



**Tobacco Settlement Financing  
Corporation**  
**(A Blended Component Unit of the  
Government of the U.S.  
Virgin Islands)**

Management's Discussion and Analysis and  
Financial Statements (with Independent  
Auditors' Report's Thereon)  
Year Ended September 30, 2022

**Tobacco Settlement Financing Corporation**  
**(A Blended Component Unit of the**  
**Government of the U.S. Virgin Islands)**

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and Financial Statements (with Independent Auditors' Report's Thereon)  
Year Ended September 30, 2022

**Tobacco Settlement Financing Corporation**  
**(A Blended Component Unit of the Government of the U.S. Virgin Islands)**

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## **Independent Auditor's Report**

To the Board of Directors  
Tobacco Settlement Financing Corporation

### **Report on the Audit of the Financial Statements**

#### ***Opinions***

We have audited the financial statements of the governmental activities, the debt service major fund, and fiduciary activities of the Tobacco Settlement Financing Corporation (the "Corporation"), a blended component unit of the Government of U.S. Virgin Islands, as of and for the year ended September 30, 2022, 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, the debt service major fund, and fiduciary activities of the Corporation, as of September 30, 2022, 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 Auditor's 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.

#### ***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.

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.

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### ***Auditor's 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 auditor's 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.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that 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 auditing standards generally accepted in the United States of America, 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 April 30, 2024, 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.

*BDO USA, P.C.*

(formerly known as BDO USA, LLP)

April 30, 2024

## **Management's Discussion and Analysis**

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# **Tobacco Settlement Financing Corporation**

## **(A Blended Component Unit of the Government of the U.S. Virgin Islands)**

### **Management's Discussion and Analysis**

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The purpose of the following management's discussion and analysis of the financial performance and activity of the Tobacco Settlement Financing Corporation (the "Corporation") is to help readers understand the basic financial statements of the Corporation for the year ended September 30, 2022, with selected comparative information for the year ended September 30, 2021. This discussion has been prepared by management and should be read in conjunction with the basic financial statements and the notes thereto, 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 Attorney Generals 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 were 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 the 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 received \$1.2 million for the years ended September 30, 2022 and 2021, respectively, pursuant to the rights purchased from the Government of the U.S. Virgin Islands.

# **Tobacco Settlement Financing Corporation**

## **(A Blended Component Unit of the Government of the U.S. Virgin Islands)**

### **Management's Discussion and Analysis**

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As of September 30, 2022 and 2021, the Corporation also had outstanding bonds of approximately \$22.2 and \$22.0 million, 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) Fiduciary fund financial statements, and 4) Notes to 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 adjustment column reconciling the differences.

- The Statement of Net Position and Governmental Fund Balance Sheet includes all of the Corporation's assets, deferred outflows of resources, and liabilities and provides information about the nature and amounts of investments in resources (assets), deferred charges on the purchase of tobacco settlement rights (deferred outflows of resources), 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 Position column is prepared on an economic resources measurement focus 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, deferred outflows of resources, 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 position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.
- The current year's Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position report a fiduciary fund held in a custodial capacity for the benefit of the Government of the U.S. 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. Custodial funds are reported using the economic resources measurement focus on the accrual basis of accounting.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided within.

**Tobacco Settlement Financing Corporation**  
**(A Blended Component Unit of the Government of the U.S. Virgin Islands)**

**Management's Discussion and Analysis**

**Summary of Financial Results**

**Government-Wide Financial Statements**

Statement of Net Position - Table 1 summarizes the Corporation's Statement of Net Position as of September 30, 2022 and 2021.

*Table 1: Summary of Statements of Net Position*

| September 30,                                          | 2022                   | 2021                   | Change              | % Change   |
|--------------------------------------------------------|------------------------|------------------------|---------------------|------------|
| Current assets:                                        |                        |                        |                     |            |
| Restricted                                             | \$ 2,942,834           | \$ 2,893,538           | \$ 49,296           | 2%         |
| Unrestricted                                           | 885,362                | 923,441                | (38,079)            | -4%        |
| <b>Total assets</b>                                    | <b>\$ 3,828,196</b>    | <b>\$ 3,816,979</b>    | <b>\$ 11,217</b>    | <b>0%</b>  |
| Deferred outflows of resources                         | \$ 7,373,014           | \$ 7,747,790           | (374,776)           | -5%        |
| <b>Total assets and deferred outflows of resources</b> | <b>\$ 11,201,210</b>   | <b>\$ 11,564,769</b>   | <b>\$ (363,559)</b> | <b>-3%</b> |
| Current liabilities                                    | \$ 338,738             | \$ 277,724             | \$ 61,014           | 22%        |
| Long-term liabilities                                  | 22,225,631             | 22,032,992             | 192,639             | 1%         |
| <b>Total liabilities</b>                               | <b>\$ 22,564,369</b>   | <b>\$ 22,310,716</b>   | <b>\$ 253,653</b>   | <b>1%</b>  |
| Net position (deficit):                                |                        |                        |                     |            |
| Restricted                                             | \$ 2,919,546           | \$ 2,848,209           | \$ 71,337           | 3%         |
| Unrestricted                                           | (14,282,705)           | (13,594,156)           | (688,549)           | 5%         |
| <b>Total net position (deficit)</b>                    | <b>\$ (11,363,159)</b> | <b>\$ (10,745,947)</b> | <b>\$ (617,212)</b> | <b>6%</b>  |

For fiscal year 2022, the Corporation's assets amounted to \$3.8 million of which \$2.9 million represented restricted investments and \$885,000 represented accrued Tobacco Settlement Revenues ("TSRs"). Restricted investments increased by \$49,000 due to the net effect of investment income of \$99,000, TSRs of \$1.2 million, interest expense of \$118,000, trustee payments of \$13,000, and principal payments of \$1.2 million. Deferred outflows of resources representing deferred charges in connection with the purchase of TSR rights decreased by \$375,000 due to the amortization of those charges.

Total liabilities amounted to \$22 million and increased by \$254,000. The increase in total liabilities is mainly due to the net effect of principal payments of \$1.2 million, accrued accretion expense of \$1.3 million, accrued general and administrative expenses of \$83,000, amortization of bond discounts of \$12,000, and a decrease in accrued interest of \$22,000.

**Tobacco Settlement Financing Corporation**  
**(A Blended Component Unit of the Government of the U.S. Virgin Islands)**

**Management's Discussion and Analysis**

Statement of Activities - Table 2 summarizes the Corporation's Statement of Activities for the year fiscal year ended September 30, 2022 and 2021.

*Table 2: Summary of Statements of Activities*

| September 30,                              | 2022            | 2021            | Change       | % Change |
|--------------------------------------------|-----------------|-----------------|--------------|----------|
| Tobacco settlement revenue                 | \$ 1,193,176    | \$ 1,224,251    | \$ (31,075)  | -3%      |
| Investment income                          | 99,041          | 107,984         | (8,943)      | -8%      |
| Total revenues                             | \$ 1,292,217    | \$ 1,332,235    | \$ (40,018)  | -3%      |
| Interest expense                           | \$ 1,438,848    | \$ 1,410,861    | \$ (27,987)  | -2%      |
| Amortization of deferred charge            | 374,776         | 384,538         | 9,762        | 3%       |
| General and Administrative expenses        | 95,805          | 93,014          | (2,791)      | -3%      |
| Expenses                                   | \$ 1,909,429    | \$ 1,888,413    | \$ (21,016)  | -1%      |
| Change in net position (deficit)           | (617,212)       | (556,178)       | (61,034)     | 11%      |
| Net position (deficit) - beginning of year | (10,745,947)    | (10,189,769)    | (556,178)    | 5%       |
| Net position (deficit) - end of year       | \$ (11,363,159) | \$ (10,745,947) | \$ (617,212) | 6%       |

For fiscal year 2022, revenues of \$1.3 million reflect investment earnings of \$99,000 and TSRs of \$1.2 million. Revenues decreased by \$40,000 mainly due to a decrease in investment income of \$9,000 and by a decrease in TSR revenue of \$31,000.

The Corporation's expenses include interest expense including accretion and amortization of bond discount of \$1.4 million, general and administrative expenses of \$96,000, and amortization of deferred outflows of resources on the purchase of tobacco settlement rights of \$375,000. Expenses increased by \$21,000 due to an increase in interest expense of \$28,000 and an increase in general and administrative expenses of \$3,000 offset by a decrease in amortization of TSR rights of \$10,000.

**Governmental Fund Financial Statements**

Governmental Fund Balance Sheet - Table 3 summarizes the Corporation's Balance Sheet as of September 30, 2022 and 2021.

*Table 3: Summary of Governmental Fund Balance Sheet*

| September 30,     | 2022         | 2021         | Change      | % Change |
|-------------------|--------------|--------------|-------------|----------|
| Restricted assets | \$ 2,942,834 | \$ 2,893,538 | \$ 49,296   | 2%       |
| Total assets      | 2,942,834    | 2,893,538    | 49,296      |          |
| Total liabilities | 315,450      | 232,395      | 83,055      | 36%      |
| Fund balance      | \$ 2,627,384 | \$ 2,661,143 | \$ (33,759) | -1%      |

For fiscal year, the Corporation's restricted assets, as reported on the Governmental Fund Balance Sheet, amounted to \$2.9 million. The restricted assets consist of restricted investments. The increase in restricted assets of \$49,000 is mainly due to the net effect of \$1.2 million collected in TSR's in April 2022, investment income of \$99,000, bond principal payments of \$1.1 million, interest expense of \$118,000, and trustee fees of \$13,000. Total liabilities consist of management fees of \$315,000 due to a related party.

**Tobacco Settlement Financing Corporation**  
**(A Blended Component Unit of the Government of the U.S. Virgin Islands)**

**Management's Discussion and Analysis**

The Summary of Governmental Fund Revenues, Expenditures and Changes in Fund Balance - Table 4 summarizes the Corporation's Governmental Fund Revenues, Expenditures, and Changes in Fund Balance for the fiscal years ended September 30, 2022 and 2021.

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

| September 30,                                     | 2022         | 2021         | Change      | % Change |
|---------------------------------------------------|--------------|--------------|-------------|----------|
| Revenues                                          | \$ 1,330,296 | \$ 1,311,223 | \$ 19,073   | 1%       |
| Expenditures                                      | 1,364,055    | 1,371,514    | 7,459       | 1%       |
| Excess (deficiency) of revenues over expenditures | \$ (33,759)  | \$ (60,291)  | \$ 26,532   |          |
| Fund balance - beginning of year                  | \$ 2,661,143 | \$ 2,721,434 | \$ (60,291) | -2%      |
| Fund balance - end of year                        | \$ 2,627,384 | \$ 2,661,143 | \$ (33,759) | -1%      |

Revenues of \$1.3 million for the year ended September 30, 2022 reflect the receipt of \$1.2 million in TSRs and investment earnings of \$99,000. TSR revenue increased by \$28,000 due to fluctuations in tobacco industry revenues subject to the MSA. The Corporation's expenditures include bond principal expense of \$1.1 million, interest paid of \$118,000, and \$96,000 of management and administrative expenditures.

#### **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, 2031. The 2006 Series Bonds issued by the Corporation are thirty-year obligations maturing on May 15, 2035.

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.

**Tobacco Settlement Financing Corporation**  
**(A Blended Component Unit of the Government of the U.S. Virgin Islands)**

**Management's Discussion and Analysis**

TSRs and earnings on the trust funds during the fiscal years ending September 30, 2006 through 2022, resulted in Turbo Redemptions of:

| Redemption Date | Turbo<br>Redemptions<br>Amount |
|-----------------|--------------------------------|
| November 2005   | \$ 10,000                      |
| May 2006        | 265,000                        |
| November 2006   | 5,000                          |
| May 2007        | 295,000                        |
| November 2007   | 20,000                         |
| May 2008        | 495,000                        |
| November 2008   | 5,000                          |
| May 2009        | 645,000                        |
| May 2010        | 315,000                        |
| May 2011        | 135,000                        |
| May 2012        | 100,000                        |
| May 2013        | 200,000                        |
| May 2014        | 220,000                        |
| May 2015        | 1,500,000                      |
| November 2015   | 80,000                         |
| April 2016      | 1,600,000                      |
| May 2017        | 1,700,000                      |
| May 2018        | 865,000                        |
| May 2019        | 800,000                        |
| May 2020        | 1,045,000                      |
| May 2021        | 1,105,000                      |
| May 2022        | 1,150,000                      |

The 2006 Series Bonds are subject to mandatory redemption in whole or part on each May 15 and November 15 after 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 ended September 30, 2022 and 2021.

The Corporation's bond ratings, as assigned by Moody's Investor Services, for the Series 2001 Term Bonds due on May 15, 2031 were upgraded from A1 to Aa3 in August 2022. Fitch Ratings withdrew its ratings on all tobacco settlement bonds in June 2016. Fitch Ratings cited certain settlement agreements made by individual states with non-participating manufacturers for the withdrawal.

The table below summarizes bond activity during the year.

|                               | Series 2001  | Series 2006   | Total         |
|-------------------------------|--------------|---------------|---------------|
| Balance at September 30, 2021 | \$ 2,365,000 | \$ 19,835,955 | \$ 22,200,955 |
| Principal payments            | (1,150,000)  | -             | (1,150,000)   |
| Accretion                     | -            | 1,330,514     | 1,330,514     |
| Balance at September 30, 2022 | \$ 1,215,000 | \$ 21,166,469 | \$ 22,381,469 |

**Tobacco Settlement Financing Corporation**  
**(A Blended Component Unit of the Government of the U.S. Virgin Islands)**

**Management's Discussion and Analysis**

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**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 U.S. Virgin Islands.

**Contacting the Corporation's Financial Management**

This financial report is designed to provide the Corporation's customers, creditors, and other interested persons with a general overview of its finances and to demonstrate the Corporation's accountability for the funds it receives. If you have questions about this report, or need additional financial information, contact:

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

## Financial Statements

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**Tobacco Settlement Financing Corporation**  
**(A Blended Component Unit of the Government of the U.S. Virgin Islands)**

**Statement of Net Position and Governmental Fund Balance Sheet**

| <i>September 30, 2022</i>                                          | <b>Debt Service<br/>Fund</b> | <b>Adjustments</b>     | <b>Statement of<br/>Net Position</b> |
|--------------------------------------------------------------------|------------------------------|------------------------|--------------------------------------|
| <b>Assets</b>                                                      |                              |                        |                                      |
| Restricted:                                                        |                              |                        |                                      |
| Investments                                                        | \$ 2,942,834                 | \$ -                   | \$ 2,942,834                         |
| Tobacco settlement receivable                                      | -                            | 885,362                | 885,362                              |
| <b>Total assets</b>                                                | <b>2,942,834</b>             | <b>885,362</b>         | <b>3,828,196</b>                     |
| <b>Deferred outflows of resources</b>                              |                              |                        |                                      |
| Purchase of settlement rights, net                                 | -                            | 7,373,014              | 7,373,014                            |
| <b>Total assets and deferred outflows of resources</b>             | <b>\$ 2,942,834</b>          | <b>\$ 8,258,376</b>    | <b>\$ 11,201,210</b>                 |
| <b>Liabilities</b>                                                 |                              |                        |                                      |
| Accrued expenses payable                                           | \$ 315,450                   | \$ -                   | \$ 315,450                           |
| Accrued interest payable                                           | -                            | 23,288                 | 23,288                               |
| Bonds payable (net of bond discounts) due<br>in more than one year | -                            | 22,225,631             | 22,225,631                           |
| <b>Total liabilities</b>                                           | <b>315,450</b>               | <b>22,248,919</b>      | <b>22,564,369</b>                    |
| <b>Fund Balance</b>                                                |                              |                        |                                      |
| Restricted for debt service                                        | 2,942,834                    | (2,942,834)            | -                                    |
| Unassigned fund balance                                            | (315,450)                    | 315,450                | -                                    |
| <b>Total fund balance</b>                                          | <b>2,627,384</b>             | <b>(2,627,384)</b>     | <b>-</b>                             |
| <b>Total liabilities and fund balance</b>                          | <b>\$ 2,942,834</b>          | <b>\$ 19,621,535</b>   | <b>\$ 22,564,369</b>                 |
| <b>Net Position (Deficit)</b>                                      |                              |                        |                                      |
| Restricted for debt service                                        | \$ -                         | \$ 2,919,546           | \$ 2,919,546                         |
| Unrestricted deficit                                               | -                            | (14,282,705)           | (14,282,705)                         |
| <b>Total net position (deficit)</b>                                | <b>\$ -</b>                  | <b>\$ (11,363,159)</b> | <b>\$ (11,363,159)</b>               |

*See accompanying notes to financial statements.*

**Tobacco Settlement Financing Corporation**  
**(A Blended Component Unit of the Government of the U.S. Virgin Islands)**

**Statement of Activities and Governmental Fund Statement of Revenues,  
Expenditures, and Changes in Fund Balance**

| <i>Year Ended September 30, 2022</i>                     | <b>Debt Service<br/>Fund</b> | <b>Adjustments</b>     | <b>Statement of<br/>Activities</b> |
|----------------------------------------------------------|------------------------------|------------------------|------------------------------------|
| <b>Revenues</b>                                          |                              |                        |                                    |
| Tobacco settlement revenues                              | \$ 1,231,255                 | \$ (38,079)            | \$ 1,193,176                       |
| Investment income                                        | 99,041                       | -                      | 99,041                             |
| <b>Total revenues</b>                                    | <b>1,330,296</b>             | <b>(38,079)</b>        | <b>1,292,217</b>                   |
| <b>Expenditures/Expenses</b>                             |                              |                        |                                    |
| Current:                                                 |                              |                        |                                    |
| General and administrative                               | 95,805                       | -                      | 95,805                             |
| Debt Service:                                            |                              |                        |                                    |
| Bond principal                                           | 1,150,000                    | (1,150,000)            | -                                  |
| Bond interest                                            | 118,250                      | 1,320,598              | 1,438,848                          |
| Amortization of deferred charge                          | -                            | 374,776                | 374,776                            |
| <b>Total expenditures/expenses</b>                       | <b>1,364,055</b>             | <b>545,374</b>         | <b>1,909,429</b>                   |
| <b>Net Change in Fund Balance/Net Position (Deficit)</b> | <b>(33,759)</b>              | <b>(583,453)</b>       | <b>(617,212)</b>                   |
| <b>Fund Balance/Net Position (Deficit):</b>              |                              |                        |                                    |
| <b>Beginning of year</b>                                 | <b>2,661,143</b>             | <b>(13,407,090)</b>    | <b>(10,745,947)</b>                |
| <b>End of year</b>                                       | <b>\$ 2,627,384</b>          | <b>\$ (13,990,543)</b> | <b>\$ (11,363,159)</b>             |

*See accompanying notes to financial statements.*

**Tobacco Settlement Financing Corporation**  
**(A Blended Component Unit of the Government of the U.S. Virgin Islands)**

**Statement of Fiduciary Net Position**

| <i>September 30, 2022</i>                       | <b>Custodial Fund</b> |
|-------------------------------------------------|-----------------------|
| <b>Assets</b>                                   |                       |
| Restricted investments                          | \$ 1,966,919          |
| <b>Total assets</b>                             | <b>\$ 1,966,919</b>   |
| <b>Net Position</b>                             |                       |
| Restricted for hospital and healthcare projects | \$ 1,966,919          |
| <b>Fiduciary Net Position</b>                   | <b>\$ 1,966,919</b>   |

*See accompanying notes to financial statements.*

**Tobacco Settlement Financing Corporation**  
**(A Blended Component Unit of the Government of the U.S. Virgin Islands)**

**Statement of Changes in Fiduciary Net Position**

| <i>Year Ended September 30, 2022</i>          | <b>Custodial Fund</b> |
|-----------------------------------------------|-----------------------|
| <b>Additions</b>                              |                       |
| Investment income                             | \$ 9,576              |
| <b>Total additions</b>                        | <b>\$ 9,576</b>       |
| <b>Deductions</b>                             |                       |
| Capital Expenditures                          | \$ 91,433             |
| <b>Total deductions</b>                       | <b>\$ 91,433</b>      |
| <b>Net decrease in fiduciary net position</b> | <b>(81,857)</b>       |
| <b>Net position - beginning</b>               | <b>\$ 2,048,776</b>   |
| <b>Net position - ending</b>                  | <b>\$ 1,966,919</b>   |

*See accompanying notes to financial statements.*

**Tobacco Settlement Financing Corporation**  
**(A Blended Component Unit of the Government of the U.S. Virgin Islands)**

**Notes to Financial Statements**

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## **1. Reporting Entity**

The Tobacco Settlement Financing Corporation (the “Corporation”), a blended component unit of the Government of the U.S. Virgin Islands (the “Government”), 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 (“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. The Board of Directors consists of three members: the Governor and two independent members—one appointed by the Governor and one appointed by the president of the Legislature.

The financial statements of the Corporation are not intended to present fairly the financial position and results of operations of the Government. Only the accounts of the Corporation are included in the reporting entity. There are no component units that should be considered for inclusion in the Corporation’s financial statements.

## **2. Summary of Significant Accounting Policies**

The financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”), as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted, standard-setting body for establishing governmental and financial reporting standards.

### ***Basis of Presentation***

The Corporation’s basic financial statements include both government-wide (reporting on the Corporation as a whole) and its only governmental fund financial statement.

### ***Government-wide Financial Statements***

The government-wide financial statements, i.e., the Statement of Net Position and the Statement of Activities, report on all of the nonfiduciary activities of the Corporation. The government-wide focus is on the sustainability of the Corporation as an entity and the change in the Corporation’s net position resulting from current year activities.

### ***Fund Financial Statements***

In addition to the government-wide financial statements, the Corporation has prepared fund financial statements for the Corporation’s only governmental fund. 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 adjustment column reconciling the two statements. In addition, the financial statements of the Corporation’s only fiduciary (custodial) fund are separately presented and present a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position.

**Tobacco Settlement Financing Corporation**  
**(A Blended Component Unit of the Government of the U.S. Virgin Islands)**

**Notes to Financial Statements**

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***Measurement Focus and Basis of Accounting***

The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under 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.

The governmental fund financial statements 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 recorded 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, except that principal and interest on long-term debt is recognized when due.

Fiduciary (custodial) financial statements are presented using the economic resources measurement focus and the accrual basis of accounting and include a Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position. The Corporation has one custodial fund, the Tobacco Settlement Healthcare and Capital Improvement Fund, for capital improvement funds held as restricted assets for the Government. The fund is used by the Government to provide funds for hospital and healthcare projects for the residents of the U.S. Virgin Islands.

The Corporation reports one governmental fund—the Debt Service Fund, which is a major fund. The Debt Service Fund is used to account for the accumulation of resources that are restricted for the payment of principal and interest on bonds payable. The Corporation does not adopt a budget for this fund. As a blended component unit of the Government, the Corporation's financial statements are combined into the basic financial statements of the 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.

***Adjustments***

Certain adjustments are required to be made to the governmental fund in order to present the Corporation's Statement of Net Position and Statement of Activities. The Statement of Net Position includes an adjustment to record the deferred outflows of resources for tobacco rights since these costs are applicable to future periods and are therefore not reported in the governmental funds. The Statement of Net Position also includes an adjustment for long-term liabilities, such as accrued interest and bonds payable, including accretion and bond discounts, where are not due and payable in the current year and are therefore not reported in the governmental funds. The adjustments column in the Statement of Net Position also includes an asset for amounts due to the Corporation that are not available to pay for current period expenditures, and therefore, is not reported in the governmental fund. The adjustments column in the Statement of Activities reflects the related effect of these transactions.

***Taxes***

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

**Tobacco Settlement Financing Corporation**  
**(A Blended Component Unit of the Government of the U.S. Virgin Islands)**

**Notes to Financial Statements**

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***Restricted Assets***

The use of certain assets of the Corporation is restricted by specific provisions of bond resolutions. Assets so designated are identified as restricted assets on the Statement of Net Position.

***Cash and Cash Equivalents***

The Corporation considers cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date acquired by the Corporation to be cash and cash equivalents.

***Investments***

The Corporation reports investments at fair value, based on quoted market prices. In accordance with fair value measurements established in GASB Statement No. 72, *Fair Value Measurement and Application*, the Corporation values investments at quoted market prices when available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or values obtained from independent pricing services.

***Deferred Outflows of Resources***

Under GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, the Corporation recognized the purchase price of tobacco settlement rights from the Government as a deferred outflow that is amortized over the life of the sale agreement.

***Bonds Payable***

In the government-wide financial statements, bonds payable are reported as a liability in the Statement of Net Position. Bond discounts are amortized over the life of the bonds they relate to using the effective interest method. Capital appreciation bonds are accreted over the term of the bonds issued. Bonds are reported net of bond discounts.

In governmental funds, bond discounts are recognized during the current period as other financing use. The face amount of debt issued is reported as an other financing source and principal payments on debt are reported as debt service expenditures.

***Fund Balance***

Fund balance is the difference between total assets and deferred outflows of resources and total liabilities. The majority of the Corporation's assets were derived from the sale of bonds and subsequent collection of Tobacco Settlement Revenues to be used for debt service. Use of these assets is controlled by specific provisions of bond resolutions. As such, amounts derived from bond proceeds and revenue collections for debt service have been restricted for debt service in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

**Tobacco Settlement Financing Corporation**  
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**Notes to Financial Statements**

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***Net Position***

Net position is classified in 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 the remaining portion of net position that is not included in restricted net position.

***Tobacco Settlement Revenues and Receivable***

Tobacco Settlement Revenues (“TSRs”) consist of the amounts to be received under the terms of the MSA among participating cigarette manufactures and the Government, 46 states and five other U.S. jurisdictions (“the Settling States”). During the fiscal year ended September 30, 2022, the Corporation recognized TSRs in accordance the terms of the MSA. Payments under the MSA are made according to a set formula based on tobacco sales.

Much of the TSRs represent a portion of future sales of tobacco products. GASB clarified guidance relating to the recognition of revenues and receivables. Specifically, the respective bulletin allows for the recognition of revenue to be received based on the shipment of domestic cigarettes. The amount recognized is estimated to be 75% of the next projected payment due from the MSA. Accordingly, the Statement of Net Position includes an estimated receivable of \$885,362 at September 30, 2022.

***Use of Estimates in the Preparation of Financial Statements***

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, deferred outflows of resources, 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.

**Tobacco Settlement Financing Corporation**  
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**Notes to Financial Statements**

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***Adoption of Accounting Pronouncements***

During the fiscal year ended September 30, 2022, the Corporation implemented the following standards:

**GASB Statement No. 87, *Leases*.** The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The Corporation has evaluated this Statement and has determined there is no impact on the financial statements.

**GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*.** The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The Corporation has evaluated this Statement and has determined there is no impact on the financial statements.

**GASB Statement No. 92, *Omnibus 2020*.** The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. The Corporation has evaluated this Statement and has determined there is no impact on the financial statements.

**GASB Statement No. 93, *Replacement of Interbank Offered Rates*.** The objective of this Statement is to offer guidance to governments that have entered into variable payments made or received depending on an interbank offered rate (IBOR). The Corporation has evaluated this Statement and has determined there is no impact on the financial statements.

**GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*.** The objectives of this Statement are to (1) increase consistency and compatibility related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other post-employment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary financial statements, and (3) enhance the relevance, consistency and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The Corporation has evaluated this Statement and has determined there is no impact on the financial statements.

**GASB Statement No. 98, *The Annual Comprehensive Financial Report*.** The objective of this Statement is to establish the term “annual comprehensive financial report” and its acronym “ACFR,” due to concerns that the acronym for “comprehensive annual financial report” sounds like a racial slur. The Corporation has evaluated this Statement and has determined there is no impact on the financial statements as it does not issue an Annual Comprehensive Financial Report.

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**Notes to Financial Statements**

Following are statements issued by GASB that are effective in future years:

| GASB<br>Statement<br>No. |                                                                                     | Adoption<br>Effective in<br>Fiscal Year<br>(as Revised) |
|--------------------------|-------------------------------------------------------------------------------------|---------------------------------------------------------|
| 91                       | Conduit Debt Obligations                                                            | 2023                                                    |
| 94                       | Public-Private and Public-Public Partnerships and Availability Payment Arrangements | 2023                                                    |
| 96                       | Subscription-Based Information Technology Agreements                                | 2023                                                    |
| 99                       | Omnibus 2022                                                                        | 2023/2024                                               |
| 100                      | Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62      | 2024                                                    |
| 101                      | Compensated Absences                                                                | 2025                                                    |
| 102                      | Certain Risk Disclosures                                                            | 2025                                                    |

Earlier application of these standards is permitted to the extent specified in each pronouncement as originally issued. The Corporation is currently evaluating the impact of these statements.

### **3. Restricted Investments**

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

The Corporation categorizes the fair market measurements of its investments within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application*, provides the framework for measuring fair value by establishing a three-level fair value hierarchy that describes inputs that are used to measure assets and liabilities as follows:

- Level 1: Inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2: Inputs are other than quoted prices included within Level 1 that are observable for an asset or liability, that are either directly or indirectly observable.
- Level 3: Inputs are significant unobservable inputs.

The fair value hierarchy gives the highest priority to Level 1 and the lowest priority to Level 3 inputs. If a price for an identical asset is not observable, a government may evaluate fair market value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset is measured using inputs from more than one level of the fair market value hierarchy, the measurement is based on the lowest level input that is significant to the entire measurement.

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**Notes to Financial Statements**

The following section describes the valuation technique methodologies the Corporation is using to measure assets as fair value:

- *Money Market Funds* - Investments in money market funds, which at the time of purchase have a maturity of one year or less and are held by governments outside of external investment pools, are valued at amortized cost.
- *US Treasury Bills* - Investments in U.S. treasury bills are measured at fair value using quoted market prices. They are classified as Level 1 as closing prices are readily available.
- *Repurchase Agreement* - Investments in repurchase agreements are valued using a cost-based approach.

Restricted investments, categorized by investment type, and weighted average maturity, at September 30, 2022, were as follows:

| Debt Service Fund       | September 30, 2022 |              |            |
|-------------------------|--------------------|--------------|------------|
|                         | Par value          | Fair value   | Maturity   |
| <b>Investment Type:</b> |                    |              |            |
| Money Market Funds      | \$ 488,579         | \$ 488,579   |            |
| U.S. Treasury Bill      | 2,395,130          | 2,395,130    | 11/10/2022 |
| Repurchase Agreement    | 59,125             | 59,125       | 05/15/2031 |
| Debt service reserve    | \$ 2,942,834       | \$ 2,942,834 |            |

As of September 30, 2022, the custodial fund had restricted investments totaling \$1,966,919, which were maintained in money market funds.

Activity in the custodial fund for the period ended September 30, 2022, consisted of the following:

|                                    |              |
|------------------------------------|--------------|
| Investments: beginning of the year | \$ 2,048,776 |
| Capital Expenditures               | (91,433)     |
| Earnings                           | 9,576        |
| Investments: end of the year       | \$ 1,966,919 |

**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.** The 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, 2022, the Corporation's investment in Invesco Treasury Cash Management was rated AAAM by Standard & Poor's and Aaa by Moody's Investors Service and investments in Goldman Sachs Funds was rated AAAM by Standard & Poor's and Aaa by Moody's Investor Services. The Corporation's investment in PSA Master Repo were not rated by Moody's and Standard & Poor's.

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**Notes to Financial Statements**

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

- **Governmental Fund:** At September 30, 2022, more than 5% of the Corporation's Governmental Fund investments were invested in a US Treasury Bill (81.39%) and Invesco Treasury Cash Management, a money market fund (16.60%).
- **Custodial Fund:** At September 30, 2022, custodial fund investments were invested in Invesco Treasury Cash Management (58.78%) and Goldman Financial Square Money Market Fund (41.22%).

*Custodial Credit Risk.* The Corporation does not have a custodial credit risk policy. The custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution or other counterparty, the Corporation will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party. For the fiscal year ended September 30, 2022, all investments of the Corporation were held in the name of BNY Mellon Trust Company, N.A. as Trustee for the Corporation.

#### **4. Deferred Outflows of Resources - Purchase of Settlement Rights**

On November 1, 2001, the Government entered into a Purchase and Sale Agreement (the "Agreement") with the Corporation. Under the terms of the Agreement, the Government sold 100% of its right to receive future revenues in connection with the MSA 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 Corporation issued the 2001 Series Bonds to purchase the rights and recognized the purchase price as a deferred outflow that is amortized over the life of the sale agreement.

Following is a summary of the amounts reported as deferred outflows:

|                                                                               | <b>September 30, 2022</b> |
|-------------------------------------------------------------------------------|---------------------------|
| Deferred outflows of resources on purchase of tobacco settlement rights (TSR) | \$ 18,453,870             |
| Accumulated amortization                                                      | (11,080,856)              |
| Net deferred outflows of resources on purchase of tobacco settlement rights   | <u>\$ 7,373,014</u>       |

Amortization of the deferred outflows amounted to \$374,776 for the year ended September 30, 2022.

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**Notes to Financial Statements**

**5. Bonds Payable**

Bonds payable consisted of the following as of September 30, 2022:

| Series                                                          | Date of Issue     | September 30, 2022 |               |                         |
|-----------------------------------------------------------------|-------------------|--------------------|---------------|-------------------------|
|                                                                 |                   | 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, Turbo Capital Appreciation                       | March 15, 2006    | 4,764,710          | 6.00%         | 28,550,000              |
| 2006 Series B, Turbo Capital Appreciation                       | March 15, 2006    | 512,471            | 7.00%         | 3,295,000               |
| 2006 Series C, Turbo Capital Appreciation                       | March 15, 2006    | 867,690            | 7.00%         | 6,200,000               |
| 2006 Series D, Turbo Capital Appreciation                       | March 15, 2006    | 1,145,138          | 8.00%         | 10,100,000              |
| Total                                                           |                   | \$ 28,999,871      |               | 71,830,000              |
| Unamortized accretion of interest on capital appreciation bonds |                   |                    |               | (26,978,531)            |
| Bond principal payments and turbo redemptions                   |                   |                    |               | (22,470,000)            |
| Total bonds payable                                             |                   |                    |               | 22,381,469              |
| Bond discounts                                                  |                   |                    |               | (155,838)               |
| Total bonds payable outstanding                                 |                   |                    |               | \$ 22,225,631           |

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.

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 convertible Capital Appreciation Bonds will accrete interest prior to November 15, 2007 and will accrue interest after that date. Interest will compound on May and November 15.

On March 15, 2006, the Corporation issued the 2006 Tobacco Settlement Financing Corporation Asset-Backed Bonds, Subordinated Series 2006 (Turbo 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 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 have been used for the purpose of (i) to finance several capital, hospital and health development projects for the benefit of the Virgin Islands and its residents, (ii) to pay certain costs of issuing the Series 2006 Bonds, and (iii) to fund operating costs associated with the Series 2006 Bonds.

**Tobacco Settlement Financing Corporation**  
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**Notes to Financial Statements**

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 for the year ended September 30, 2022 was \$118,250. Amortization of the bond discount amounted to \$12,125 for the year ended September 30, 2022.

***Future Debt Service Requirements***

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

|                        | Principal     | Interest   | Total         |
|------------------------|---------------|------------|---------------|
| 2023                   | \$ -          | \$ 60,750  | \$ 60,750     |
| 2024                   | -             | 60,750     | 60,750        |
| 2025                   | -             | 60,750     | 60,750        |
| 2026                   | -             | 60,750     | 60,750        |
| 2027                   | -             | 60,750     | 60,750        |
| 2028 -2032             | 1,215,000     | 243,000    | 1,458,000     |
| 2033-2037              | 48,145,000    | -          | 48,145,000    |
| Less: future accretion | (26,978,531)  | -          | (26,978,531)  |
|                        | \$ 22,381,469 | \$ 546,750 | \$ 22,928,219 |

The change in outstanding debt during the year ended September 30, 2022 was as follows:

| Change in Outstanding Debt    | Total Series  | Series 2001  | Series 2006   |
|-------------------------------|---------------|--------------|---------------|
| Balance at September 30, 2021 | \$ 22,200,955 | \$ 2,365,000 | \$ 19,835,955 |
| Principal payments            | (1,150,000)   | (1,150,000)  | -             |
| Accretion                     | 1,330,514     | -            | 1,330,514     |
| Balance at September 30, 2022 | \$ 22,381,469 | \$ 1,215,000 | \$ 21,166,469 |

***Other Bond Information***

The Series 2001 Tobacco Bonds became subject to optional redemption on May 15, 2011. The Series 2001 Tobacco Bonds maturing after May 15, 2012, are redeemable at the option of the Corporation, 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.

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**Notes to Financial Statements**

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. 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.

“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); 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.

During the fiscal years ended September 30, 2006 through September 30, 2022, the Tobacco Settlement Financing Corporation exercised its optional redemption on Term Bonds in the amounts of:

| Redemption Date | Turbo Redemption<br>Amount |
|-----------------|----------------------------|
| November 2005   | \$ 10,000                  |
| May 2006        | 265,000                    |
| November 2006   | 5,000                      |
| May 2007        | 295,000                    |
| November 2007   | 20,000                     |
| May 2008        | 495,000                    |
| November 2008   | 5,000                      |
| May 2009        | 645,000                    |
| May 2010        | 315,000                    |
| May 2011        | 135,000                    |
| May 2012        | 100,000                    |
| May 2013        | 200,000                    |
| May 2014        | 220,000                    |
| May 2015        | 1,500,000                  |
| November 2015   | 80,000                     |
| April 2016      | 1,600,000                  |
| May 2017        | 1,700,000                  |
| May 2018        | 865,000                    |
| May 2019        | 800,000                    |
| May 2020        | 1,045,000                  |
| May 2021        | 1,105,000                  |
| May 2022        | 1,150,000                  |

**Tobacco Settlement Financing Corporation**  
**(A Blended Component Unit of the Government of the U.S. Virgin Islands)**

**Notes to Financial Statements**

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As a result of the disruption to the Corporation's operations from Hurricanes Irma and Maria and the ongoing global pandemic (also see Note 6), the Corporation did not comply with the requirement to issue the audited financial statements for fiscal years 2022, 2021, 2020 and 2019 within 305 days after year-end. However, as per the Corporation's bonds' indentures, this noncompliance event does not constitute an event of default. The Corporation filed the required failure to file notice to the Repository before the annual filing date.

## **6. Contingencies**

### ***Debt Service***

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 Original Participating Manufacturers ("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 Government of the United States Virgin Islands, 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. The assets of the Corporation are not available to pay any creditor of the Government of the United States Virgin Islands. The Bonds issued by the Corporation do not constitute a claim against the full faith, credit or taxing power 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. 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. Increases in sales and excise taxes by states, cities and other local governmental units may reduce cigarette consumption.

### ***Deficit Net Position Balance***

The deficit net position balance will be paid with future MSA revenues and investment income. The payments to be received by the Corporation under the MSA represent a share of anticipated future sales of tobacco products.

**Tobacco Settlement Financing Corporation**  
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**Notes to Financial Statements**

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**7. Related Party Transactions**

During the fiscal year ended September 30, 2022, the Virgin Islands Public Finance Authority, a related party, provided management services to the Corporation for which it received compensation totaling \$83,056. Additionally, as of year-end, the Corporation had an outstanding payable to the Virgin Islands Public Finance Authority for management fees in the amount of \$315,450.

**8. Subsequent Events**

***Management's Evaluation***

Management has evaluated any events or transactions occurring after September 30, 2022, the Statement of Net Position and Governmental Fund Balance Sheet date, through April 30, 2024 and noted that there have been no additional events or transactions which would require adjustments to or disclosure in the Corporation's financial statements for the year ended September 30, 2022.

**Other Reporting Required by  
*Government Auditing Standards***

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## **Independent Auditor's 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***

To the Board of Directors  
Tobacco Settlement Financing Corporation

We have audited, in accordance with 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, the debt service major fund, and fiduciary activities of the Tobacco Settlement Financing Corporation (the "Corporation"), a blended component unit of the Government of the U.S. Virgin Islands, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated April 30, 2024.

### **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.



## 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 Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*BDO USA, P.C.*

(formerly known as BDO USA, LLP)

April 30, 2024