



Tobacco Settlement Financing Corporation

(a blended component unit of the Government of the
United States Virgin Islands)

**Management's Discussion and Analysis
and Financial Statements**

September 30, 2010 and 2009

Tobacco Settlement Financing Corporation
(a blended component unit of the Government of the United States Virgin Islands)
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September 30, 2010 and 2009

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Report of Independent Auditors

To the Board of Directors of
Tobacco Settlement Financing Corporation

In our opinion, the accompanying statements of net assets and governmental fund balance sheet, the related statements of activities and governmental fund revenues, expenditures and changes in net assets/fund balance, and the statement of fiduciary net assets present fairly, in all material respects, the respective financial position of the governmental activities fund, the debt service fund and the fiduciary fund of the Tobacco Settlement Financing Corporation (a blended component unit of the Government of the United States Virgin Islands) at September 30, 2010 and 2009 and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Management's discussion and analysis on pages 2 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

June 27, 2011

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
License No. 216 Expires Dec. 1, 2013
Stamp 2617224 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

TOBACCO SETTLEMENT FINANCING CORPORATION
(a blended component unit of the Government of the United States Virgin Islands)
Management's Discussion and Analysis
September 30, 2010 and 2009

The Board of Directors of the Tobacco Settlement Financing Corporation (the "Corporation") is pleased to present the following discussion and analysis of the Corporation's financial performance during the fiscal years that ended September 30, 2010 and 2009. For discussion and analysis purposes, comparative information for fiscal year 2008 has also been included. Please note this information should be read in conjunction with the financial statements and their accompanying notes, which follow this section.

The Corporation

The Corporation was formed in September, 2001. On November 1, 2001, the Corporation entered into a Purchase and Sale Agreement with the Government of the U.S. Virgin Islands to purchase the rights, title, and interest in Tobacco Settlement fund litigation awards for the amount of \$18.4 million, under the Master Settlement Agreement (the "MSA"). The MSA was entered into on November 23, 1998, among the Attorneys General of 46 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Commonwealth of the Northern Mariana Islands (collectively the "Settling States") and the four largest United States tobacco manufacturers: Philip Morris Incorporated, R. J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation, and Lorillard Tobacco Company (collectively the "Original Participating Manufacturers" or "OPMs"). The MSA provides for other tobacco companies, referred to as "Subsequent Participating Manufacturers" or "SPMs" to become parties to the MSA. The four OPMs together with over 30 SPMs are referred to as the "Participating Manufacturers" or "PMs". The MSA resolved cigarette smoking-related litigation among the Settling States and the OPMs, released the OPMs from past and present smoking-related claims by the Settling States, and provides for a continuing release of future smoking-related claims in exchange for certain payments to be made to the Settling States. The MSA also provides for the imposition of certain tobacco advertising and marketing restrictions, among other things. The MSA represents the resolution of a large potential financial liability of the OPMs for smoking-related injuries, the costs of which have been borne and will likely be borne by cigarette consumers. The Corporation is not a party to the MSA.

Initial Payments under the MSA to the Settling States have been received from 1999 to 2003. Annual Payments under the MSA are required if the cigarette market share increases higher than the 1998 level or 125% of the 1997 level. Annual Payments are due on April 15, having commenced April 15, 2000, and continuing in perpetuity. In addition to Initial and Annual Payments, participating cigarette manufacturers are required to make Strategic Contribution Fund Payments in the amount of \$861 million, subject to adjustment, annually on April 15, in the years of 2008 through 2017. Each type of payment under MSA is contingent upon future volume of cigarette sales, inflation adjustments, final legal adjustments upon settlement with the four states and other United States jurisdictions not participating in the agreement, and various offsets for miscalculated or disputed payments with the parties. The Government of the Virgin Islands' share of the MSA was .0173593% of Initial and Annual Payments, and .1800232% of Strategic Contribution Fund Payments. In addition, the ability of the PMs to make the tobacco settlement payments is contingent upon many other influences. There have been several multi-million, and a few multi-billion, dollar verdicts against the tobacco companies in the recent years. Additionally, there are certain consumer groups that have introduced litigation against the tobacco manufacturers asserting that the MSA violates certain provisions of the United States Constitution, federal antitrust laws, and others. The Corporation recognized \$2.1 million for the fiscal year ended September 30, 2010 and \$2.4 million in the fiscal years ended September 30, 2009 pursuant to the rights purchased from the Government of the U.S. Virgin Islands.

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On November 20, 2001, the Corporation issued \$21.7 million aggregate principal amount of Tobacco Settlement Financing Corporation Asset-Backed Bonds (the "2001 Series Bonds"). The Bonds are secured by, and payable from, collections including all Tobacco Settlement Revenues (the "TSRs") to be received by the corporation, reserves, amounts held in other accounts established by the indenture, and the Corporation's rights under the purchase agreement. The proceeds were used for the purpose of purchasing all rights, title, and interest in certain litigation awards under the MSA entered into by participating cigarette manufacturers, and, ultimately providing funds for hospital and healthcare projects in the United States Virgin Islands.

On March 15, 2006, the Corporation issued \$48.1 million aggregate principal amount of Tobacco Settlement Asset-Backed Subordinate Series 2006 A, B, C & D Turbo Capital Appreciation Bonds (the "Series 2006 Bonds") pursuant to an amendment of the indenture between the Corporation and the Trustee, dated November 1, 2001. The Series 2006 Bonds are secured by and are payable solely from the TSRs, investment earnings and amounts held in certain accounts, and the Corporation's rights under the purchase agreement. The proceeds were used for the purpose of financing several capital hospital and health department projects, including the Charlotte Kimelman Cancer Institute on St. Thomas and the construction of the V.I. Cardiac Center on St. Croix, and to fund operating costs of the Corporation.

As of September 30, 2010 the Corporation had outstanding bonds of approximately \$26.6 million. As of September 30, 2009 and 2008, there were \$27.4 million and \$28.5 million outstanding, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements. The Corporation's basic financial statements consist of four components: 1) government-wide financial statements, 2) governmental fund financial statements, 3) statement of fiduciary net assets, and 4) notes to the financial statements. Due to the single-purpose nature of the activities of the Corporation, the government-wide and governmental fund financial statements have been presented together with an adjustments column reconciling the differences.

- The *Statement of Net Assets and Governmental Fund Balance Sheet* includes all of the Corporation's assets and liabilities and provides information about the nature and amounts of investments in resources (assets), and the obligations to Corporation creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Corporation, and assessing the liquidity and financial flexibility of the Corporation. The Government-Wide Statement of Net Assets column is prepared on an economic resources method and reports information about the Corporation using accounting methods similar to those used by private sector companies (accrual basis of accounting) and presents all assets and liabilities of the Corporation. The Governmental Fund Balance Sheet focuses on the Corporation's balances of spendable resources available for the payment of expenditures, including payment of Debt Service requirements at the end of the fiscal year.
- All of the current year's activity is accounted for in the *Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance*. These statements measure the success of the Corporation's operations over the past year and can be used to determine the Corporation's ability to meet its financial objectives and credit-worthiness. The Statement of Activities column presents information on how the Corporation's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

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- The current year's *Statement of Fiduciary Net Assets* reports fiduciary funds held in an agency capacity for the benefit of the Government of the Virgin Islands related to hospital and healthcare projects for residents of the United States Virgin Islands. Fiduciary funds are not reflected in the government-wide financial statements because the resources are not available to support the Corporation's own programs. Agency funds are reported using the economic resources measurement focus on a full accrual basis and only present a statement of assets and liabilities.

Summary of Financial

Results

Government-Wide Financial Statements

Statement of Net Assets—Table 1 summarizes the Corporation's Statement of Net Assets as of September 30, 2010, 2009, and 2008.

Table 1: Summary of Statement of Net Assets

	September 2010	September 2009	September 2008
Restricted assets	\$ 4,399,054	\$ 4,571,358	\$ 4,791,357
Other assets	14,960,986	15,756,832	16,643,816
Total assets	<u>\$ 19,360,040</u>	<u>\$ 20,328,190</u>	<u>\$ 21,435,173</u>
Current liabilities	\$ -	\$ 32,200	\$ -
Bonds payable	26,573,298	27,379,406	28,489,118
Other liabilities	4,508	4,509	19,638
Total liabilities	<u>\$ 26,577,806</u>	<u>\$ 27,416,115</u>	<u>\$ 28,508,756</u>
Total net assets	<u>\$ (7,217,766)</u>	<u>\$ (7,087,925)</u>	<u>\$ (7,073,583)</u>

For Fiscal Year 2010, the Corporation's assets amounted to \$19.4 million, of which \$2.8 million represented restricted investments, \$1.6 million represented accrued TSRs which are restricted in purpose, and \$13.7 million represented a deferred charge in connection with the purchase of tobacco settlement rights. Restricted investments decreased by approximately \$50 thousand due to the net effect of \$2.258 million collected in TSR's in April 2010, interest income of \$91 thousand, principal payments made of \$1.415 million, interest expense of \$897 thousand, and general and administrative expenses paid of \$87 thousand. Other assets decreased due to the amortization of the TSR deferred charge, bond issue costs and original issue discount of \$796 thousand. Total liabilities amounted to \$26.6 million. The decrease in total liabilities is due to the net effect of principal payments of \$1.4 million and accretion expense of \$609 thousand.

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For Fiscal Year 2009, the Corporation's assets amounted to \$20.3 million, of which \$2.9 million represented restricted investments, \$1.6 million represented accrued TSRs which are restricted in purpose, and \$14.3 million represented a deferred charge in connection with the purchase of tobacco settlement rights. Restricted investments remained at \$2.9 million due to the net effect of \$2.650 million collected in TSR's in April 2009, interest income of \$95 thousand, principal payments made of \$1.680 million, interest expense of \$975 thousand, general and administrative expenses paid of \$86 thousand. Other assets decreased due to the amortization of the TSR deferred charge, bond issue costs and original issue discount of \$887 thousand. Total liabilities amounted to \$27.4 million, of which \$27.4 million are bonds payable. The decrease in total liabilities is due to the net effect of principal payments of \$1.68 million and accretion expense of \$570 thousand.

Statement of Activities--Table 2 summarizes the Corporation's Statement of Activities for the periods ending September 30, 2010, 2009 and 2008.

Table 2: Summary of Statement of Activities

	September 2010	September 2009	September 2008
General and program revenues	\$ 2,226,365	\$ 2,521,228	\$ 2,650,355
Expenses	2,356,206	2,535,570	2,457,523
Change in net assets	\$ (129,841)	\$ (14,342)	\$ 192,832
Net assets - beginning of year	\$ (7,087,925)	\$ (7,073,583)	\$ (7,266,215)
Net assets - end of year	\$ (7,217,766)	\$ (7,087,925)	\$ (7,073,383)

For Fiscal Year 2010, general revenues of \$2.2 million reflect TSRs revenue of \$2.1 million and investment earnings of \$91 thousand. The decrease in TSRs is mainly driven by the reduction in cigarette consumption which in turn is due to the increase in taxes imposed in the sale and the global awareness campaign of the harming caused by the consumption. The Corporation's expenses included interest expense of \$897 thousand, general and administrative expenses of \$54 thousand, accretion expense of \$609 thousand, and amortization expense of bond discounts, issuance costs and deferred charges on the purchase of tobacco settlement rights of \$796 thousand.

For Fiscal Year 2009, general revenues of \$2.5 million reflect TSRs revenue of \$2.4 million, and investment earnings of \$95 thousand. The decrease in TSRs is mainly driven by the reduction in cigarette consumption which in turn is due to the increase in taxes imposed in the sale and the global awareness campaign of the harming caused by the consumption. The Corporation's expenses included interest expense of \$975 thousand, general and administrative expenses of \$104 thousand, accretion expense of \$570 thousand, and amortization expense of bond discounts, issuance costs and deferred charges on the purchase of tobacco settlement rights of \$887 thousand.

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Governmental Fund Financial Statements

Governmental Fund Balance Sheet--Table 3 summarizes the Corporation's Balance Sheet as of September 30, 2010, 2009 and 2008.

Table 3: Summary of Governmental Fund Balance Sheet

	September 2010	September 2009	September 2008
Restricted assets	\$ 2,828,419	\$ 2,878,365	\$ 2,874,160
Total assets	\$ 2,828,419	\$ 2,878,365	\$ 2,874,160
Total liabilities	\$ 4,508	\$ 36,709	\$ 19,638
Total fund balance	\$ 2,823,911	\$ 2,841,656	\$ 2,854,522

For Fiscal Year 2010, the Corporation's assets, as reported on the Governmental Fund Balance Sheet, amounted to approximately \$2.8 million, which are restricted investments. The decrease in restricted assets is mainly due to the net effect of \$2.258 million collected in TSR's in April 2010, interest income of \$91 thousand, principal payments made of \$1.415 million, interest expense of \$897 thousand, and general and administrative expenses paid of \$87 thousand. Total liabilities amounted to approximately \$5 thousand. Decrease in liabilities as compared with fiscal year 2009 is due to the advances made by the Corporation to a related party to pay the accrued expenses (mainly audit fees and accounting services) on behalf of the Corporation.

For Fiscal Year 2009, the Corporation's assets, as reported on the Governmental Fund Balance Sheet, amounted to approximately \$2.8 million, which are restricted investments. The increase in restricted assets is mainly due to the net effect of \$2.650 million collected in TSR's in April 2009, interest income of \$95 thousand, principal payments made of \$1.680 million, interest expense of \$975 thousand, general and administrative expenses paid of \$86 thousand. Total liabilities amounted to approximately \$37 thousand. The increase in total liabilities is due to audit fees accrued at year-end.

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Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance--Table 4 summarizes the Corporation's Governmental Fund Revenues, Expenditures, and Changes in Fund Balance for the years ending September 30, 2010, 2009, and 2008.

Table 4: Summary of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance

	September 2010	September 2009	September 2008
General and program revenues	\$ 2,348,723	\$ 2,745,432	\$ 2,611,411
Expenses	2,366,468	2,758,299	2,377,349
Excess of revenues (expenses)	<u>\$ (17,745)</u>	<u>\$ (12,867)</u>	<u>\$ 234,062</u>
Fund balance:			
Beginning of year	\$ 2,841,656	\$ 2,854,523	\$ 2,620,461
Fund balance:			
End of year	<u>\$ 2,823,911</u>	<u>\$ 2,841,656</u>	<u>\$ 2,854,523</u>

General and program revenues for the year ending September 30, 2010 of \$2.3 million reflect the receipt of \$2.3 million in TSRs, and investment earnings of \$91 thousand. The decrease in revenues during fiscal year 2010 is mainly driven by the reduction in cigarette consumption which in turn is due to the increase in taxes imposed in the sale and the global awareness campaign of the harming caused by the consumption. The Corporation's expenses included interest paid of \$897 thousand, principal expense of \$1.4 million, and \$54 thousand for general and administrative expenses. The decrease in expense is mainly due to the decrease in principal payments of the bonds payable of \$265 thousand and the decrease in interest expense of \$78 thousand.

General and program revenues for the year ending September 30, 2009 of \$2.7 million reflect the receipt \$2.6 million in TSRs, and investment earnings of \$95 thousand. The increase in revenues during 2009 is due to the release of \$540 million from the MSA 2005 disputed payment escrow account, of which the Corporation received \$93 thousand. The Corporation's expenses included interest paid of \$975 thousand, principal expense of \$1.68 million, and \$104 thousand for general and administrative expenses. The increase in expenses is mainly due to the increase in principal payments on bonds payable of \$255 thousand and the increase in interest expense of \$126 thousand.

Table 5: Summary of Statement of Fiduciary Net Assets

	September 2010	September 2009	September 2008
Restricted assets	\$ 2,727,092	\$ 3,643,945	\$ 6,393,863
Total assets	<u>\$ 2,727,092</u>	<u>\$ 3,643,945</u>	<u>\$ 6,393,863</u>
Noncurrent liabilities	\$ 2,727,092	\$ 3,643,945	\$ 6,393,863
Total liabilities	<u>\$ 2,727,092</u>	<u>\$ 3,643,945</u>	<u>\$ 6,393,863</u>

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Restricted assets consist of investments held by the Corporation on behalf of the Government of the Virgin Islands for healthcare projects consistent with the single purpose for which it was created. The decrease in total assets as of September 30, 2010 and 2009 is due to disbursements for capital projects. The liabilities consist of unexpended project funds.

Long-Term Debt Activity

The 2001 Series Bonds issued by the Corporation are twenty and thirty-year obligations scheduled to retire in ordinary course on May 15, 2021 and May 15, 2035. However, under early redemption provisions, particularly Turbo Redemptions, any TSR collections exceeding annual debt service requirements of the Bonds must be applied to early redemption of the Series 2001 Term Bonds in order of maturity. No excess shall be applied to the early redemption of the Series 2006 Bonds until full payment of the 2001 Series Bonds. TSRs and earnings on the trust funds during the fiscal years ending September 30, 2010 through 2006, resulted in Turbo Redemptions of \$315,000 on May 17, 2010, \$645,000 on May 15, 2009, \$5,000 on November 11, 2008, \$495,000 on May 15, 2008, \$20,000 on November 15, 2007, \$295,000 on May 15, 2007, \$5,000 on November 15, 2006.

The 2006 Series Bonds issued by the Corporation are thirty-year obligations maturing on May 15, 2035. The 2006 Series Bonds are subject to mandatory redemption in whole or part on each May 15 and November 15 subsequent to the date on which all Series 2001 Bonds have been paid in full but not before 2016.

The Corporation monitors market conditions for circumstances conducive to undertaking a refunding transaction that would result in savings of interest expense over time. No such conditions arose during the fiscal years of 2010, 2009, or 2008.

Significant Currently-Known Facts

The following are currently known facts that could have a potential significant effect on financial position and changes in financial position in future years:

Payment Collections

TSR collections may vary based on inflation adjustments, volume adjustments of cigarette sales, litigation adjustments from non-settling states, offsets for miscalculated or disputed payments, federal tobacco legislation offsets, litigation releasing parties offsets, and offsets for claims over the amounts of the award.

The ability of the Corporation to make debt service payments on bonds is contingent upon the receipt of Tobacco Settlement payments. The bonds issued by the Corporation do not constitute a claim against the full faith, credit, or taxing powers of the Government of the Virgin Islands.

Contacting the Corporation

This financial report is designed to provide bond holders with a general overview of the Corporation's finances. If you have questions about this report or need additional financial information, contact the Corporation:

Tobacco Settlement Financing Corporation
P.O. Box 430
St. Thomas, VI 00804
340-714-1635

TOBACCO SETTLEMENT FINANCING CORPORATION
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Statement of Net Assets and Governmental Fund Balance Sheet
September 30, 2010

	Debt Service Fund and Total Government Fund	Adjustments	Statement of Net Assets
Assets			
Current assets:			
Restricted investments	\$ 2,828,419	\$ -	\$ 2,828,419
Accrued tobacco settlement revenues		1,570,635	1,570,635
Total current assets	<u>\$ 2,828,419</u>	<u>\$ 1,570,635</u>	<u>\$ 4,399,054</u>
Noncurrent assets:			
Bond issuance costs, net		\$ 947,994	\$ 947,994
Original issue discount, net		355,591	355,591
Deferred charge - purchase of settlement rights, net		13,657,401	13,657,401
Total noncurrent assets	<u>\$ -</u>	<u>\$ 14,960,986</u>	<u>\$ 14,960,986</u>
Total assets	<u><u>\$ 2,828,419</u></u>	<u><u>\$ 16,531,621</u></u>	<u><u>\$ 19,360,040</u></u>
Liabilities			
Current liabilities:			
Accrued expenses payable	\$ -	\$ -	\$ -
Total current liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Noncurrent liabilities:			
Bonds payable	\$ -	\$ 26,573,298	\$ 26,573,298
Other liabilities	4,508	-	4,508
Total noncurrent liabilities	<u>\$ 4,508</u>	<u>\$ 26,573,298</u>	<u>\$ 26,577,806</u>
Total liabilities	<u><u>\$ 4,508</u></u>	<u><u>\$ 26,573,298</u></u>	<u><u>\$ 26,577,806</u></u>
Fund Balance/Net Assets			
Fund balance:			
Reserved for debt service	\$ 2,823,911	\$ (2,823,911)	\$ -
Total fund balance	<u>\$ 2,823,911</u>	<u>\$ (2,823,911)</u>	<u>\$ -</u>
Total liabilities and fund balance	<u><u>\$ 2,828,419</u></u>		
Net assets (deficit):			
Restricted for debt service		\$ 2,828,419	\$ 2,828,419
Unrestricted		(10,046,185)	(10,046,185)
Total net assets (deficit):		<u><u>\$ (7,217,766)</u></u>	<u><u>\$ (7,217,766)</u></u>

The accompanying notes are an integral part of these financial statements.

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Statement of Net Assets and Governmental Fund Balance Sheet
September 30, 2009

	Debt Service Fund and Total Government Fund	Adjustments	Statement of Net Assets
Assets			
Current assets:			
Restricted investments	\$ 2,878,365	\$ -	\$ 2,878,365
Accrued tobacco settlement revenues		1,692,993	1,692,993
Total current assets	<u>\$ 2,878,365</u>	<u>\$ 1,692,993</u>	<u>\$ 4,571,358</u>
Noncurrent assets:			
Bond issuance costs, net	\$ -	\$ 1,052,800	\$ 1,052,800
Original issue discount, net		375,833	375,833
Deferred charge - purchase of settlement rights, net		14,328,199	14,328,199
Total noncurrent assets	<u>\$ -</u>	<u>\$ 15,756,832</u>	<u>\$ 15,756,832</u>
Total assets	<u>\$ 2,878,365</u>	<u>\$ 17,449,825</u>	<u>\$ 20,328,190</u>
Liabilities			
Current liabilities:			
Accrued expenses payable	\$ 32,200	\$ -	\$ 32,200
Total current liabilities	<u>\$ 32,200</u>	<u>\$ -</u>	<u>\$ 32,200</u>
Noncurrent liabilities:			
Bonds payable	\$ -	\$ 27,379,406	\$ 27,379,406
Other liabilities	4,509	-	4,509
Total noncurrent liabilities	<u>\$ 4,509</u>	<u>\$ 27,379,406</u>	<u>\$ 27,383,915</u>
Total liabilities	<u>\$ 36,709</u>	<u>\$ 27,379,406</u>	<u>\$ 27,416,115</u>
Fund Balance/Net Assets			
Fund balance:			
Reserved for debt service	\$ 2,841,656	\$ (2,841,656)	\$ -
Total fund balance	<u>\$ 2,841,656</u>	<u>\$ (2,841,656)</u>	<u>\$ -</u>
Total liabilities and fund balance	<u>\$ 2,878,365</u>		
Net assets (deficit):			
Restricted for debt service		\$ 2,878,365	\$ 2,878,365
Unrestricted		(9,966,290)	(9,966,290)
Total net assets (deficit):		<u>\$ (7,087,925)</u>	<u>\$ (7,087,925)</u>

The accompanying notes are an integral part of these financial statements.

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Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Net Assets/Fund Balance
For the year ended September 30, 2010

	Debt Service Fund and Total Government Fund	Adjustments	Statement of Activities
General and Program Revenues			
Tobacco settlement revenues	\$ 2,258,098	\$ (122,358)	\$ 2,135,740
Interest income:			
Cash & investments	90,625		90,625
Total general and program revenues	<u>2,348,723</u>	<u>(122,358)</u>	<u>2,226,365</u>
General and Program Expenses			
General and administrative expenses	54,408		54,408
Bond principal expense	1,415,000	(1,415,000)	-
Bond interest expense	897,060		897,060
Accretion expense	-	608,892	608,892
Amortization expense	-	795,846	795,846
Total general and program expenses	<u>2,366,468</u>	<u>(10,262)</u>	<u>2,356,206</u>
Excess (deficit) of revenues over expenses	(17,745)	17,745	-
Change in net assets	-	(129,841)	(129,841)
Fund Balance/Net Assets (Deficit)			
Beginning of year	<u>2,841,656</u>	<u>(9,929,581)</u>	<u>(7,087,925)</u>
End of year	<u>\$ 2,823,911</u>	<u>\$ (10,041,677)</u>	<u>\$ (7,217,766)</u>

The accompanying notes are an integral part of these financial statements.

TOBACCO SETTLEMENT FINANCING CORPORATION
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Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Net Assets/Fund Balance
For the year ended September 30, 2009

	Debt Service Fund and Total Government Fund	Adjustments	Statement of Activities
General and Program Revenues			
Tobacco settlement revenues	\$ 2,650,115	\$ (224,204)	\$ 2,425,911
Interest income:			
Cash & investments	95,317		95,317
Total general and program revenues	<u>2,745,432</u>	<u>(224,204)</u>	<u>2,521,228</u>
General and Program Expenses			
General and administrative expenses	103,631		103,631
Bond principal expense	1,680,000	(1,680,000)	-
Bond interest expense	974,668		974,668
Accretion expense	-	570,288	570,288
Amortization expense	-	886,983	886,983
Total general and program expenses	<u>2,758,299</u>	<u>(222,729)</u>	<u>2,535,570</u>
Excess (deficit) of revenues over expenses	(12,867)	12,867	-
Change in net assets	-	(14,342)	(14,342)
Fund Balance/Net Assets (Deficit)			
Beginning of year	<u>2,854,523</u>	<u>(9,928,106)</u>	<u>(7,073,583)</u>
End of year	<u>\$ 2,841,656</u>	<u>\$ (9,929,581)</u>	<u>\$ (7,087,925)</u>

The accompanying notes are an integral part of these financial statements.

TOBACCO SETTLEMENT FINANCING CORPORATION
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Statements of Fiduciary Net Assets
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	Agency Funds	
	2010	2009
Assets		
Restricted investments	\$ 2,727,092	\$ 3,643,945
Total assets	<u>\$ 2,727,092</u>	<u>\$ 3,643,945</u>
Liabilities		
Due to Government of the U.S. Virgin Islands	\$ 2,727,092	\$ 3,643,945
Total liabilities	<u>\$ 2,727,092</u>	<u>\$ 3,643,945</u>

The accompanying notes are an integral part of these financial statements.

TOBACCO SETTLEMENT FINANCING CORPORATION
(a blended component unit of the Government of the United States Virgin Islands)
Notes to Basic Financial Statements
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1. Reporting Entity

The Tobacco Settlement Financing Corporation (the "Corporation") is a special-purpose, independent, instrumentality of the United States Virgin Islands, created by Virgin Islands Act No. 6428 for the purposes of managing the Tobacco Settlement Healthcare and Capital Improvement Fund program by (i) purchasing all rights, title, and interest in certain litigation awards under the Master Settlement Agreement entered into by participating cigarette manufacturers, (ii) issuing Tobacco Settlement Asset-Backed Bonds to pay the purchase price for the rights, and (iii) providing funds for hospital and healthcare projects in the United States Virgin Islands. The Board of Directors consists of three members: the Governor, and two independent members—one appointed by the governor and one appointed by the legislature.

2. Summary of Significant Accounting Policies

General

In its accounting and financial reporting in conformity with accounting principles generally accepted in the United States of America, the Corporation follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the accepted, standard-setting body for establishing governmental accounting principles and reporting standards. In accordance with Government Accounting Standards Board Statement No. 20, the Corporation follows all Financial Accounting Standard Board (FASB) pronouncements and certain other pronouncements issued prior to November 30, 1989 that do not conflict with GASB standards. In accordance with paragraph 7 of GASB Statement No. 20, the Authority has elected to follow all non-conflicting FASB and other pronouncements issued after November 30, 1989. Basic financial statements are issued annually by the Corporation.

Government-wide and Fund Financial Statements/New Accounting Standard Adopted

The government-wide financial statements are prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements (i.e. the statement of net assets and the statement of activities) do not provide information by fund or account group.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with the Corporation's program. Program revenues include 1) charges to customers who purchase, use, or benefit from the services provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Unrestricted interest income and Tobacco Settlement Rights not properly included among program revenues are reported as general revenues.

In addition to the government-wide financial statements, the Corporation has prepared financial statements for the Corporation's only governmental fund. Governmental fund financial statements continue to use the modified accrual basis of accounting and the current financial resources measurement focus. Due to the single-purpose nature of the activities of the Corporation, the government-wide and fund financial statements have been presented together with an adjustments column reconciling the differences. In addition, the financial statements of the Corporation's Fiduciary (agency) fund are separately presented.

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Effective for the year ended September 30, 2008, with restatements of prior fiscal years, the Corporation implemented GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement addresses common transactions in which a government exchanges an interest in its expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments and provides guidance as to whether the transaction should be regarded as a sale or as a collateralized borrowing. The statement establishes criteria that a transferor government will use to make this determination generally based on the extent to which the government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with them. In connection with the implementation of this Statement, the Corporation recognized a deferred charge for the purchase of tobacco settlement rights from the Government of the Virgin Islands of \$18.4 million. The charge will be amortized over thirty (30) years. The deferred charge at September 30, 2010 and September 30, 2009, amounted to \$13.7 million and \$14.3 million. Amortization expense incurred in connection with this deferred charge amounted to \$671 thousand for the year ended September 30, 2010, and \$762 thousand for the year ended September 30, 2009.

The adoption of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, in the opinion of management, did not have a material effect on the Corporation's financial statements.

Effective for periods beginning after June 15, 2010, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. The impact of the adoption of this statement has not been determined by management.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are considered measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 90 days after the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred.

Fiduciary financial statements are reported on a full accrual basis and only present a statement of assets and liabilities. The Corporation has one Agency fund, the Tobacco Settlement Healthcare and Capital Improvement Fund, for capital improvement funds held for the Government of the U.S. Virgin Islands and for which assets are reflected as restricted in the Statement of Fiduciary Assets. The fund is used by the Government of the United States Virgin Islands to provide funds for hospital and healthcare projects for the residents of the United States Virgin Islands.

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The future collection of Tobacco Settlement Revenue (TSRs) is dependent on many factors, including future cigarette consumption and the domestic shipment of cigarettes (sales). As such, the future collection of TSR due to future sales is not reasonably estimable and is not recorded as an asset in either the government-wide financial statements or the governmental fund financial statements as the funds are not yet available and such sale has not occurred.

The Corporation reports one governmental fund—the Debt Service Fund. As a blended component unit of the U.S. Virgin Islands Government, the government-wide financial statements are combined into the basic financial statements of the U.S. Virgin Islands Government. When both restricted and unrestricted resources are available for use, it is the Corporation's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents

Cash includes cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date acquired by the Corporation.

Investments

The Corporation reports investments at fair value in the Statement of Net Assets and changes in the fair value in the Statement of Activities. All investment income, including changes in the fair value of investments, is reported as revenue in the statement of activities and the statement of revenues, expenditures, and changes in fund balance.

Taxes

The Corporation is exempt from the payment of all U.S. Virgin Islands taxes on all its assets and income.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 expenses during the reporting period. Actual results could differ from those estimates.

3. Restricted Investments

The Corporation maintains restricted investments for the purpose of Debt Service. The Corporation also manages the Tobacco Settlement Health Care & Capital Improvement Fund for the Government of the Virgin Islands in an agency capacity.

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Restricted investments at September 30, 2010 and 2009 were as follows:

Debt Service Fund:	2010			2009		
	Par value	Fair value	Maturity	Par value	Fair value	Maturity
Investment Type						
Money Market Fund	\$ 615,095	\$ 615,095		\$ 615,456	\$ 615,456	
Federal National Mortgage Assoc.	1,782,000	1,781,821	11/10/10	1,782,000	1,781,821	11/09/09
Repurchase Agreement	431,503	431,503	5/15/31	481,088	481,088	5/15/31
Debt service reserve	<u>\$ 2,828,598</u>	<u>\$ 2,828,419</u>		<u>\$ 2,878,544</u>	<u>\$ 2,878,365</u>	

Tobacco Settlement Health Care and Capital Improvement Fund (Agency Fund):

	2010	2009
	Fair Value	Fair Value
Money Market Fund	<u>\$ 2,727,092</u>	<u>\$ 3,643,945</u>
Agency Fund	<u>\$ 2,727,092</u>	<u>\$ 3,643,945</u>

Activity in the agency fund for 2010 and 2009 consisted of the following:

	2010	2009
Investments: Beginning of period	\$ 3,643,945	\$ 6,393,863
Disbursements for capital projects	(917,037)	(2,779,188)
Earnings	184	29,270
Investments: End of period	<u>\$ 2,727,092</u>	<u>\$ 3,643,945</u>

Interest Rate Risk. Interest rate risk is the risk that changes in an interest rate will adversely affect the fair value of an investment. The Corporation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair market value losses arising from increasing interest rates.

Credit Risk. Authorizing legislation of the Corporation does not limit investments by credit rating categories. The Corporation does not have an investment policy that limits its investment choices. At September 30, 2010, the Corporation's investment in money market funds was rated AAAM and A-1+ by Standard & Poor's and AAA by Moody's Investors Services; and the Corporation's investment in a Federal National Mortgage Association note was rated A-1+ by Standard & Poor's and P-1 by Moody's Investors Service. The security underlining the repurchase agreement consisted of a 1.375 US Treasury note maturing on March 15, 2012. It was rated AAA by Standard & Poor's and Fitch.

Concentration of Credit Risk. The Corporation places no limit on the amount that may be invested in one issuer.

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Governmental Fund: At September 30, 2010, more than 5% of the Corporation's Governmental Fund investments were invested in: Invesco Treasury Cash Management (21.7%), a PSA Master Repurchase Agreement with Bayerische Bank (15.3%), and Federal National Mortgage Association Discount Note (63.0%).

Agency Fund: At September 30, 2010, agency fund investments were invested in Invesco Treasury Cash Management (51.7%) and Goldman Financial Square Money Market Fund (48.3%).

Custodial Credit Risk. The Corporation does not have a custodial credit risk policy. This is the risk that the Government will not be able to recover the value of its investments that are in the possession of an outside party. At September 30, 2010 and 2009, all investments of the Corporation were held in the name of The Bank of New York Trust Company, N.A. as Trustee for the Corporation. The security underlining the repurchase agreement to resell, which consists of a 1.375 US Treasury note is held by the Custodian in its own name for the benefit of the trustee. This note collateral has a maturity date of March 15, 2012. This investment is rolled over at maturity with similar investments to the extent funds remain in the debt service fund after payment of amount due. The long-term repurchase agreement bears a fixed interest rate of 4.25%.

4. Deferred Charge on the Purchase of Tobacco Settlement Rights

On November 1, 2001, the Government of the Virgin Islands entered into a Purchase and Sale Agreement with the TSFC. Under the terms of the Agreement, the Government sold 100% of its right to receive future revenues in connection with the Master Settlement Agreement between tobacco companies and participating states and territories. The term of the Agreement was for thirty (30) years ending in 2031. The value attached to the future revenue stream was \$18,453,870. The TSFC issued the 2001 Series Bonds to purchase the rights.

Under GASBS 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, the TSFC recognized the purchase price as a deferred charge that is amortized over the life of the sale agreement. Following is a summary of the amounts reported in fiscal year 2010, 2009 and 2008:

	2010	2009	2008
Deferred charge on purchase of tobacco settlement rights (TSR)	\$ 18,453,870	\$ 18,453,870	\$ 18,453,870
Amortization	<u>(4,796,469)</u>	<u>(4,125,671)</u>	<u>(3,363,734)</u>
Net deferred charge on purchase of tobacco settlement rights	<u>\$ 13,657,401</u>	<u>\$ 14,328,199</u>	<u>\$ 15,090,136</u>

Amortization expense of the deferred charge amounted to \$670,798 for the year ended September 30, 2010, and \$761,937 and \$798,800 for the years ended September 30, 2009 and 2008, respectively.

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5. Bonds Payable

Series	September 30, 2010			
	Date of Issue	Original Issuance	Interest Rate	Ultimate Maturity Value
Series 2001, Capital Appreciation	November 20, 2001	\$ 6,234,862	4.62%	\$ 8,210,000
Series 2001, Term Bond	November 20, 2001	7,430,000	4.95%	7,430,000
Series 2001, Term Bond	November 20, 2001	8,045,000	5.13%	8,045,000
2006 Series A	March 15, 2006	4,764,710	6.00%	28,550,000
2006 Series B	March 15, 2006	512,471	7.00%	3,295,000
2006 Series C	March 15, 2006	867,690	7.00%	6,200,000
2006 Series D	March 15, 2006	1,145,138	8.00%	10,100,000
Subtotal		28,999,871		71,830,000
Unamortized accretion interest on capital appreciation bonds				(38,416,702)
Bond principal payments				(3,040,000)
Turbo redemptions				(3,800,000)
Total bonds payable outstanding as of September 30, 2010				<u>\$ 26,573,298</u>

Series	September 30, 2009			
	Date of Issue	Original Issuance	Interest Rate	Ultimate Maturity Value
Series 2001, Capital Appreciation	November 20, 2001	\$ 6,234,862	4.62%	\$ 8,210,000
Series 2001, Term Bond	November 20, 2001	7,430,000	4.95%	7,430,000
Series 2001, Term Bond	November 20, 2001	8,045,000	5.13%	8,045,000
2006 Series A	March 15, 2006	4,764,710	6.00%	28,550,000
2006 Series B	March 15, 2006	512,471	7.00%	3,295,000
2006 Series C	March 15, 2006	867,690	7.00%	6,200,000
2006 Series D	March 15, 2006	1,145,138	8.00%	10,100,000
Subtotal		28,999,871		71,830,000
Unamortized accretion interest on capital appreciation bonds				(39,025,594)
Bond principal payments				(1,940,000)
Turbo redemptions				(3,485,000)
Total bonds payable outstanding as of September 30, 2009				<u>\$ 27,379,406</u>

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On March 15, 2006, the Corporation issued the 2006 Tobacco Settlement Financing Corporation Asset-Backed Bonds, Subordinated Series 2006 (Turbo and Capital Appreciation Bonds) amounting to \$48,145,000, with an issue value of \$7,290,009 net of accretion of \$40,854,991. The bonds are secured and payable from collections including all Tobacco Settlement Revenues to be received by the corporation, reserves, amounts held in other accounts established by the indenture and the corporation's rights under the purchase agreement. The proceeds have been used for the purpose of (i) financing several capital, hospital and health development projects for the benefit of the Virgin Islands and its residents, (ii) pay certain costs of issuance relating to the Series 2006 Bonds, and (iii) fund operating costs.

On November 20, 2001, the Corporation issued the 2001 Tobacco Settlement Financing Corporation Asset-Backed Bonds (Term and Capital Appreciation Bonds) amounting to \$23,685,000, with an issue value of \$21,709,862 net of accretion of \$1,975,138. The bonds are secured and payable from collections including all Tobacco Settlement Revenues to be received by the Corporation, reserves, amounts held in other accounts established by the indenture and the Corporation's rights under the purchase agreement. The proceeds have been used for the purpose of (i) purchasing all rights, title, and interest in certain litigation awards under the MSA entered into by participating cigarette manufacturers, (ii) issuing Tobacco Settlement Asset-Backed Bonds to pay the purchase price for the rights, and (iii) providing funds for hospital and healthcare projects in the United States Virgin Islands.

Bonds payable at September 30, 2010 amounted to \$26,573,298. Bonds payable at September 30, 2009 amounted to \$27,379,406.

Interest on the Series 2001 Bonds is payable semi-annually on each May and November 15, beginning with May 2002 for the Term Bonds. The Corporation is responsible for all principal and interest payments on the bonds. The 2001 convertible Capital Appreciation Bonds will accrete interest prior to November 15, 2007 and will accrue interest subsequent to that date. Interest will compound on May and November 15.

Interest on the Series 2006 Bonds is not paid currently but accretes from the date of delivery, compounded every May 15 and November 15, commencing May 15, 2006 and is paid at maturity or upon prior redemption, provided however that the 2001 Series Bonds have been paid in full.

Interest paid during the years ended September 30, 2010 and 2009 was \$897 thousand and \$975 thousand, respectively.

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Future maturity dates and debt service requirements for the 2001 Term Bonds and 2006 Capital Appreciation Bonds are as follows:

Future Debt Service Requirements

	Principal	Interest	Total
2011	\$ 1,165,000	\$ 831,723	\$ 1,996,723
2012	1,265,000	778,132	2,043,132
2013	1,335,000	718,045	2,053,045
2014	1,405,000	653,297	2,058,297
2015	-	583,750	583,750
2016-2020	-	2,918,750	2,918,750
2021-2025	3,630,000	2,192,750	5,822,750
2025-2030	-	2,011,250	2,011,250
2031-2035	56,190,000	402,250	56,592,250
Less: Future accretion	(38,416,702)	-	(38,416,702)
	<u>\$ 26,573,298</u>	<u>\$ 11,089,947</u>	<u>\$ 37,663,245</u>

Change in Outstanding Debt

	<u>Total Series</u>	<u>Series 2001</u>	<u>Series 2006</u>
Balance at September 30, 2009	\$ 27,379,406	\$ 18,260,000	\$ 9,119,406
Principal payments	(1,415,000)	(1,415,000)	-
Accretion	<u>608,892</u>	<u>-</u>	<u>608,892</u>
Balance at September 30, 2010	<u>\$ 26,573,298</u>	<u>\$ 16,845,000</u>	<u>\$ 9,728,298</u>

Other Information

The Series 2006 Bonds are subordinated in right of payment and lien priority to the Senior Bonds and so long as any Senior Bond remains outstanding, no payment on the Series 2006 Bonds may be made.

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The Indenture Trustee, the Bondholders, and the Beneficial Owners cannot exercise any rights or remedies with respect to the Series 2006 Bonds, and no default or event default can exist or be declared. The Series 2006 Bonds do not pay any current interest. All interest on this series accretes until both the principal and accreted interest are paid.

The Series 2001 Tobacco Bonds are not subject to optional redemption prior to May 15, 2011. The Series 2001 Tobacco Bonds maturing after May 15, 2012, are redeemable at the option of the Authority, in whole or in part, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the date of redemption.

The Corporation has covenanted to apply 100% of any surplus collections under the MSA to the special mandatory par redemption of the Term Bonds in order of maturity.

"Turbo Redemptions" represent the requirement contained in the Indenture to apply 100% of all collections that are in excess of the requirements in the Indenture for the funding of the operating expenses; the deposits to the "Debt Service Account" for the funding of interest, sinking fund installments, and Term Bond maturities; maintenance of the Liquidity Reserve Account and the "Operating Contingency Account" (such excess, surplus collections); to the redemption of Series 2001 Term Bonds on each distribution date (each a Turbo Redemption Date) in ascending order of maturity. Such surplus collections will be deposited in an account established and maintained by the trustee under the Indenture (the Turbo Redemption Account). Turbo Redemptions will be credited against sinking fund installments for any particular Series 2001 Term Bonds in ascending order of sinking fund installment dates. Turbo Redemptions are not scheduled amortization payments and are to be made only from surplus collections, if any, and from amounts on deposit in the "Partial Lump-Sum Payment Account" with confirmation from each rating agency that no rating then in effect, with respect to the Series 2001 Term Bonds, from such rating agency will be withdrawn, reduced, or suspended. Turbo tax redemptions exercised on Term Bonds were \$315 thousand in May 2010, \$645 thousand in May 2009, \$5 thousand in November 2008, \$495 thousand in May 2008, \$20 thousand in November 2007, \$295 thousand in May 2007, \$5 thousand in November 2006, \$265 thousand in May 2006, and \$10 thousand in November 2005 (in fiscal years 2010 through 2006).

6. Concentration of Credit Risk

The payment of the Series 2001 Term Bonds and 2006 Capital Appreciation Bonds is dependent on the receipt of TSRs. The amount of TSRs collected is dependent on many factors, including cigarette consumption and the continued financial capability of the OPMs. Such bonds are secured by and payable solely from TSRs and investment earnings pledged under the Bond Indenture and amounts established and held in accordance with the Bond Indenture.

The Series 2001 Term Bonds and 2006 Capital Appreciation Bonds are payable only from the assets of the Corporation. In the event that the assets of the Corporation have been exhausted, no amounts will thereafter be paid on the Series 2001 Term Bonds. The Series 2001 Term Bonds are not legal or moral obligations of the State, and no recourse may be had thereto for payment of amounts owing on the Series 2001 Term Bonds. The Corporation's only source of funds for payments on the Series 2001 Term Bonds is the TSRs. The Corporation has no taxing power.

Because of the many adjustments included in the MSA, it is not possible to know the exact future collections under the MSA.

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7. Contingencies

The assets of the Corporation are not available to pay any creditor of the Government of the Virgin Islands. The Bonds issued by the Corporation do not constitute a claim against the full faith, credit and taxing power of the General Funds of the Government.

The ability of the Corporation to meet debt service payments of bonds is contingent upon the receipt of Tobacco Settlement awards. There have been several multi-million, and a few multi-billion, dollar verdicts against the tobacco companies in the recent years. Consumer groups have introduced litigation against the tobacco manufacturers asserting that the MSA violates certain provisions of the United States Constitution, federal antitrust laws, and others. Increases in sales and excise taxes by states, cities and other local governmental units may reduce cigarette consumption. In addition, some of the cigarette companies have withheld a portion of their April 15, 2006, 2007 and 2008 payments, asserting that they lost market share to the Non-Participating Manufacturers (NPMs) in prior years (2003, 2004 and 2005, respectively). These withholdings reduced the MSA payments received by the Settling States by approximately 12% in 2006, 10% in 2007 and 7% in 2008. Estimated TSR withholdings by the Corporation amounted to approximately \$140,000 for 2006, \$120,000 for 2007 and \$100,000 for 2008. Certain states have subsequently begun legal proceedings to have the withheld funds released with interest.

8. Related Party Transactions

The Corporation reimbursed administrative fees to another blended component unit of the USVI Government amounting to \$75,000 in fiscal years 2010 and 2009. The Corporation disbursed capital project funds to Government hospitals and health organizations amounting to \$917,037 in fiscal year 2010 and \$2,779,188 in fiscal year 2009.

9. Subsequent Events

The Corporation has performed a review of subsequent events from October 1, 2010 through June 27, 2011, the date the financial statements were available to be issued, and concluded there were no events or transactions that occurred during this period that required recognition or disclosure in the financial statements.