COMMONWEALTH OF VIRGINIA

Department of the Treasury

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TREASURER OF VIRGINIA
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October 30, 2026

Ms. Laura Wilborn
Division of Legislative Automated Systems
General Assembly Building
Richmond, VA 23219

Via Email

Dear Ms. Wilborn:

In accordance with the provisions of Chapter 482 (Virginia Acts of Assembly, 2002 Session), I hereby submit the audited annual financial statements for the Virginia Tobacco Settlement Financing Corporation for the fiscal year ended June 30, 2026.

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 this public body's 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 this public body's financial statements have been included.

Sincerely,

Leslie M. English

Leslie M. English
Public Finance Manager

LME:
Enclosures

VIRGINIA TOBACCO SETTLEMENT FINANCING CORPORATION

Financial Statements

For the Year Ended June 30, 2026



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VIRGINIA TOBACCO SETTLEMENT FINANCING CORPORATION

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INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Board of Directors of the
Virginia Tobacco Settlement Financing Corporation and the
Virginia Department of the Treasury
Richmond, Virginia

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and the major fund of the Virginia Tobacco Settlement Financing Corporation (the Corporation), as of and for the year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Corporation, as of June 30, 2026, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As noted in the statement of net position and Notes 9 and 10, the Corporation has a net deficit of $1,073,251,590 and anticipates future draws from the senior liquidity reserve account to pay interest on the bonds. The uncertainty of future tobacco settlement revenue collections and investment earnings are discussed in Notes 9 and 10. Our opinions are not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

The Honorable Members of the Board of Directors of the
Virginia Tobacco Settlement Financing Corporation and the
Virginia Department of the Treasury

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2026, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
October 30, 2026

VIRGINIA TOBACCO SETTLEMENT FINANCING CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2026. 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 Virginia Tobacco Settlement Financing Corporation Act, Chapters 482 and 488 of the 2002 Virginia Acts of the General Assembly ("the Act"). The Corporation was authorized under the Act to purchase up to 50% of the annual amount received by the Commonwealth of Virginia ("the Commonwealth") under the Master Settlement Agreement ("the MSA") between cigarette manufacturers and 46 states and six other United States jurisdictions ("the Tobacco Assets").

In fiscal year 2007, the Corporation issued $1,149,273,282 in Tobacco Settlement Asset-Backed Bonds, Series 2007 A, B-1, B-2, 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 50% percent of the Commonwealth's allocation under the MSA. A portion of the proceeds of the 2007 Bonds was used to defease and refund the outstanding Series 2005 Bonds, which were issued in May 2005 in the amount of $448,260,000.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Corporation's basic financial statements, which consist of two components: 1) government-wide and fund financial statements and 2) notes to the financial statements. The Corporation reports a single debt service fund in a combined government-wide/fund presentation.

Government-wide Financial Statements

The Statement of Net Position 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 Position presents all of the Corporation's assets and liabilities, with the difference between the two reported as "net position." Over time, increases and decreases in net position measure whether the Corporation's financial position is improving or declining.

The Statement of Activities presents information showing how the Corporation's net position changed during the most recent fiscal year. Changes in net position 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

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 fund 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 fund 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 Corporation's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented in the adjustments 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.

Financial Summary

The following is summarized financial data for the fiscal years ended June 30, 2026 and 2025:

Condensed Statements of Net Position
(in thousands)

	June 30, 2026	June 30, 2025
Current assets	$ 114,417	$ 114,630
Noncurrent assets	27,729	29,372
Total assets	142,146	144,002
Current liabilities	24,462	23,286
Noncurrent liabilities	1,190,936	1,179,603
Total liabilities	1,215,398	1,202,889
Net position:		
Restricted	137,584	139,415
Unrestricted	(1,210,836)	(1,198,302)
Total net deficit	$ (1,073,252)	$ (1,058,887)

Condensed Statements of Activities
(in thousands)

	Year Ended June 30, 2026	Year Ended June 30, 2025
Revenues	$ 57,587	$ 61,516
Expenses	71,952	71,558
Change in net position	(14,365)	(10,042)
Net deficit, beginning of year	(1,058,887)	(1,048,845)
Net deficit, end of year	$ (1,073,252)	$ (1,058,887)

Detailed Analysis

Government-wide Detailed Analysis

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 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 consist entirely of the tobacco settlement receivable (Note 6), which is restricted to the payment of debt service. The Corporation owns no capital assets.

Revenues for the year consist of the TSRs, receipt of payments from the partial settlement of the Lehman Brothers Holdings Inc.'s Chapter 11 bankruptcy cases, interest on investments and a refund of excess funds used to establish an annual Data Clearinghouse. Revenues declined from $61.5 million in 2025 to $57.6 million in 2026 due to a decrease in MSA payments from $56.5 million in 2025 to $53.2 million in 2026 and a decrease in interest earned from $5 million in 2025 to $4.1 million in 2026. The decrease in interest was due to the decrease in short-term interest received based upon current market rates.

Expenses reflect bond interest expense and amortization of bond discounts.

The deficit in net position resulted primarily from interest expense on the outstanding bonds exceeding TSR and the Lehman Brothers payments. The increase in the deficit from ($10) million in 2025 to ($14.4) million in 2026 was due to the decrease in TSR and interest during 2026.

Major Fund Detailed Analysis

The fund operates solely for the purpose of paying debt service on the outstanding bonds. Revenues are derived from the MSA payments along with interest on invested balances and these funds are used to pay the current debt service and operational costs. Cash equivalents held by the Corporation consists of $113,966,843 related to the issuance of the Series 2007 Bonds and $99,510 relates to the revenues described above. As such, the amounts held related to the Series 2007 Bonds are considered to be restricted for debt service. The remaining $99,510 in cash equivalents is to be used for operating expenses.

The fund balance as of June 30, 2026 was $114,416,536. The fund decreased by $213,004 due to debt service expenditures of $59.4 million exceeding revenues of $59.2 million.

Significant Capital Asset and Long-Term Financing Activity

As a financing entity, the Corporation's primary business activity is the administration of its outstanding debt. In 2007, the Corporation issued Bonds to acquire Tobacco Assets from the Commonwealth and to refinance bonds previously issued to acquire Tobacco Assets from the Commonwealth. The Corporation does not have current capital assets. The outstanding Bonds are secured solely by 50% of future tobacco settlement revenues allocated to the Commonwealth and investment earnings. As of June 30, 2026, the Corporation had no plans to issue additional debt. During 2026, the S&P Global credit rating remained at B- for 2007 Series A-1, B-1, and B-2, CCC+ for 2007 Series C, and CCC for 2007 Series D. Additionally, there were no changes to policy related to the Bonds.

During 2026, the Corporation paid $4,355,000 in principal, a decrease from $18,700,000 principal scheduled to be paid in 2026 (Note 3). The decreased principal payment on June 1, 2026 was due to a reduced TSR in April 2026, $54.8 million in 2026 from $58.1 million in 2025. Turbo redemptions were limited during 2026 due to reduced TSRs.

The Capital Appreciation Bonds were issued at an aggregate discount from par of $892,551,718. The discount is being accreted using the effective interest method over the life of the Bonds. As of June 30, 2026, the 2007C and 2007D Bonds had unaccreted balances of $499,012,106 and $183,929,742, respectively. The 2007B-2 Bonds were fully accreted.

The following table summarizes bond activity during the year.

Summary of Bond Obligations
(in millions)

	Tobacco Settlement Asset-Backed Bonds
Outstanding, 7/1/25	$ 1,198
Principal payments during year	(4)
Amortization of discount and other deferrals	17
Outstanding, 6/30/26	$ 1,211

Currently Known Facts, Decisions, or Conditions

The Corporation's future financial position and results of operations are dependent upon TSRs received pursuant to the MSA. Annual MSA payments are affected by several factors, including cigarette shipment volumes, Participating Manufacturers ("PMs") relative market shares, inflation, and other adjustments provided for under the MSA. Continued declines in domestic cigarette shipments could reduce future settlement revenues, while the MSA's inflation adjustment, which generally provides for a minimum annual adjustment of 3%, may partially offset the effect of declining shipment volumes. Changes in market share among participating and non-participating manufacturers may also affect future payments.

As a result, future TSRs may fluctuate and differ from current projections, potentially affecting revenues, related receivables, and resources available for debt service on the Corporation's outstanding bonds. The Corporation will continue to monitor cigarette shipment trends, manufacturer market shares, inflation, and other MSA adjustments in evaluating projected revenues and its ability to meet future debt service requirements. Under the 2007 Tobacco Settlement Asset-Backed Bonds Indenture ("the Indenture"), however, a failure to make a Projected Turbo Redemption or Sinking Fund Installments resulting from insufficient available collateral does not, by itself, constitute an event of default.

If TSRs were to decline, the Corporation will need to make larger draws against the funds held in the Senior Liquidity Reserve Account in order to make future debt service payments.

Requests for Information

This 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

Governmental Fund Balance Sheet and Statement of Net Position
As of June 30, 2026

	DEBT SERVICE FUND	ADJUSTMENTS (NOTE 1-D)	STATEMENT OF NET POSITION
ASSETS			
Current Assets:			
Cash equivalents (Note 2)	$ 99,510	$ -	$ 99,510
Prepaid items	20,987	-	20,987
Interest receivable	287	-	287
Restricted:			
Cash equivalents (Note 2)	113,966,843	-	113,966,843
Interest receivable	328,909	-	328,909
Total current assets	114,416,536	-	114,416,536
Noncurrent Assets:			
Restricted assets:			
Tobacco settlement receivable (Note 6)	27,729,555	-	27,729,555
Total noncurrent assets	27,729,555	-	27,729,555
Total assets	$ 142,146,091	$ -	$ 142,146,091
LIABILITIES			
Current Liabilities:			
Bonds payable (Note 3)	$ -	$ 19,900,000	$ 19,900,000
Accrued interest payable	-	4,561,879	4,561,879
Total current liabilities	-	24,461,879	24,461,879
Noncurrent liabilities - bonds payable (Note 3)	-	1,190,935,802	1,190,935,802
Total liabilities	-	1,215,397,681	1,215,397,681
DEFERRED INFLOWS OF RESOURCES			
Unavailable tobacco settlement revenue	$ 27,729,555	$ (27,729,555)	$ -
Total deferred inflows of resources	$ 27,729,555	$ (27,729,555)	$ -
FUND BALANCE/NET POSITION			
Restricted for debt service	114,295,752	(114,295,752)	-
Restricted for operations	120,784	(120,784)	-
Total fund balance	114,416,536	(114,416,536)	-
Total liabilities, deferred inflows and fund balance	$ 142,146,091		
Net Position (Deficit)			
Restricted for debt service (Note 4)		137,463,428	137,463,428
Restricted for operations (Note 4)		120,784	120,784
Unrestricted		(1,210,835,802)	(1,210,835,802)
Total net position (deficit) (Note 5)		$ (1,073,251,590)	$ (1,073,251,590)

The accompanying notes are an integral part of this statement.

VIRGINIA TOBACCO SETTLEMENT FINANCING CORPORATION

Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance and Statement of Activities
For the Year Ended June 30, 2026

	DEBT SERVICE FUND	ADJUSTMENTS (NOTE 1-D)	STATEMENT OF ACTIVITIES
REVENUES			
Tobacco settlement revenues (Note 6)	$ 54,836,334	$ (1,642,730)	$ 53,193,604
Lehman Brothers claims receipts	6,673	-	6,673
Investment interest	4,098,727	-	4,098,727
Miscellaneous Revenue	288,299	-	288,299
Total revenues	59,230,033	(1,642,730)	57,587,303
EXPENDITURES/EXPENSES			
General and administrative (Note 7)	53,437	-	53,437
Debt service:			
Principal retirement	4,355,000	(4,355,000)	-
Interest (Note 3)	55,034,600	(24,338)	55,010,262
Amortization of bond issuance discount (Note 3)	-	16,888,483	16,888,483
Total expenditures/expenses	59,443,037	12,509,145	71,952,182
Excess (deficiency) of revenues over (under) expenditures/expenses	(213,004)	213,004	-
Change in fund balance	(213,004)	213,004	-
Change in net position	-	(14,364,879)	(14,364,879)
Fund balance/net position (deficit) at beginning of year	114,629,540	(1,173,516,251)	(1,058,886,711)
Fund balance/net position (deficit) at end of year	$ 114,416,536	$ (1,187,668,126)	$ (1,073,251,590)

The accompanying notes are an integral part of this statement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION AND NATURE OF ACTIVITIES

The Virginia Tobacco Settlement Financing Corporation ("the Corporation") was created by the Virginia Tobacco Settlement Financing Corporation Act, Chapters 482 and 488 of the Acts of the General Assembly of the Commonwealth of Virginia ("the 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 ("the TSRs") under the Master Settlement Agreement and the Consent Decree and Final Judgment ("the MSA"). The MSA resolved tobacco-related litigation between the settling states and the Participating Manufacturers ("the PMs"), released the PMs from past and present tobacco-related claims of the settling states, and provided 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 Purchase and 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. The Corporation's right to receive TSRs was, at the time of issuance, 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 PMs to pay TSRs,
- cigarette consumption which affects the TSR payment, and
- legal and legislative challenges against the tobacco manufacturers and the MSA 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 revenues.

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"). These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB, which 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, which includes revenues received in the current fiscal year and accrued during the six months following the end of the fiscal year. Expenditures are recognized when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized when due.

The accompanying government-wide statements (Statement of Net Position 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.

Effective July 1, 2025, the Corporation adopted GASB Statement No. 103, *Financial Reporting Model Improvements*, and No. 104, *Disclosure of Certain Capital Assets*. The adoption had no effect on beginning net position or fund balance; changes were limited to MD&A presentation.

C. FUND ACCOUNTING

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

D. ADJUSTMENTS

The adjustments column represents the recording of bonds payable, interest payable on bonds, and discounts on issued bonds on the Statement of Net Position 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.

E. CASH EQUIVALENTS AND INVESTMENTS

Cash equivalents consist of money market funds, which are stated at amortized cost, which approximates fair value. The Corporation did not hold any investments at June 30, 2026.

F. RESTRICTED ASSETS

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

G. CAPITAL ASSETS

The Corporation has no capital assets, including lease assets, subscription assets, or other intangible assets at June 30, 2026.

H. LONG-TERM OBLIGATIONS

Long-term obligations are reported net of unamortized discounts and unaccreted capital appreciation bonds.

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 postemployment benefits are provided by the Corporation.

J. FUND BALANCE

Fund balance consists of the Corporation's cash equivalents, prepaid items, and receivables. The majority of the Corporation's assets were derived from the sale of bonds and subsequent collection of revenues to be used for debt service. Use of these assets is controlled by bond covenants. As such, amounts derived from bond proceeds and revenue collections for debt service have been restricted for debt service.

Additionally, the Corporation has accounts established to pay bond issuance costs and operating expenditures. Both accounts were initially funded with bond proceeds, and these initial amounts are controlled by bond covenants. Continuing operations are funded through the Corporation's income, the use of which is also defined in the bond documents. Therefore, these amounts have been classified as restricted for operations.

K. NET POSITION

Net position represents the difference between assets and liabilities. Net position generally is classified into the following components:

Restricted net position consists of external constraints placed on net position 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 position consists of all other net position that is not included in restricted net position.

L. 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 revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

2. CASH EQUIVALENTS

At June 30, 2026, the Corporation has cash equivalents totaling $114,066,353 which are held in the JP Morgan US Government Money Market Fund, as presented on the Statement of Net Position and Governmental Fund Balance Sheet. The money market fund is rated Aaa-mf by Moody's Investors Service.

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 investments 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 Indenture restricts the Corporation to investments rated A-1 or higher by S&P Global Ratings, 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.

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

Reserve Requirements: A cash equivalents balance of $85,909,146 is held for the Senior Liquidity Reserve Requirement. These cash equivalents were sufficient to cover the Corporation's reserve balance requirement of $85,392,039 at June 30, 2026, leaving an excess of $517,107 over the Senior Liquidity Reserve Requirement.

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

3. LONG-TERM DEBT

Activity in the bonds payable and related accounts for fiscal year 2026 was as follows:

	Balance at June 30, 2025	Increases	Decreases	Balance at June 30, 2026	Amount Due Within One Year
Total bonds outstanding	$ 1,903,315,000	$ -	$ (4,355,000)	$ 1,898,960,000	$ 19,900,000
Less:					
Unaccreted capital appreciation bonds	(699,693,462)	-	16,751,614	(682,941,848)	-
Unamortized issuance discounts	(5,319,219)	-	136,869	(5,182,350)	-
	$ 1,198,302,319	$ -	$ 12,533,483	$ 1,210,835,802	$ 19,900,000

Long-term debt consists 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	$	539,785,000
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, accreted value at conversion of $33,910,000		33,910,000
Series 2007C First Subordinate Capital Appreciation Bonds due June 1, 2047, with approximate yield of 5.67%, maturity value $724,870,000		225,857,894
Series 2007D Second Subordinate Capital Appreciation Bonds due June 1, 2047, with approximate yield of 5.77%, maturity value $264,770,000		80,840,258
Total long-term debt		1,216,018,152
Unaccreted capital appreciation bonds		682,941,848
Total outstanding maturities	$	1,898,960,000

In May 2007, the Corporation issued $1,149,273,282 of its Tobacco Settlement Asset-Backed Bonds, the 2007 Bonds. Proceeds from the issuance were used to fully defease the Corporation's outstanding Tobacco Settlement Asset-Backed Bonds Series 2005.

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 PMs. 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 Corporation's TSRs are 100% pledged to cover the bond principal and interest. As of June 30, 2026, the Corporation had $1.899 billion of principal outstanding on the 2007 Bonds. Future interest payments are approximately $689.6 million under the sinking fund installment schedule or $1.107 billion under the term bond maturity schedule, depending on the applicable repayment schedule. The Corporation recognized TSR of $53,193,604 in 2026 and paid $59,389,600 in debt service comprised of $4,355,000 in principal and $55,034,600 in interest. 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 Indenture states that the 2007 Bonds shall not be deemed to be, nor constitute, a debt or obligation of the Commonwealth or a pledge of the full faith and 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 are obligated or pledged to the payment of the principal of or interest on the bonds.

The 2007C and 2007D Bonds have Capital Appreciation Bonds with unaccreted values of $499,012,106 and $183,929,742, respectively, as of June 30, 2026. The 2007B-2 bonds are fully accreted.

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

Fiscal Year	Sinking Fund Installments	Interest	Term Bond Maturities	Interest
2027	$ 19,900,000	$ 54,742,552	$ -	$ 54,742,552
2028	21,400,000	53,408,058	-	54,742,552
2029	22,700,000	51,972,974	-	54,742,552
2030	25,330,000	50,450,712	-	54,742,552
2031	27,130,000	48,752,082	-	54,742,552
2032-2036	168,705,000	213,629,683	-	273,712,761
2037-2041	254,620,000	148,202,929	-	273,712,761
2042-2046	297,260,000	64,794,570	573,695,000	270,549,319
2047	1,061,915,000	3,613,751	1,325,265,000	15,382,812
	$ 1,898,960,000	$ 689,567,311	$ 1,898,960,000	$ 1,107,070,413

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 installments 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. Through June 30, 2026, bonds in the amount of $142,865,000 have been redeemed through scheduled and turbo sinking fund payments.

During fiscal year 2026, scheduled sinking fund installments on the 2007 Bonds totaled $18,700,000. Collections available under the Indenture on the June 1, 2026 distribution date were not sufficient to pay the full amount. As a result, the Corporation paid $4,355,000 of principal, a shortfall of $14,345,000. All scheduled interest of $55,034,600 was paid when due. As described above, failing to pay a sinking fund installment because funds are insufficient is not an event of default under the Indenture. Under the Indenture, unpaid sinking fund installments are not added to future installments. They are applied against term bond maturities as funds become available. Cumulative unpaid sinking fund installments totaled $16,715,000 at June 30, 2026. The Series 2007A Bonds remain subject to their June 1, 2046 term bond maturity, and failing to pay a term bond maturity in full when due is an event of default under the Indenture.

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.

Upon an event of default, the trustee may enforce the rights of bondholders and the obligations of the Corporation, institute legal proceedings, and exercise other remedies provided by the Indenture. Bonds are payable on a pro rata basis following an event of default, subject to the applicable payment priorities and subordination provisions. Neither the trustee nor the bondholders have the right to sell or foreclose on the collateral or the Corporation’s rights under the Indenture.

4. RESTRICTED NET POSITION

Restricted net position represents the items restricted by the Indenture for debt service and operations. The composition of restricted net position is as follows:

Cash equivalents and investments	$	113,966,843
Tobacco settlement receivable		27,729,555
Lehman Brothers claim receivable		-
Interest receivable		328,909
Interest payable		(4,561,879)
Net position restricted for debt service	$	137,463,428
Cash equivalents and investments	$	99,510
Prepaid items		20,987
Interest receivable		287
Net position restricted for operations	$	120,784

5. DEFICIT NET POSITION

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, other factors, and the future payment amounts are not known at this time. Accordingly, outstanding obligations are reported on the Statement of Net Position while the related future revenues have not yet been reported. Therefore, as of June 30, 2026, the Corporation reports a deficit net position of $1,073,251,590 on the Statement of Net Position.

6. TOBACCO SETTLEMENT REVENUES AND RECEIVABLE

TSRs consist of the amounts to be received under the terms of the MSA among participating cigarette manufacturers and 46 states and six other United States jurisdictions (“the Settling States”). The MSA is an industry-wide settlement of litigation between the Settling States and the Original Participating Manufacturers (“the OPMs”) and was entered into between the attorneys general of the Settling States and the OPMs on November 23, 1998. The MSA provides for other tobacco companies, referred to as Subsequent Participating Manufacturers (“the SPMs”), to become parties to the MSA. The four OPMs together with the more than 30 SPMs are referred to as the PMs. The settlement represents the resolution of a potential financial liability of the PMs for smoking-related injuries, the cost of which has been borne and will likely continue to be borne by cigarette consumers. Pursuant to the MSA, the Settling States agreed to settle all their past 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 the formation of 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 represents a portion of future sales of tobacco products. The amount of TSR recognized is based on the shipment of domestic cigarettes and estimated to be 50% of the next projected payment due from the MSA. Accordingly, the Statement of Net Position includes an estimated receivable of $27,729,555 at June 30, 2026.

7. ADMINISTRATIVE EXPENSES

Administrative expenses for the year ending June 30, 2026 were $53,437, for trustee, accounting, and rating agency fees.

8. CONTINGENCIES

Tobacco Litigation Risk:
The amount of future revenue recognized by the Corporation could be adversely impacted by certain third-party litigation involving tobacco companies and others.

Guaranteed Investment Contract:
Upon issuance of the bonds in 2005 and 2007, the Corporation entered into Reserve Fund Agreements among itself, Lehman Brothers Special Financing Inc., and The Bank of New York Mellon Trust Company, National Association, as successor to JP Morgan Trust Company, National Association, as trustee under the bond Indenture. Under the Agreements, Lehman Brothers Special Financing Inc. guaranteed to provide qualifying securities for investment from funds available in the Reserve Funds at a guaranteed rate of return through June 1, 2047, unless sooner terminated. In December 2008, Lehman Brothers Special Financing Inc. defaulted on its contractual obligation when it failed to deliver securities as prescribed in the Agreements. As a result, the Corporation exercised its right to terminate the Agreements and so notified Lehman Brothers Special Financing Inc. on March 19, 2009.

On July 15, 2014, the Corporation entered into a termination agreement with Lehman Brothers Special Financing Inc. and Lehman Brothers Holdings Inc. relating to certain reserve fund agreements dated as of May 26, 2005 and May 3, 2007, as amended. The termination agreement, among other things, provided for settlement of the claims asserted by the Corporation in certain of the Lehman bankruptcy cases. Absent the sale of these claims, the Corporation will receive periodic distributions on these claims as a holder of these allowed claims. The Corporation recorded revenues related to these distributions of $6,673 in fiscal year 2026.

9. UNSCHEDULED DRAWS ON DEBT SERVICE RESERVES REFLECTING FINANCIAL DIFFICULTY

Due to the uncertainty of future TSR collections and lower-than-expected investment earnings, the Corporation anticipates that draws against the reserve funds will be needed to make future interest payments. In fiscal year 2026, TSRs and other available collections were not sufficient to pay the full scheduled sinking fund installment of $18,700,000. The Corporation paid $4,355,000 of principal, a shortfall of $14,345,000. The Corporation did not draw on the Senior Liquidity Reserve Account during fiscal year 2026. On June 30, 2026, the Senior Liquidity Reserve Account held $85,909,146, which was $517,107 more than the reserve requirement of $85,392,039. If TSR collections continue declining, the Corporation expects further sinking

fund shortfalls and draws on the Senior Liquidity Reserve Account to pay future interest. Certain events may occur that could improve the financial outlook for the Corporation. The Corporation is actively monitoring investment alternatives to maximize the rate of return.

10. RISKS AND UNCERTAINTIES

Ongoing economic uncertainties could impact domestic tobacco sales, which will impact payments made by the PMs to the Corporation, which are used for debt service. In that case, the Corporation will need to make larger draws against the funds held in the Senior Liquidity Reserve Account in order to make future debt service payments.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Members of the Board of Directors of the
Virginia Tobacco Settlement Financing Corporation and the
Virginia Department of the Treasury
Richmond, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Tobacco Settlement Financing Corporation (the Corporation), as of and for the year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated October 30, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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

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

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The Honorable Members of the Board of Directors of the
Virginia Tobacco Settlement Financing Corporation and the
Virginia Department of the Treasury

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
October 30, 2026



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