Upon completion, there are more than 2,000 total youth that have become Y St. members.</p> |

## Internet

The Y Campaign has a broad reach online. From the mainstay ydouthink.com to the veeay.com social networking site, VTSF's interactive initiatives continue to keep up with the ever-changing interests and lifestyles of Virginia tweens and teens.

### YDOUTHINK.COM / YSTREET.ORG

Originally launched in 2002, ydouthink.com, the flagship youth-destination Web site for the VTSF's Y Campaign, attracts a regular audience of Virginia teens with up-to-date content focused on youth entertainment and fashion. Information about the dangers of tobacco use is interlaced subtly throughout this extremely interactive environment, making it a part of the site's culture rather than the only purpose of the site.

In October 2007, ydouthink.com earned top honors at Los Angeles' W<sup>3</sup> Awards for web creativity, being recognized alongside sites created for big-name firms such as GEICO, Gucci and UPS. Ydouthink.com received Best in Show in the Charitable Organizations/Non-Profit category and was one of only 31 Best in Show awards chosen out of the 2,700 entries submitted to the W<sup>3</sup> Awards.



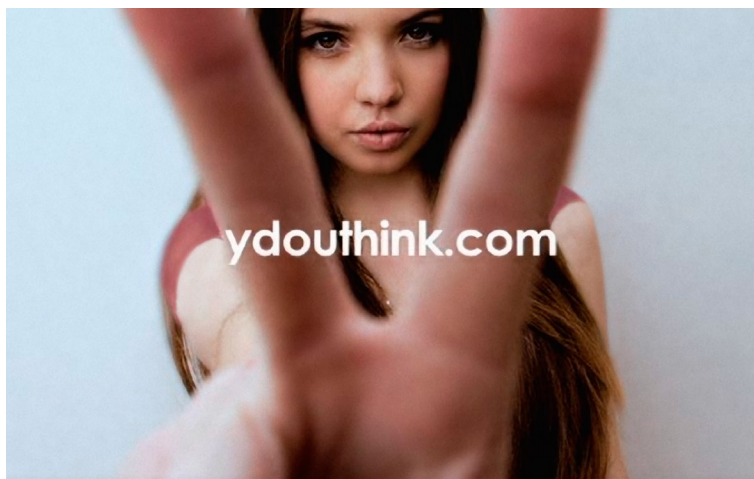
On Nov. 7, 2007, ydouthink.com was chosen by Adobe as the Adobe Site of the Day. Previous winners of this honor include Levi's, Honda, CNN, Lexus and Nike.

### Web site and online activity stats through June 30, 2008:

- More than 1 million site visits (15,000 to 20,000 per month)
- More than 250 million total impressions
- More than 200,000 total Virginia visitors to ydouthink.com
- More than 35,000 total posts and over 2,500 new topics on members-only message boards at ystreet.org.

### SykeEnergy.com

"Syke" (pronounced psych), the VTSF's newest youth-led campaign, officially began in late 2008 with numerous videos launching the effort via broadcast TV and online. The videos direct youth to the highly interactive website supporting the campaign: SykeEnergy.com. Syke is an energy drink that will serve as a metaphor for cigarettes, with its main objective to ignite a passionate discontent with tobacco's presence and influence amongst socially successful teens in Virginia.







# Enforcement

Agents from the state Department of Alcoholic Beverage Control routinely carry out VTSF-funded compliance checks to ensure that retailers across the Commonwealth are complying with Virginia's youth tobacco access laws and aren't selling tobacco products to underage purchasers.

**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.



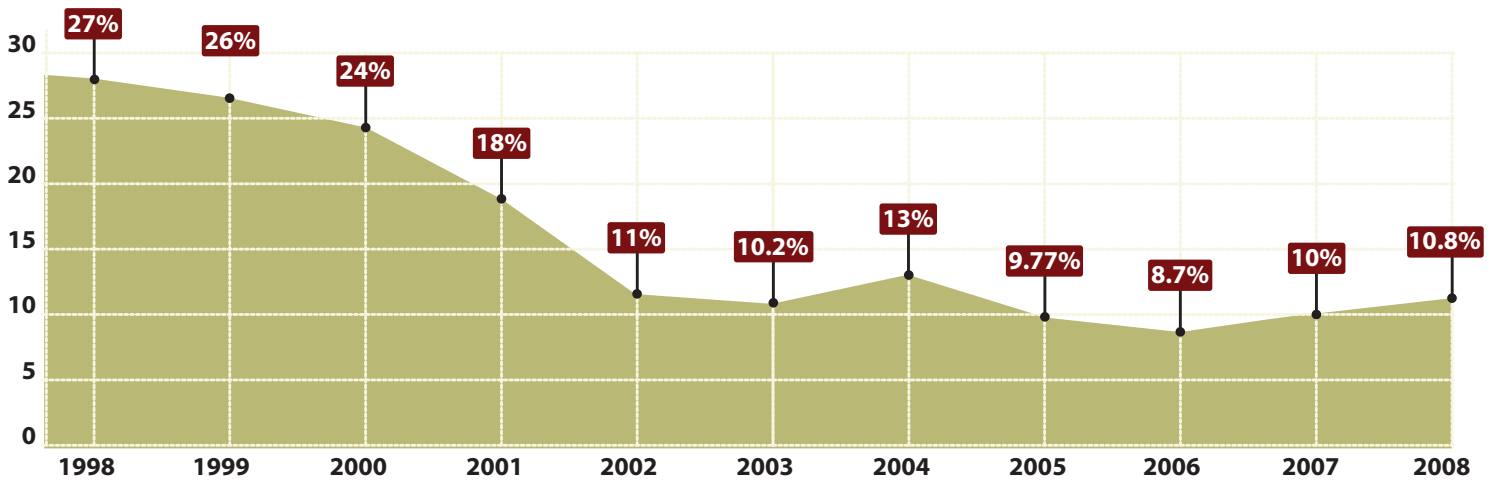
ABC regularly reports the results of these compliance checks to the VTSF. Since 1998, the noncompliance rate has decreased from 27% to 10.8%.

**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.

*Since 1998, the noncompliance rate has decreased from 27% to 10.8%.*

**Non-Compliance Rates**





## Research

Phillip Keck, an undergraduate student majoring in psychology at Virginia Commonwealth University, leads a training session for the VTSF-funded LIFT+ program with seniors at Charles City County High School in 2008. Using VCU's training, these seniors volunteer as peer educators, teaching middle school students about the dangers of tobacco use, the importance of healthy eating and how to set goals.

## Tobacco Control Research Consortium of Virginia

VTSF continues to fund collaborative research projects focused on identifying the genetic, psychosocial and environmental factors that impact youth tobacco use, along with their subsequent effects. VTSF's approach to encouraging collaboration within and across universities is meeting with great success. Researchers are sharing

data and resources and have formed a strong network to maximize the strengths each university brings to a project. Notably, universities are working together to submit joint applications to funding sources such as the National Institutes of Health, resulting in stronger proposals that appeal to the federal emphasis on collaboration.

.....

### The following lead universities are coordinating three-year projects that began in FY08:

#### Virginia Commonwealth University

\$271,108

*Virginia Youth Tobacco Project  
Research Coalition Core*



#### Principal Investigators:

Bob Balster, J. Randy Koch

**Collaborating Partners:** GMU, JMU, UVA, VT, W&M

The Virginia Youth Tobacco Projects (VYTP) Research Coalition was established in 2002 to advance the prevention of youth tobacco use and nicotine dependence through an integrated program of basic and applied research; and research translation and dissemination. During FY 2008, the VYTP Research Coalition continued previously successful efforts and implemented some new initiatives that contribute to meeting its goals. Major accomplishments for the past year include: 1) Hosting an annual meeting of the VYTP Research Coalition 2) Providing the first VYTP Mentorship Award to increase participation in the VTSF research program, 3) Successfully completing six studies funded through the Small Grants Program 4) Creating an infrastructure to support translational research and facilitate communication

between practitioners and researchers and 5) Preparing a comprehensive report summarizing and integrating the extensive research sponsored by the VTSF. VYTP's success can also be seen by the tremendous productivity of its participating faculty, who in FY 2008 submitted 15 grant applications (6 funded), published or submitted for publication over 40 manuscripts, and made more than 30 conference presentations on youth tobacco-use prevention.

#### Virginia Commonwealth University \$223,045

*Assessing the Efficacy of a School-Based Health Promotion Intervention on Tobacco Use and Fruit and Vegetable Consumption Among Rural Youth*

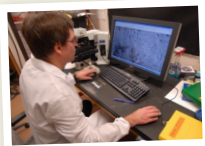
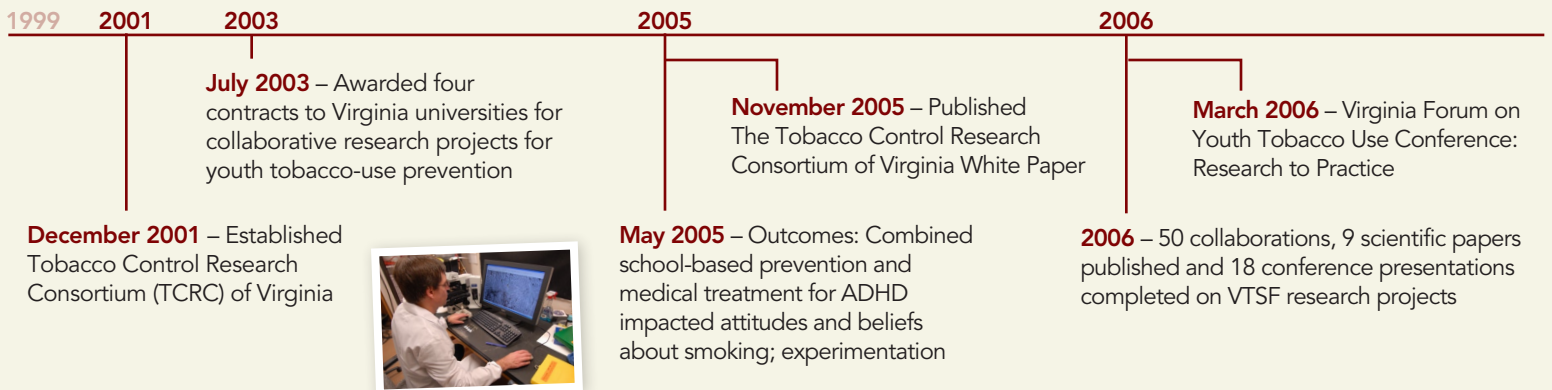
#### Principal Investigator:

Steve Danish, Co-PI: Earl Dowdy

**Collaborating Partners:** Virginia Tech, Amherst Co. Schools, Appomattox Co. Schools, Charlotte Co. Schools, Nottoway Co. Schools

LIFT+ is tobacco-use prevention and healthy-eating program, administered to seventh graders in rural school districts around Virginia. Based on some core concepts

## VTSF Research Timeline



in Social Cognitive Theory and Life Skills Training, the program consists of an eight-workshop sequence of in-class sessions, each one lasting about 35 minutes, taught to the students by high-school peer leaders who are trained by faculty and staff of the VCU Life Skills Center. VTSF granted funds to VCU to conduct a three-year, group-randomized controlled efficacy trial of the program.

During FY 08 VCU administered the eight-workshop treatment protocol to 313 seventh grade students in Amherst and Appomattox counties, and administered pre- and post-surveys to 579 seventh graders in Amherst, Appomattox, Charlotte and Nottoway counties. VCU surveyed the 44 peer leaders in Amherst and Appomattox before and after their participation in the program, using a LIFT+ peer survey and an additional peer leader assessment instrument. VCU also developed a qualitative data instrument on details of program implementation which will provide a context for the quantitative analyses. A report of preliminary results from the project is expected in Winter 2009.

Caroline County Schools. During the second year VCU recruited, engaged and collected data from 405 fifth-, eighth- and 12th graders attending 12 schools in the city of Richmond and Caroline County. During Year 1, 255 students from 16 schools were recruited to participate in the study. Data were collected from these students at second and third time points. During Year 2, a more aggressive tracking and follow-up protocol was implemented to increase retention across the three data collection points. Final data will be collected in Year 3, with a report on risk and protective factors among African American Youth as they relate to the initiation and continuation of tobacco-use behavior.

**Virginia Commonwealth University**

\$241,100



*Pathways to Smoking Among African-American Adolescents: Family, Contextual and Cultural Factors*

**Principal Investigator:** Faye Belgrave,  
**Co-PI:** Aashir Nasim

**Collaborating Partners:** Virginia State University, James Madison University, public school districts

In the second year of this three-year project VCU worked with two school systems: Richmond Public Schools and



**FY 2006 - 2009** – 75 collaborations, 69 scientific papers published, 109 conference presentations, nine applications submitted to external funding sources using VTSF baseline data

2006

**July 2006** – Awarded seven contracts to Virginia universities for collaborative research projects for youth tobacco-use prevention



2007

**May 2005** – Outcomes: genetic factors for nicotine use lessened with strict parent discipline present; addictive properties of nicotine in adolescence begins with first administration; a limited amount of nicotine dosing creates lasting changes in behavior



2008

**January 2008** – Mentoring project established at VCU

**June 2008** – Published Summary and Integration of Virginia Tobacco Settlement Foundation-funded Research under the Virginia Youth Tobacco Projects: 2002 to 2007



2009

**Virginia Commonwealth University**

\$229,011

*Establishing the Biological and Genetic Basis for Youth Smoking*



**Principal Investigator:** Imad Damaj

**Collaborating Partners:**

College of William and Mary, George Mason University

This project is comprised of two main highly integrated human and rodents projects. The human study portion showed that for nicotine, familial environmental factors were critical in influencing use in early adolescence and gradually declined in importance through young adulthood. Genetic factors, by contrast, had little or no influence on nicotine use in early adolescence but gradually increased in their effect with increasing age. Furthermore, substantial correlations were seen among levels of cannabis, nicotine, and alcohol use and specifically between caffeine and nicotine; those correlations were strongly influenced by shared effects from the familial environment. The rodent study portion determined that neurobiological factors might contribute to nicotine’s increased abuse liability in juvenile animals. Adolescent nicotinic receptors (primary targets for nicotine dependence) in different brain areas displayed significant increases in functionality as compared to adult receptors. The study showed that adolescent exposure results in an enhanced nicotine reward and reduced negative withdrawal signs in adult age. In addition, short adolescent nicotine exposure resulted in alterations to behavioral responses (reward and sensitization) to cocaine, supporting the importance of preventing adolescent experimentation with tobacco as it can rapidly cause persistent changes in drug-induced behavioral responses and may lead to further and more illicit drug abuse.



**George Mason University**

\$247,075

*Neurodevelopmental Effects of Adolescent Nicotine*



**Principal Investigator:** Bob Smith

**Collaborating Partners:**

Virginia Commonwealth University, College of William and Mary, other GMU Departments

Researchers at George Mason University continued a productive program defining the unique effects of nicotine on the adolescent brain. A notable accomplishment was publication of a study [Synapse, 62 (1), 31-9] showing that adolescent vs. adult nicotine induces lasting effects on different populations of cells in the prefrontal cortex, an important area for judgment and decision making as well as addiction. Mason researchers also completed work defining a number of neurotransmitter changes after adolescent nicotine which persist into adulthood, and showed that a consumption of Ritalin [adolescents with ADHD often smoke] increases both the neurotransmitter and behavioral changes following nicotine use. Mason researchers began a detailed study of the mechanisms underlying lasting negative emotional effects [fear and anxiety] which result from adolescent nicotine. Mason’s work continues to suggest that changes are multiple and persisting, and essentially sculpt late development of the brain into an addiction-prone brain. Finally, Mason researchers began to look at early events in adolescent addiction – what are the determinants of effects of the first nicotine experience, and what functional characteristics contribute to individual differences in nicotine susceptibility? This work included a study which found that dopamine D3 receptors in the brain appear to be important for the initial development of sensitization to nicotine in adolescents, but are unimportant in adult nicotine sensitization. This new research is expected to better define the processes and underlying mechanisms by which these adolescent nicotine effects occur, making them a highly vulnerable population to tobacco use. This research may also suggest adolescent-specific approaches to interrupting the development of addiction.



**College of William and Mary**  
\$99,572



*Long-Term Impact of Adolescent  
Nicotine on Cognitive Function*

**Principal Investigator:** Robert Barnet,  
Co PI's: Joshua Burk and Pamela Hunt

**Collaborating Partners:**

Virginia Commonwealth University, George Mason University

The main objective of this project is to characterize the long-term consequences of adolescent nicotine exposure on cognition. Two points of key interest include (a) characterizing the nature of cognitive deficits that occur, and (b) clarifying which brain structures are impacted by adolescent nicotine intake. The long-term objective is to apply those characterizations to models of nicotine addiction and drug dependence on the view that knowledge of what types of cognitive impairment and neural change occur may better arm prevention campaigns and enable more effective treatments. During FY08 nicotine was administered to rats during adolescence only, who were then allowed to age and become adults before behavioral training and testing began. The results suggest nicotine exposure during adolescence in the rat (a) can produce changes in hippocampus-based learning that persist into adulthood, and (b) may affect vulnerability to the effects of environmental stressors long after cessation of nicotine intake. That is, exposure to nicotine during adolescence may change the ability to adaptively regulate fear in later adulthood.

**Virginia Tech** \$181,331



*The Development and  
Implementation of a Tobacco Use Prevention Model for  
Youth with Psychiatric Disorders*

**Principal Investigator:**  
Peggy Meszaros

**Collaborating Partners:**

James Madison University, Virginia Commonwealth University, Virginia Treatment Center for Children, New River Valley Community Services, Via College of Osteopathic Medicine

The goal of this three-year research project is to develop an intervention to prevent tobacco abuse among middle school children 10-14 with psychiatric disorders in two target regions in Virginia; a rural venue in Blacksburg and an urban setting in Richmond. The intervention is being developed with the advice of a Community Development Team (CDT) of professionals and laypersons and based upon clinical experience with this challenging population and review of the current literature. In Blacksburg, the research team worked with eleven individuals on the CDT whose members represent prevention specialists, school-based counselors, mental health clinicians, parents, and youth in self-declared recovery from addiction. During three meetings between October 2007-May 2008, the Strengthening Families Program (SFP) background and goals were reviewed and participants engaged in workshop activities to provide advice and feedback as the first pilot SFP intervention was conducted. Five families meeting the program criteria at each site were recruited for a spring implementation. Pre and post-assessment data were collected and analyzed and decisions were made for the research design of the second pilot, scheduled for Year 3 of the project.

VTSF  
VIRGINIA TOBACCO  
SETTLEMENT FOUNDATION

## STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS

### Balance Sheet

As of June 30, 2008

|  | <u>Governmental Funds</u> |
|--|---------------------------|
|  | <u>Special Revenue</u>    |
| <b>ASSETS:</b>   |                           |
| Cash and cash equivalents held by the Treasurer of Virginia (Note 1-A)           | \$ 10,125,958             |
| * Investments Held by the Treasurer (Note 1-B)                                   | \$ 2,796,293              |
| Lease Deposits (Note 2-A)  | \$ 5,351                  |
| Prepaid Rent (Note 2-B)  | \$ 5,212                  |
| Capital Assets, net of accumulated depreciation:<br>(Note 3) Operating equipment | \$ -                      |
| <b>TOTAL ASSETS</b>  | <b>\$ 12,932,814</b>      |
| <b>LIABILITIES:</b>  |                           |
| Accounts Payable (Note 4-A)  | \$ 8,704                  |
| Accrued Payroll (Note 4-B)   | \$ 70,330                 |
| Obligations Under Security Lend (Note 1-B)                                       | \$ 2,796,293              |
| Grants Payable (Note 4-C)  | \$ 408,912                |
| Contractual Obligations (Note 4-C)   | \$ 142,575                |
| Compensated absences (Note 5)  | \$ 73,927                 |
| <b>Total Liabilities</b>   | <b>\$ 3,500,741</b>       |
| <b>NET ASSETS:</b>   |                           |
| Investment in Capital Assets, net of related debt                                | \$ -                      |
| Unrestricted   | \$ 9,432,073              |
| <b>Total net assets</b>  | <b>\$ 9,432,073</b>       |

*The accompanying notes are an integral part of the financial statements.*

\* The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies.



## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

### BUDGETARY COMPARISON - SPECIAL REVENUE FUND

For the Fiscal Year Ended June 30, 2008

|                                     | <u>Actual</u>     | <u>Budget</u>     | <u>Variance<br/>over (under)</u> |
|-------------------------------------|-------------------|-------------------|----------------------------------|
| <b>Revenues:</b>                    |                   |                   |                                  |
| Interest on Securities              | 332,424           | 150,000           | 332,424                          |
| Proceeds from Security Transactions | 79,390            |                   | 79,390                           |
| Federal Grants                      | 0                 |                   | 0                                |
| Master Settlement payments          | 12,672,157        | 14,481,658        | 12,672,157                       |
| <b>Total Revenues:</b>              | <b>13,083,971</b> | <b>14,631,658</b> | <b>13,083,971</b>                |
| <b>Expenditures:</b>                |                   |                   |                                  |
| Administration                      | 1,434,237         | 1,561,658         | 1,434,237                        |
| Depreciation Expense                | 0                 | 0                 | 0                                |
| Inter-Agency Expense                | 68,993            | 75,000            | 68,993                           |
| Dues and Subscriptions              | 0                 | 0                 | 0                                |
| Expenses for Securities Lending     | 79,390            | 0                 | 79,390                           |
| Marketing                           | 4,683,197         | 5,250,000         | 4,683,197                        |
| Program Expense                     | 3,874,190         | 5,150,000         | 3,874,190                        |
| Reimbursable Expense                | 0                 | 0                 | 0                                |
| Research and Evaluation             | 1,619,866         | 2,245,000         | 1,619,866                        |
| State General Fund Transfers Out    | 74,589            | 75,000            | 74,589                           |
| <b>Total Expense</b>                | <b>11,834,462</b> | <b>14,356,658</b> | <b>11,834,462</b>                |
| Revenues over (under) expenditures  | 1,249,509         | 275,000           | 1,249,509                        |
| <b>Fund balance, July 1, 2007</b>   | <b>8,182,565</b>  | <b>7,215,365</b>  | <b>8,182,565</b>                 |
| <b>Fund balance, June 30, 2008</b>  | <b>9,432,073</b>  | <b>7,490,365</b>  | <b>9,432,073</b>                 |

## NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2008

### 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. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies.

Cash with the Treasurer of Virginia  
\$ 10,125,958

Investments held by the Treasurer of Va.  
\$ 2,796,293

**Total cash, cash equivalents,  
and investments:**  
\$ 12,922,251

### Note 2: LEASE DEPOSITS and RENTS

A. VTSF rents office space at 701 E. Franklin for the main office and had field staff offices located in Bremono Bluff, Blacksburg, and Grafton, Virginia. Two leases required deposits. The Richmond office is \$5,126.00, and the Grafton office is \$225.00 for a total of \$5,351.00 in deposits for rental leases.

B. As of June 30, 2008 VTSF had paid \$5,212 in rents that were due July 1.

### 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 not procure assets that would meet the capital asset requirements; therefore, they are maintained in an internal inventory control system.

### Note 4: LIABILITIES

#### Accounts payable

Operating expenses accrued but unpaid as of June 30, 2008 totaled \$8,704.

#### B. Accrued Payroll

All VTSF employees are paid on a semi-monthly schedule. Accrued payroll expenses of \$70,330 represents work performed prior to June 30, 2008 but registered in FY09 CARS.

### 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 there were outstanding payables for which VTSF had received invoices in the amount of \$551,487.

### 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, 2008. The \$73,927 represents the balances at the fiscal year end provided by the Commonwealth's leave liabilities tracking program. To determine how much of this amount to record as long-term liability, calculations were made by adding estimated additional earned leave and subtracting estimated leave to be taken during FY09. Balances for staff with longer years of service were based on the allowable carry forward amounts. As a result, it has been determined that \$38,148 of the entire amount is 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 tobacco manufacturers in 1998. In FY 2008, the VTSF received \$12,672,157 of the projected \$14,481,658 in MSA payments and interest payments from MSA funds of \$332,424. VTSF did not receive the full 10% due to deposits made into a dispute escrow fund by participating tobacco manufacturers resulting from estimated decreases in market share to non-participating manufacturers.

#### **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 AND 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 related to the Office of the Attorney General, Department of Taxation, DGS, DOA, and DHRM. Additionally for savings due to the suspension of the state employee group life employer contribution rate.



# Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

November 14, 2008

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

The Honorable M. Kirkland Cox  
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, 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## 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  
Payroll  
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, payroll files, 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 November 14, 2008.

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

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