

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE INSPECTOR GENERAL**

**DISTRICT OF COLUMBIA  
TOBACCO SETTLEMENT  
FINANCING CORPORATION**

**Financial Statements, Management's  
Discussion and Analysis, and  
Independent Auditors' Report  
Fiscal Year Ended September 30, 2006**



**CHARLES J. WILLOUGHBY  
INSPECTOR GENERAL**

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Inspector General**

Inspector General



May 17, 2007

The Honorable Adrian M. Fenty  
Mayor of the District of Columbia  
Mayor's Correspondence Unit, Suite 221  
1350 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004

The Honorable Vincent C. Gray  
Chairman  
Council of the District of Columbia  
John A. Wilson Building, Suite 504  
1350 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004

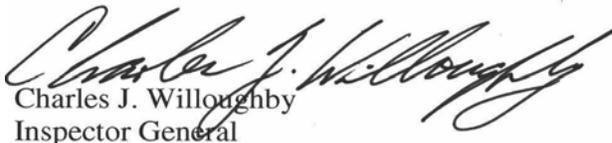
Dear Mayor Fenty and Chairman Gray:

As part of our contract for the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2006, Thompson, Cobb, Bazilio & Associates, PC (TCBA) submitted the enclosed final report on the Tobacco Settlement Financing Corporation (TSFC).

TCBA opined that the financial statements present fairly, in all material respects, the financial position of TSFC for the year ended September 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

If you have questions or need additional information, please contact William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



Charles J. Willoughby  
Inspector General

Enclosure

CJW/ws

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Mayor Fenty and Chairman Gray  
FY 2006 TSFC's Financial Statements, Management's  
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District of Columbia  
Tobacco Settlement Financing Corporation  
Financial Statements and  
Independent Auditor's Report

*September 30, 2006*

**TCBA**

**THOMPSON, COBB, BAZILIO & ASSOCIATES, PC**

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District of Columbia  
Tobacco Settlement Financing Corporation  
Financial Statements and  
Independent Auditor's Report

*September 30, 2006*

**DISTRICT OF COLUMBIA  
TOBACCO SETTLEMENT FINANCING CORPORATION  
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
SEPTEMBER 30, 2006**

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**THOMPSON, COBB, BAZILIO & ASSOCIATES, PC**  
*Certified Public Accountants and Management, Systems, and Financial Consultants*

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**INDEPENDENT AUDITOR'S REPORT**

To the Mayor and Members of  
The Council of the Government of the District of Columbia, and  
The Board of Directors of the District of Columbia Tobacco Settlement Financing Corporation

We have audited the accompanying balance sheet of the District of Columbia Tobacco Settlement Financing Corporation (TSFC), a blended component unit of the District of Columbia, as of September 30, 2006, and the related statement of revenues, expenditures, and change in fund balance for the year then ended. These financial statements are the responsibility of TSFC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements present only TSFC and do not purport to, and do not, present fairly the financial position of the Government of the District of Columbia as of September 30, 2006, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TSFC as of September 30, 2006, and the changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis 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.

Washington, D.C.  
February 1, 2007 *Thompson, Cobb, Bazilio & Associates, PC*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

---

We are pleased to provide this overview and analysis of the financial activities of the District of Columbia Tobacco Settlement Financing Corporation (TSFC) for the fiscal year ended September 30, 2006. Please read it in conjunction with the financial statements on pages 5 and 6.

This overview summarizes TSFC's financial position as of September 30, 2006, which incorporates the results of its operations over the course of the fiscal year, as reflected in the Statement of Revenues, Expenditures, and Change in Fund Balance.

### **Balance Sheet**

The Balance Sheet reports the financial position of TSFC as of September 30, 2006. In accordance with the modified accrual basis of accounting for governmental funds, the Tobacco Settlement Revenues (TSRs) receivable in the future and the Tobacco Settlement Asset-Backed Bonds (Tobacco Bonds) are recorded only to the extent that they are receivable or payable in the current period.

### *Assets*

As of September 30, 2006, TSFC's assets totaled \$95,416,972, consisting of \$68,159,635 in cash/cash equivalents and investments, \$27,150,000 in accrued tobacco settlement revenue receivable and \$107,337 in accrued interest. Restricted cash and cash equivalents consist of \$26,897,971 in the following two accounts: the debt service account, from which debt service payments on the Tobacco Bonds are made, and the Trapping Account, in which TSRs in excess of amounts needed for annual debt service payments are to be held (see Note 6 to the financial statements). The cash in the Collection Account, into which TSRs are initially deposited before allocation to another account, along with the cash in the Operating Account, which is used for ongoing operating expenses of the Corporation, is considered unrestricted. As of September 30, 2006, unrestricted cash totaled \$278,688. Restricted investments of \$40,982,976 in the debt service reserve fund represent funds required to be held to cover any shortfalls in the availability of funds to pay debt service on the Tobacco Bonds in the future.

### *Liabilities*

TSFC liabilities as of September 30, 2006 consisted of accrued operating expenses of \$68,000.

### *Fund Balance*

TSFC's fund balance as of September 30, 2006 was \$95,348,972. Of this amount, the vast majority, \$95,138,285, was in TSFC accounts held by the Trustee and represents balances reserved for debt service and related purposes of the Tobacco Bonds. A relatively small amount of the year-end fund balance, \$210,688, was considered unreserved fund balance, as it represented funds in the TSFC operating account at year-end that were not earmarked for payment of the year-end accrued expenses and were not mandated to be reserved for a specific purpose (but are to be used for FY 2005 TSFC operating expenses).

## **Statement of Revenues, Expenditures, and Change in Fund Balance**

The Statement of Revenues, Expenditures, and Change in Fund Balance reports the revenues and expenditures of TSFC during the fiscal year and the change in TSFC's fund balance.

### ***Revenues***

Revenues consisted primarily of Tobacco Settlement Revenues (TSRs), which are payments to the TSFC resulting from a purchase and sale agreement between the District and TSFC, through which the TSFC purchased from the District the right to receive such payments, and the Master Settlement Agreement (MSA) entered into by certain cigarette manufacturers, the District, 46 states and five other U.S. jurisdictions in November 1998 in settlement of certain smoking-related litigation. The amount of TSRs received each year pursuant to the MSA is calculated based on a formula in which a key variable is cigarette consumption in the United States of America. TSRs received by TSFC in FY 2006 totaled \$38,295,173, taking into account the calculation of accrued TSRs in accordance with GASB Technical Bulletin 2004-1. The other sources of revenue were investment earnings totaling \$3,180,472 on the various funds held by TSFC during the course of the year, including earnings on the approximately \$40 million required to be maintained in a debt service reserve fund; and \$248,264,046 in proceeds from issuance of Tobacco Settlement Asset-backed Bonds, Series 2006 (See Note 7 to the financial statements). These revenue sources resulted in total revenues of \$289,739,691.

### ***Revenues Compared to Prior Year***

Total revenues in FY 2005 increased by \$253,073,978 as compared to fiscal year 2005. This was primarily due to the TSFC issuance of \$248,264,046 Tobacco Settlement Asset-backed Bonds, Series 2006 (see Note 7 to the financial statements). In addition, there was an increase of \$4,300,964 in tobacco settlement revenue, which primarily resulted from an increase in accrued revenue associated with the fact that fiscal year 2005 accrued revenues were abnormally low due to a dispute over whether a \$1.06 billion "NPM Adjustment" applies to sales year 2004. The ultimate outcome of this, and its effect, if any, on the tobacco settlement revenues to be received by the District is not yet known. (In accordance with GASB requirements, the majority of the TSRs expected to be received in a given next subsequent fiscal year are recorded as accrued revenue in the current fiscal year, since such subsequent year's TSR receipts are based on activity in the current year.)

### ***Expenditures***

Expenditures consisted primarily of debt service, i.e., principal and interest payments on TSFC's outstanding bonds. TSFC issued \$521,105,000 and \$248,264,046 of Tobacco Settlement Asset-Backed Bonds (the "Tobacco Bonds") in March 2001 and August 2006, respectively. The purpose of the issuance of 2001 Bonds was to obtain funds to defease certain debt obligations of the District, in exchange for TSFC obtaining the right to receive the annual TSRs (allowing the District to receive the benefit of future TSRs upfront). The proceeds from 2006 Bonds were immediately transferred to the District and are slated to be used primarily for health-care related capital projects of the District. Total debt service expenditures in FY 2006 were \$36,943,493, comprised of \$32,223,493 in interest expense and \$4,720,000 in principal repayment of the Tobacco Bonds. General and administrative expenses totaled \$158,295.

The general and administrative expenses included the payment of legal fees, trustee fees, rating agency fees, liability insurance premium, and other administrative expenses. The total TSFC FY 2006 expenditures were within budget, as the debt service payments were made as budgeted, and the general and administrative expenses were slightly below the budgeted amount.

### ***Expenditures Compared to Prior Year***

Total expenditures in FY 2006 increased by \$248,703,866 as compared to fiscal year 2005. This was primarily due to the TSFC's transfer of the proceeds of the Tobacco Settlement Asset-backed Bonds, Series 2006, in the amount of \$248,264,046, to the District, which was accounted for as a TSFC expenditure in fiscal year 2006 (see Note 7 of the financial statements).

### ***Excess of Expenditures Over Revenues***

Due to the fact that the debt service payments on the Tobacco Bonds that are covered by a given year's TSRs cross fiscal years, and due to the variability in the amount of TSRs and investment earnings from year to year, there are likely to be relatively small operating surpluses or deficits from year to year, neither of which would indicate a fiscal problem or irregularity.

For fiscal year 2006, TSFC's operating results produced an excess of revenues over expenditures of \$4,373,857.

### **Conclusion**

This report is intended to provide TSFC stakeholders with a general overview of the financial activities and position of TSFC. TSFC is functioning as it was designed to function, fulfilling its mission of being a vehicle for leveraging the TSRs through the issuance of the Tobacco Bonds; providing the District with upfront compensation representing the value of TSRs that it was to receive in future years; affording the District the ability to shift (to Tobacco bondholders) most of the risk associated with the prospect of future non-payment of TSRs by tobacco manufacturers; servicing the Tobacco Bonds in accordance with the structure and requirements associated with the transaction; and providing the District with ongoing revenue from any annual residual TSRs from the tobacco manufacturers (see Note 6 to the financial statements). Any questions or requests regarding this report should be directed to: District of Columbia Tobacco Settlement Financing Corporation, 1350 Pennsylvania Ave., N.W., Suite 200, Washington, DC 20004, or 202-727-6055.

**DISTRICT OF COLUMBIA  
TOBACCO SETTLEMENT FINANCING CORPORATION  
BALANCE SHEET  
SEPTEMBER 30, 2006**

**ASSETS**

Cash and Equivalents	
Unrestricted	\$ 278,688
Restricted:	
Debt Service Reserve	40,982,976
Debt Service	16,992,302
Trapping Account	9,905,669
Accrued Interest Receivable	107,337
Accrued Tobacco Settlement Revenue Receivable	<u>27,150,000</u>
 Total Assets	 <u><u>\$ 95,416,972</u></u>

**LIABILITIES AND FUND BALANCE**

Liabilities:	
Accrued Expenses	\$ 68,000
Total Liabilites	<u>68,000</u>
 Fund Balance:	
Unreserved	210,688
Reserved	95,138,284
Total Fund Balance	<u>95,348,972</u>
 Total Liabilities and Fund Balance	 <u><u>\$ 95,416,972</u></u>

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

**DISTRICT OF COLUMBIA  
TOBACCO SETTLEMENT FINANCING CORPORATION  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**Revenues**

Tobacco Settlement Revenue	\$ 38,295,173
Investment Earnings	3,180,472
Receipt of 2006 Tobacco Settlement Bond Proceeds	<u>248,264,046</u>
 Total Revenues	 <u>289,739,691</u>

**Expenditures**

Interest Expense	32,223,493
Bond Principal Payment	4,720,000
Payment to the District of Proceeds of 2006 Tobacco Settlement Bonds	248,264,046
General and Administrative Expenses	<u>158,295</u>
 Total Expenditures	 <u>285,365,834</u>

Excess of Revenues Over Expenditures	<u>4,373,857</u>
 Fund Balance, beginning	 <u>90,975,115</u>
 Fund Balance, ending	 <u><u>\$ 95,348,972</u></u>

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

**DISTRICT OF COLUMBIA**  
**TOBACCO SETTLEMENT FINANCING CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**NOTE 1: ORGANIZATION**

The District of Columbia Tobacco Settlement Financing Corporation (TSFC or the Corporation) is a special purpose, independent instrumentality of the District of Columbia (the District) created by the Tobacco Settlement Financing Act of 2000 (the Act). TSFC is governed by a five-person board of directors consisting of the Mayor of the District or his designee, the Chairman of the Council of the District or her designee, the Chief Financial Officer of the District and two private citizens, one of whom is appointed by the Mayor and the other is appointed by the Council. Although legally separate from the District, TSFC is a blended component unit of the District and, accordingly, is included in the District of Columbia's financial statements.

Pursuant to the Act, and a purchase and sale agreement, dated as of February 1, 2001, between the District and TSFC, the District sold to TSFC on March 13, 2001, substantially all of its right, title and interest in certain amounts paid or payable to the District under the Master Settlement Agreement (the MSA) entered into by participating cigarette manufacturers (the PCMs), the District, 46 states and five other U.S. jurisdictions in November 1998 in the settlement of certain smoking-related litigation. The sale included certain initial and annual payments already received by the District and the District's right to receive future initial, annual and strategic contribution fund payments (the tobacco settlement revenues or TSRs) to be made by the PCMs under the MSA.

The purchase price of the District's right, title and interest in the TSRs has been financed by the issuance by TSFC of the Tobacco Settlement Asset-Backed Bonds (the Tobacco Bonds).

TSFC issued the Tobacco Bonds in the amount of \$521,105,000 on March 13, 2001. In accordance with the aforesaid purchase and sale agreement, TSFC deposited the net proceeds of the Tobacco Bonds into irrevocable escrow accounts held by a trustee in TSFC's name to defease certain obligations of the District.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation* – TSFC's financial transactions are accounted for as a special revenue fund in the District's financial statements. The accompanying financial statements present only TSFC and do not purport to, and do not, present fairly the financial position of the Government of the District of Columbia as of September 30, 2006 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. The District provides certain legal, central accounting, and other services to TSFC.

**DISTRICT OF COLUMBIA  
TOBACCO SETTLEMENT FINANCING CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Basis of Accounting* - The accompanying financial statements are prepared on the modified accrual basis of accounting. Under this method, TSFC recognizes revenue when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal year. Expenditures are recognized when the related liability is incurred or, in the case of debt service, when payments are due.

*Use of Estimates* - The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires TSFC's management to make estimates and assumptions in determining the reported amounts and disclosures. Actual results could differ from those estimates.

*Cash Equivalents* - Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and mature in such a short period of time that their values are effectively immune from changes in interest rates. Cash equivalents include short-term investments with an original maturity of three months or less.

**NOTE 3: CASH/CASH EQUIVALENTS AND INVESTMENTS**

TSFC's cash/cash equivalents and investments consist of bank deposits and short-term, fixed-income investment instruments consistent with the permitted investments of the TSFC pursuant to the bond indenture held by TSFC's agent in TSFC's name. As of September 30, 2006, cash and cash equivalents consisted of investments in repurchase agreements totaling \$278,688 and investments in money market mutual funds totaling \$26,897,971. \$278,688 was available to fund operating costs of TSFC; the remainder is restricted for distribution in accordance with the Tobacco Bonds indenture. As of September 30, 2006, TSFC had investments in commercial paper totaling \$40,982,976 with maturities of less than 1 year.

**Interest Rate Risk**

TSFC's investments are all short-term (less than one year) based on the need to have the funds available for the purposes of the Corporation. Repurchase agreements, money market mutual funds, and corporate commercial paper are the investment instruments in which TSFC's funds are invested. Because these investments are either able to be liquidated at cost value plus accrued interest or are invested to the maturity of the security, there is no risk of loss of any of the principal of TSFC's investments due to interest rate fluctuations.

**DISTRICT OF COLUMBIA  
TOBACCO SETTLEMENT FINANCING CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**NOTE 3: CASH/CASH EQUIVALENTS AND INVESTMENTS (Continued)**

**Credit Risk**

TSFC's repurchase agreements and money market funds are backed by U.S. Government and/or U.S. Government agency securities, and are thus virtually free of credit risk. Its commercial paper investments are required to be in securities rated in the highest commercial paper rating category by Moody's and Standard & Poor's rating agencies. There is obviously some credit risk associated with commercial paper investments, given the risk of failure of the issuer; however, this risk is minimized due the requirement that TSFC's commercial paper investments be rated in the highest category.

**Custodial Credit Risk**

All of TSFC's investments are represented by securities held in TSFC's name by a custodial bank, and in its fiduciary duty and under its contractual relationship with TSFC, the custodian is required by law to either transfer possession of the securities or liquidate the securities and transfer the liquidated value of the securities to the TSFC in the event of circumstances that call for TSFC to obtain possession of its investments. As such, TSFC's custodial credit risk is minimal.

**NOTE 4: DEBT SERVICE RESERVE ACCOUNT**

Pursuant to the Tobacco Bonds offering, TSFC was required to establish a Debt Service Reserve Account to be held by the indenture trustee. The balance of the account must be maintained, to the extent available, at the lesser of (i) the initial deposit of \$40,111,100 or (ii) the principal amount of the Senior Bonds outstanding. The balance in this account at September 30, 2006 was \$40,982,976, which included investment earnings on the required balance.

**NOTE 5: TOBACCO SETTLEMENT ASSET-BACKED BONDS, SERIES 2001**

In connection with the purchase of the District's right, title and interest in the TSRs, TSFC issued the Tobacco Bonds on March 13, 2001, in the amount of \$521,105,000, of which \$494,020,000 was outstanding at September 30, 2006. TSFC has pledged all of its tangible and intangible assets, including the TSRs, all investment earnings on amounts on deposit, and amounts on deposit on all reserve accounts established under the indenture, as collateral to secure the bonds. TSFC retains TSRs in an amount sufficient to service its debt and pay its operating expenses. In accordance with the Tobacco Settlement Trust Fund Establishment Act of 1999, as amended, any surplus TSRs are to be paid to the Tobacco Settlement Trust Fund. Outstanding bonds payable bear interest at rates ranging from 5.20% to 6.75%.

**DISTRICT OF COLUMBIA  
TOBACCO SETTLEMENT FINANCING CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**NOTE 5: TOBACCO SETTLEMENT ASSET-BACKED BONDS, SERIES 2001  
(Continued)**

Debt service requirements for planned principal and interest payments, at September 30, 2006, are as follows:

<u>Year Ending September 30</u>	<u>Maturities</u>	<u>Interest Due</u>	<u>Total Debt Service</u>
2007	\$ 5,215,000	\$ 31,928,492	\$ 37,143,492
2008	12,585,000	31,602,556	44,187,556
2009	13,245,000	30,876,892	44,121,892
2010	14,305,000	30,111,930	44,416,930
2011	15,450,000	29,277,718	44,727,718
2012 - 2016	92,830,000	130,997,380	223,827,380
2017 - 2022	161,920,000	111,382,928	273,302,928
2023 - 2026	178,470,000	34,815,824	213,285,824
	<u><u>\$ 494,020,000</u></u>	<u><u>\$ 430,993,720</u></u>	<u><u>\$ 925,013,720</u></u>

The principal payments shown above represent the amount of principal that TSFC has covenanted to pay to the extent that there are sufficient available TSRs collected. At September 30, 2006, TSFC maintained its required debt service reserve account.

**NOTE 6: RESIDUAL INTEREST**

As part of the purchase and sale agreement between the District and TSFC, the District obtained the "Residual Interest," which is the right to receive from TSFC the portion of the payments received under the Master Settlement Agreement not required in each year to pay expenses, debt service, or reserves for the Tobacco Bonds. The Residual Interest is required to be transferred to the District and deposited in the District's Tobacco Trust Fund (the "Trust Fund"). During fiscal year 2005, there was no Residual Interest transferred to the District.

The indenture pursuant to which the Tobacco Bonds were issued provides that in the event one of the four original participating tobacco manufacturers that is a party to the Master Settlement Agreement is rated below investment grade (defined as a "Trapping Event"), the Residual Interest shall be used to fund a special reserve account (the "Trapping Account"). As a result of downgrades of R.J. Reynolds Tobacco Holdings, Inc.'s senior unsecured debt to below investment grade in June and July of 2003, the Residual Interest for fiscal year

**DISTRICT OF COLUMBIA**  
**TOBACCO SETTLEMENT FINANCING CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**NOTE 6: RESIDUAL INTEREST (Continued)**

2004 and subsequent fiscal years will accordingly be retained by the Corporation until the balance retained is equal to 25% of the principal amount of the Tobacco Bonds or until at least one year after R.J. Reynolds Tobacco Holdings, Inc.'s ratings are restored to investment grade.

**NOTE 7: TOBACCO SETTLEMENT ASSET BACKED BONDS, SERIES 2006**

On August 30, 2006, the District of Columbia Tobacco Settlement Financing Corporation (the "Tobacco Corporation") issued \$248,264,046 aggregate principal amount of its Tobacco Settlement Asset-Backed Bonds, Series 2006 (the "2006 Tobacco Bonds"). Like the Tobacco Corporation's 2001 Tobacco Bonds, the 2006 Tobacco Bonds are secured by and payable solely from the Tobacco Corporation's interest in certain amounts paid or payable under the Master Settlement Agreement (MSA) between major tobacco manufacturers, most U.S. states and the District. These bonds are revenue bonds, and are neither general nor moral obligations of the District. The 2006 Tobacco Bonds are subordinate to the 2001 Tobacco Bonds, and are payable from the portion of the payments to be received under the MSA in excess of the amounts required to pay the debt service and other obligations associated with the 2001 Tobacco Bonds. This portion of the MSA payments due to the District is known as the "residual interest." Rights to such residual interest was sold by the District to the Tobacco Corporation in exchange for the proceeds of the 2006 Tobacco Bonds.

Therefore, the proceeds of the 2006 Tobacco Bonds were immediately transferred to the District by the Tobacco Corporation upon receipt, and the balance of such funds is an asset of the District and not the Tobacco Corporation. Because the Tobacco Corporation is an instrumentality of the District and is accounted for as a blended component unit, its debt is considered to be a component of the long-term debt of the District. However, since the Tobacco Bonds are revenue bonds payable solely from Tobacco Settlement Revenues and do not constitute a direct debt of the District, they are not considered tax-supported debt of the District, and therefore are not an undesirable contributor to the District's debt burden.

The District retains the rights to the residual interest in excess of the amounts needed to retire the 2006 Tobacco Bonds. The use(s) of the proceeds of the 2006 Tobacco Bonds has not been finally determined; however, it is expected that such funds will be used to fund health-care facility(ies) and other health-care-related needs of the District.