

# VTSF

VIRGINIA TOBACCO  
SETTLEMENT FOUNDATION



EMPOWERING THE YOUTH OF VIRGINIA TO CHOOSE NOT TO USE TOBACCO PRODUCTS.

ANNUAL REPORT  
2 0 0 5

# Message from the Chairman of the VTSF Board of Trustees

**G**reetings from the Virginia Tobacco Settlement Foundation Board!

We have experienced another year of continued success in our fight to reduce and prevent the use of tobacco products by Virginia's youth.

VTSF funded 95 agencies to conduct prevention and/or smoking cessation programs throughout Virginia. Virginia Commonwealth University's Survey Evaluation Research Laboratory analyzed the results of Pre and Post tests conducted by each of the 95 participating agencies.

Grades 6 – 12 results following participation in the programs showed significant improvement in all five core measures evaluated being; knowledge on the harmful effects of tobacco, perceived benefits of remaining smoke-free, self-efficacy, current use of tobacco and intention to smoke.

Grades 2 – 5 showed significant improvement in one of the two cores measured being knowledge of the harmful effects of tobacco. There was no significant change relative to intention to smoke but this is attributed to the fact that the scores on this measure were so low to begin with which means they basically had no intention to smoke prior to the program presentation. Additionally, participants in this age range showed a stronger rejection to smoking and had a stronger ability to resist peer pressure after completing the programs.

These findings are very exciting and offer strong evidence to support our continued efforts in this field.

In the youth marketing campaign this year, we released (3) additional television commercials as well as radio spots. We had (2) "Y-Street" trainings, one in the fall and the other during the spring, training a total of 500 high school students, from across the state, who will work directly with Virginia's Youth on a day to day basis. These types of efforts are part of what helps us to continue to maintain an extremely high awareness level of 78% among Virginia's young people.

The VTSF is working hard each day for the future health and well-being of Virginia's children.

Thank you for the support of our efforts this past year. We have shown Virginia what we can do to make a difference. Please help us to continue to have the ability to work with the future of Virginia being your children and grandchildren by providing them with the knowledge to make healthy life choices, to fail in our task is not acceptable.

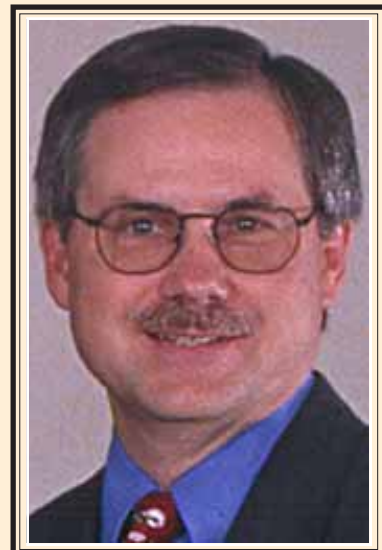
Thank you,

***Rickie E. Fulcher***

Rickie E. Fulcher

Chairman

Virginia Tobacco Settlement Foundation (VTSF)



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## Greetings from the Executive Director

**W**e have a very important mission at the Virginia Tobacco Settlement Foundation (VTSF): empowering the youth of Virginia to choose not to use tobacco products.

Why is our mission so important? Approximately 80 percent of today's adult smokers began smoking before the age of 18, and most began around ages 12 to 13. There are almost one half-million tweens and teens in Virginia in this danger zone. We have an opportunity to help youth live tobacco-free lives, and there is always a new opportunity with kids who are about to enter these critical teen years.

That's where VTSF comes in. Since the Master Settlement Agreement (MSA) was reached with the nation's four largest tobacco manufacturers in 1998, youth tobacco use continues to decrease in Virginia and across the nation. In its six-year history, the VTSF and its board of trustees have contributed to this dramatic decline by battling youth tobacco use with an unprecedented comprehensive approach, combining marketing and scientific research with enforcement and community-based prevention programs.

VTSF currently funds 95 community-based prevention programs across the Commonwealth, in every region of the state, ranging from school and after-school to family and faith-based programs. Our popular *ydouthink* street-marketing and advertising campaign has really taken off, building a youth movement in Virginia. (Almost 80 percent of our target audience said they have a high awareness of the campaign in surveys over the last two years!)

Finally, as our MSA funding sometimes decreases, we remain good stewards of our funds, spending our money wisely and in creative ways to get our important message across to the youth of Virginia.

We appreciate your continued support of VTSF.

Sincerely,

***Marty H. Kilgore***

Marty H. Kilgore

Executive Director

Virginia Tobacco Settlement Foundation (VTSF)



# Background

## MASTER SETTLEMENT AGREEMENT

In 1998, the Attorneys General of 46 states, including Virginia, signed the Master Settlement Agreement (MSA) with the four largest tobacco manufacturers in the United States to settle state suits to recover costs associated with treating smoking-related illnesses. The spirit and intent of the MSA was to provide states with funding for tobacco-use prevention programs that would ultimately lower the prevalence of tobacco use, thus lowering long-term medical costs to care for citizens with tobacco-related diseases. According to the MSA, the tobacco manufacturers are projected to pay the settling states in excess of \$200 billion over the next 25 years. Virginia is expected to receive \$4 billion.

## CREATION OF VTSF

In 1999, the Virginia General Assembly established the Virginia Tobacco Settlement Foundation (VTSF), and allocated 10% of the MSA funds to the VTSF to lead Virginia's youth tobacco-use prevention efforts.

The VTSF Board of Trustees expanded its goals and objectives to include:

- Educating youth about the adverse health, economic and social effects of tobacco use
- Educating parents and guardians about the adverse health, economic and social effects of tobacco use on their children
- Promoting school and community-based programs that target youth tobacco-use reduction
- Serving as an advocate/resource to Virginia lawmakers on legislative initiatives to reduce youth tobacco use
- Promoting research to study ways to reduce the deleterious effects of tobacco as well as to reduce the social, economic and environmental effects of tobacco use by youth
- Developing marketing strategies to promote the efforts of the foundation
- Serving as the hub of all youth tobacco-use reduction efforts in the Commonwealth by creating a comprehensive approach to the issue
- Leveraging the resources of the Foundation to encourage private-sector investments in order to develop public/private partnerships to address this issue.

## VTSF FULL-TIME STAFF

(as of June 30, 2005)

### CENTRAL OFFICE STAFF

701 East Franklin Street, Suite 501  
Richmond, Virginia 23219

**Marty Kilgore**, Executive Director  
**Margaret White**, Deputy Director

**Terri-ann Brown**, Program Specialist  
**Eloise Burke**, Senior Executive Assistant  
**Jeannette Coleman**, Public Relations Coordinator  
**Donna Gassie**, Director of Grants Management  
**Wilma Jordan**, Business Manager  
**Charlie McLaughlin Jr.**, Program Specialist  
**Danny Saggese**, Director of Marketing

### FIELD STAFF

**Rita Angelone**, Grants Program Administrator  
Central/Southside Regions  
1401 Huguenot Road, Suite 213  
Midlothian, VA 23113

**Lisa Brown**, Grants Program Administrator  
North Region  
620 Herndon Parkway, Suite 200  
Herndon, VA 20170

**Henry Harper**, Grants Program Administrator  
North Central/Northwest Regions  
2878 James Madison Hwy.  
Bremo Bluff, VA 23022

**Judy Link**, Grants Program Administrator  
East/Northeast Regions  
7100 Route 17, Suite 14  
Yorktown, VA 23692

**Jenny Martin**, Grants Program Administrator  
West/Southwest Regions  
Research Building VII  
1700 Kraft Drive, Suite 2416  
Blacksburg, VA 24060

## Virginia's Comprehensive Youth Tobacco-Use Prevention Strategy

The VTSF Board of Trustees supports a comprehensive approach to achieving the Foundation's goals. The Board recognizes that reducing or preventing tobacco use is a complex challenge requiring a variety of techniques and initiatives to achieve success. The Foundation's approach includes community programs and education, a youth-focused marketing campaign, research projects and enforcement of Virginia's tobacco-access laws. Individually, these strategies would not be nearly as effective as a combined approach.

### COMMUNITY PROGRAMS AND EDUCATION

The VTSF is committed to involving Virginia's communities in the effort to prevent tobacco use by youth. These local community programs provide direct interaction with young people throughout their childhood and are a key element in changing youth attitudes and behaviors about tobacco use. These changes will ultimately help prevent the initiation of tobacco use by young people.

During FY 05, VTSF funded 95 grant programs, including 15 priority grants in underserved areas of the Commonwealth. These programs impacted a total of 68,605 Virginia youth. The grant recipients include nonprofit organizations, faith groups, schools and other community groups.

### VTSF COMPENDIUM OF PROGRAMS

All of the funded organizations were implementing programs found in the Foundation's *Compendium of Tobacco Use Prevention Programs for Youth*. The Compendium programs address issues relative to tobacco-use prevention including primary tobacco use prevention education, tobacco cessation, early tobacco intervention and reduction, advocacy, youth empowerment and social-skills building. These evidence-based programs are recognized by national, state and nonprofit organizations as model, promising or effective tobacco-use prevention programs.

Full Compendium Listing			
All Stars	Helping Teens Stop Using Tobacco	Not On Tobacco	Project Toward No Tobacco Use
Al's Pals	Intervening With Teen Tobacco Users	Positive Action	Project Toward No Drug Use
Creating Lasting Families	Know Your Body	Project Alert	Skills For Adolescence
Ending Nicotine Dependence	Life Skills Training	Project EX	Too Good For Drugs

Supplemental Programs		
Anti-Tobacco Media Blitz	NICoteen	Tar Wars
Cool School	Skills For Action	Teens Tackle Tobacco
Keep A Clear Mind	Smokeless School Days	Youth Media Network

## Community Program Grants

### PRIORITY GRANTS FUNDED

#### Central

Baptist General Convention of Virginia	\$83,096.00
Memorial Child Guidance Clinic	\$84,331.00
SeeUs ReGroup LLC	\$43,491.00

#### North Central

Fluvanna County Public Schools	\$48,675.00
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#### Northeast

Middle Peninsula-Northern Neck Community Services Board	\$99,333.00
Virginia Commonwealth University	\$99,810.00

#### Southwest

American Lung Association of Virginia	\$94,308.00
Bland County Public Schools	\$39,499.00
Cumberland Mountain Community Services	\$100,000.00
New River Valley Community Services	\$96,277.00
Southwestern VA Mental Health Institute	\$62,220.00

#### Southside

Amelia County Public Schools	\$17,460.00
Appomattox County Schools	\$70,559.00
Charlotte County Public Schools	\$18,451.00
Southside Area Health Education Center, Inc.	\$60,294.00

### PROGRAM GRANTS FUNDED

#### Central

American Lung Association of Virginia	\$73,719.00
Boys & Girls Club of Metro Richmond	\$48,885.00
Chesterfield County CSB, Prevention	\$10,307.00
Elk Hill	\$ 8,324.00
Garfield F. Childs Memorial Fund	\$40,123.00
Henrico Area MHMRSAS	\$73,294.00
Jamestown 4-H Club Road	\$46,568.00
Medical Home Plus Inc.	\$52,604.00
Nia Inc. of Greater Richmond	\$59,015.00
Petersburg Public Schools	\$62,454.00
Richmond Behavioral Health Authority	\$70,000.00

#### East

American Lung Association of Virginia/East	\$73,809.00
Boys and Girls Club of Southeast Virginia	\$74,200.00
Child and Family Services Inc.	\$48,890.00
Isle of Wight County Schools	\$25,025.00
Sentara Healthcare	\$35,675.00
Suffolk Public Schools	\$15,056.00
Virginia Cooperative Extension, Northampton County	\$50,551.00
Western Tidewater Community Service Board	\$68,876.00
William A. Hunton YMCA	\$52,645.00
YMCA of South Hampton Road- Community Services Branch	\$48,078.00

#### North

Alexandria Community Services Board	\$70,576.00
American Lung Association of Virginia	\$74,249.00
Big Brothers Big Sister of the National Capital Area	\$40,984.00
Boys & Girls Club of Greater Washington	\$59,100.00
Ethiopian Community Development Council, Inc.	\$67,061.00
Fairfax County Department of Community and Recreation Services	\$59,619.00
Fairfax-Falls Church CSB	\$64,025.00
Inova Health Source	\$73,152.00
Loudoun County Department of Parks, Recreation & Community	\$73,148.00
Loudoun County MHMRSAS	\$69,607.00
Northern Virginia Family Service, Inc.	\$71,872.00
Prince William Interfaith Volunteer Caregivers	\$74,474.00
Vanguard Services Unlimited	\$68,554.00

#### North Central

Children, Youth and Family Services	\$69,500.00
Culpeper County Sheriff's Office	\$54,760.00
Medicorp Health System	\$72,302.00
Parkside Elementary	\$72,410.00

**Northeast**

American Lung Association of Virginia	\$33,379.00
Boys & Girls Clubs of the VA Peninsula	\$60,499.00
C. Waldo Scott Center for H.O.P.E.	\$25,640.00
Historic Triangle Substance Abuse Coalition	\$62,498.00
Middle Peninsula-Northern Neck CSB	\$67,021.00
Three Rivers Health District	\$33,751.00
Virginia Commonwealth University	\$36,731.00

**Northwest**

Commonwealth Center for Children and Adolescents	\$54,260.00
Fauquier CADRE Inc.	\$59,925.00
Literacy Volunteers of America- Shenandoah County	\$19,374.00
Rockbridge Area Community Services	\$57,955.00
Rockbridge County Public Schools	\$75,000.00
Shenandoah County Social Services Dept.	\$74,760.00
Virginia Rural Health Resources Center	\$75,000.00
Warren County Community Health Coalition	\$73,404.00

**Southwest**

Bristol Youth Services	\$27,504.00
Cumberland Mountain Community Services	\$39,204.00
Giles County Partnership for Excellence Foundation Inc.	\$43,125.00
Girls on the Run of Southwest Virginia	\$39,414.00
Lonesome Pine Office on Youth	\$47,172.00
Mount Rogers Community Services Board	\$40,145.00
Mountain View Youth & Family Services	\$47,430.00
New River Valley Community Services	\$59,638.00
Twin County Prevention Coalition	\$12,628.00
Washington County Public Schools	\$54,000.00
Wise County Public Schools	\$5,829.00

**Southside**

Alliance for Families and Children of Central Virginia	\$55,641.00
American Lung Association	\$59,960.00
Boys & Girls Club of Emporia/ Greensville, Inc.	\$29,763.00
Buckingham County Public Schools	\$21,389.00
Halifax County Public Schools	\$45,647.00
Southside Area Health Education Center	\$62,000.00

**West**

Blue Ridge Behavioral Healthcare	\$48,623.00
Boys and Girls Clubs of Roanoke Valley	\$25,508.00
Danville-Pittsylvania Community Services	\$53,456.00
Henry County Schools	\$34,194.00
Mount Sinai Church	\$26,180.00
Piedmont Community Services	\$71,180.00
Piney Grove Missionary Baptist Church	\$33,028.00
Roanoke County Public Schools	\$75,000.00
STEP Inc.	\$47,302.00
Total Action Against Poverty	\$41,558.00

**PROGRAM EVALUATION**

VCU Survey and Evaluation Research Laboratory	\$250,000.00
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**YOUTH TOBACCO SURVEY**

VCU Survey and Evaluation Research Laboratory	\$133,571.00
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## Marketing Campaign

The mission of the “Y Campaign” is to reduce youth tobacco use in Virginia by empowering Virginia youth to choose a healthy lifestyle. The focus market of the campaign, which is based on the most extensive youth marketing research ever conducted in Virginia, is youth 10 to 17 years old, with a special emphasis on “tweens” ages 10 to 14. The tagline of the Y Campaign reaches out to ask kids: “Can anybody tell us why smoking isn’t stupid?”

The campaign’s powerful message targets youth through a multimedia marketing effort including television and radio commercials, an interactive Web site — [www.ydouthink.com](http://www.ydouthink.com) — Internet banner ads, cinema advertising, and street-marketing activities.

### CAMPAIGN OVERVIEW

The marketing campaign funded four contracts to continue the campaign in FY05. These included:

- Barber Martin Advertising — \$4 million
- Rescue Productions — \$500,000
- FreeRadical — \$175,000
- Southeastern Institute of Research — \$175,000

Research was conducted in April 2005 with the intention of providing an assessment of the awareness level of the VTSF youth tobacco use prevention marketing campaign among its focus market after 36 months. Some major points include:

- ◆ The awareness level among our focus market has grown to 78%, from 74% at 30 months.
- ◆ Overall campaign “likeability” is 87%
- ◆ Overall campaign “believability” is 92%
- ◆ Campaign is “saying something meaningful” is 91%
- ◆ Campaign is “something I paid a lot of attention to” is 87%

In summary, the tracker found that the VTSF campaign has achieved an awareness level of 78% among its target audience after only 3 years. Additionally, the campaign’s awareness level has been sustained in the 74% to 78% range for 18 consecutive months. The VTSF marketing campaign continues to resonate with our target audience and its tagline — “Can anybody tell us why smoking isn’t stupid?” — is top-of-mind with kids.

### TELEVISION AND RADIO



2005 Telly Award Finalist  
“Kissing Booth”

In March 2005, VTSF released four additional 30-second television spots along with five 60-second radio spots. Of the radio spots, four are unique, as they were created as full-length songs that could be downloaded for free from the Y Campaign Web site — [www.ydouthink.com](http://www.ydouthink.com). The total ydouthink campaign library now includes 27 30-second TV spots and 23 60-second radio spots.

The VTSF television commercial entitled “Kissing Booth” was an award finalist in the 2005 Telly Awards in the “Miscellaneous” category under the Regional TV & Multi-Market Cable category. The international Telly Awards honor outstanding local, regional and cable television commercials and programs as well as video and film productions. “Kissing Booth” joins “Lick” and “Jobs” within the group of award-winning television commercials produced by VTSF.

# STREET MARKETING

*ydouthink visits a Boys & Girls Club in Northern Virginia*

Street marketing activity stats through June 30, 2005:

- ◆ 659 visits to youth-oriented events by the “Rantmobile”
- ◆ More than 250,000 youth interactions with the *ydouthink* street team
- ◆ More than 500 new members of Y St.

In April 2005, the second round of Y St. (Street) Trainings were conducted by *ydouthink* — the statewide youth tobacco-use prevention movement of the Virginia Tobacco Settlement Foundation. *Ydouthink* searches for high school students who know what’s hot and what’s not around the state and invites them to the trainings. With Y St., these youths



work with a local manager to promote *ydouthink* at all of the places where teens hang out — like concerts, dance competitions, games and shows. Y St. teens also give their input on the direction the *ydoyouthink* campaign should take.



*Newly trained Y St. members at a youth-only dance party*

The 2005 training sessions — which were held in Fairfax, Roanoke, Richmond, and Virginia Beach — included four workshops that focused on issues such as tobacco-use prevention, street-marketing strategies and branding. Each training concluded with a youth-only dance party. After the trainings finished, about 500 Y St. youths statewide began advocating to their peers for the *ydouthink* brand and tobacco-use prevention.

# YDOUTHINK.COM

Web site and online activity stats through June 30, 2005:

- ◆ 904,200 site visits (20,000 to 25,000 per month)
- ◆ More than 170,000,000 total impressions
- ◆ 109,727 total Virginia visitors
- ◆ More than 1 million total users
- ◆ Overall growth from FY04 to FY05:
  - Virginia Visitors = 103%
  - Total Visits = 41%



## Enforcement

The Centers for Disease Control and Prevention (CDC) states that without aggressive enforcement of tobacco-access laws, there will be no decrease in the purchase of tobacco products by minors. As a result, enforcement is an important component of the VTSF's comprehensive youth tobacco-use prevention program.

VTSF funds the state Department of Alcoholic Beverage Control (ABC) to conduct approximately 400 compliance checks per month, during which ABC agents randomly test tobacco retailers to see if retailers will sell tobacco products to underage buyers.

ABC regularly reports the results of these compliance checks to the VTSF. Since 1998, the noncompliance rate has decreased from 28% to 13.2%.

### The Enforcement Process

One ABC special agent accompanies an Underage Buyer (UAB) into a tobacco-selling retail establishment. The UAB then attempts to purchase tobacco products from the retailer. As undercover agents under the enforcement authority of the state ABC, the agency's UABs can purchase tobacco products from retailers with immunity and are paid as part-time state employees. Should a violation occur, the UAB returns to a secondary special agent outside the retail establishment. Witnessing the violation, the secondary special agent issues a state summons to the retail clerk.

## Collaborative Research Projects — Virginia Research Consortium

VTSF continued its work facilitating the Virginia Research Consortium in FY05. This consortium consists of members from Virginia universities and serves as an advisory and quality-assurance group to VTSF for its research projects. Participating institutions include the College of William & Mary; George Mason University; James Madison University; Old Dominion University; the University of Virginia; Virginia Commonwealth University; Virginia State University; and Virginia Tech.

Overall, VTSF research initiatives have resulted in more than 50 internal collaborations within universities, at least 25 external collaborations across universities, five new grant proposals being submitted to outside funding sources to leverage VTSF funds, and a number of published articles and presentations at various conferences.

Four universities — GMU, JMU, U.Va. and VCU — were approved for continuation funding on their respective research grants. The following lead universities are coordinating the projects described (all of which include collaboration with other institutions):

### ***James Madison University (JMU) — \$240,000***

Research has shown that people with Attention Deficit Hyperactivity Disorder (ADHD) smoke at rates 50% higher than the general population. JMU is working with two school systems and two pediatric physician groups to conduct an intervention study to identify mechanisms to prevent tobacco use among this population. The project involves utilizing a school-based prevention program combined with medication treatment of ADHD to assess whether this combined treatment approach affects smoking rates over time. This year the students involved in the study are in the 7<sup>th</sup> and 8<sup>th</sup> grades and continue to be evaluated every six months. This is also the first year of an National Institute of Mental Health (NIMH) funded study that includes similar measures of tobacco use as those developed for the VTSF funded project. This funding helps to extend the initial study of the potential preventive role of treatment for ADHD on smoking. Additional projects related to this work have been proposed to National Institute on Drug Abuse, NIMH, and the VTSF.

### ***George Mason University (GMU) — \$440,000***

George Mason University is continuing its research on the effects of nicotine in adolescents, using young rats as subjects. To date, the investigators have found that adolescent nicotine induces expression of a number of genes involved in recovery from injury as well as growth and development. They have also found that adolescent nicotine has a number of effects which persist into adulthood. These include long-lasting effects on sensitization to nicotine, self-administration of cocaine, and preference for nicotine. These addictive-like changes in adult behavior are accompanied by brain anatomy and chemical changes which appear to increase the probability of other addictions after using nicotine as an adolescent. Importantly, adolescent nicotine also tends to increase negative emotions in adults, which the investigators believe contributes to the continued likelihood of addiction. GMU continues to define brain mechanisms involved in this process.

### ***University of Virginia (U.Va.) — \$487,500***

This is a pioneering study designed to identify molecular biomarkers that would help identify individuals most at risk for suffering the health related consequences of tobacco use. Once molecular profiles of such individuals have been established, it should be possible to customize the intervention to suit the individual. For example, some people might be more likely to get cancer, others more likely to get pulmonary fibrosis, yet others might be more subject to addiction. This work began using cancer as the “pilot” disease. Samples of tissue from patients with lung, head and neck, or other cancers were analyzed using gene arrays to determine which of the 30,000 genes in the human genome was changed in the cancerous tissue. As more samples are being analyzed, it is becoming possible to identify specific markers associated with disease within that array. A candidate cancer biomarker has been identified and validation is ongoing. This work represents a collaboration between the University of Virginia Cancer Center, the Medical College of Virginia, and George Mason University.

### ***Virginia Commonwealth University (VCU) — \$499,817***

Over the past year, through its Virginia Youth Tobacco Project (VYTP), VCU continued to support four major research projects. These included Genetic and Environmental Factors in Transition from Tobacco Use to Dependence; Genetic Etiology of Tobacco Initiation and Nicotine Dependence; Biogenetic and Neurobehavioral Etiology of Nicotine Addiction; and Preventing Addiction in Adolescent Smokers. In addition, the VYTP continued its support for research work through subcontracts at James Madison University, the University of Virginia, Virginia Tech and the College of William & Mary. VYTP also supported statewide efforts to advance research collaboration in youth tobacco-use prevention research through the VYTP Research Coalition. The VYTP’s broad, multi-university, trans-disciplinary approach has so far resulted in the publication of more than 40 scientific papers and dozens of conference presentations. Moreover, the cadre of Virginia scientists mobilized through VTSF funding has mapped out an integrated strategy for research and for the translation of that research into effective, evidenced-based practices, making Virginia a leader in the field of youth tobacco-use prevention science, as detailed in the Tobacco Control Research Consortium of Virginia White Paper 2005 and in the array of proposals submitted in response to VTSF’s 2005 Research RFP.

## Financial Statements

### STATEMENT OF ACTIVITIES AND CHANGES IN FUND BALANCE For the Fiscal Year Ended June 30, 2005

**REVENUES:**

Master Settlement payments (Note 6)	13,031,549
Interest Income (Note 6)	143,143
Proceeds from securities lending transactions (Note 1)	32,669

Total Revenues	13,207,360
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**EXPENDITURES:**

	Expenses	Adjustments	Net (Expense) Revenue and Changes in Net Assets
Tobacco Settlement Expense:			
Administration (Note 7)	\$ 1,318,696	\$ 0	\$ -1,318,696
Depreciation Expense (Note 3)	2,222	0	-2,222
Expenses for Securities Lending (Note 1B)	31,305	0	-31,305
Marketing (Note 4 D)	4,917,493	0	-4,917,493
Program Expense (Note 8)	4,938,539	0	-4,938,539
Research and Evaluation (Note 9)	1,857,180	0	-1,857,180
Inter-Agency Expenses (Note 10)	49,645	0	-49,645
State General Fund Transfers Out (Note 11)	73,624	0	-73,624
Total Expenditures	13,188,705	0	-13,188,705

Excess (deficiency) of revenue over expenditures	18,656
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Fund Balance/Net Assets, July 1, 2004	7,030,573
Fund Balance/Net Assets, June 30, 2005	\$ 7,049,228

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

# STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

As of June 30, 2005

	Governmental Funds Special Revenue
<b>ASSETS:</b>	
Cash and cash equivalents held by the Treasurer of Virginia (Note 1-A)	\$ 7,908,583
Investments Held by the Treasurer (Note 1-B)	\$ 2,257,943
Lease Deposits (Note 2)	\$ 6,749
Prepaid Rent (Note 2)	\$ 10,412
Prepaid Expenses(Note 2)	\$ 50,000
Capital Assets, net of accumulated depreciation: (Note 3)	
Operating equipment	\$ 925
 TOTAL ASSETS	 \$ 10,234,612
<b>LIABILITIES:</b>	
Accounts Payable (Note 4-A)	\$ 8,427
Accrued Payroll (Note 4-B)	\$ 64,471
Obligations Under Security Lend (Note 1-B)	\$ 2,257,943
Grants Payable (Note 4-C)	\$ 790,770
Contractual Obligations (Note 4-D)	\$ 13,086
Compensated absences (Note 5)	\$ 50,687
 Total Liabilities	 \$ 3,185,384
<b>NET ASSETS:</b>	
Investment in Capital Assets, net of related debt	\$ 925
Unrestricted	\$ 7,048,303
Total net assets	\$ 7,049,228

**Notes To Financial Statements**  
**As Of June 30, 2005**

Note 1: CASH, CASH EQUIVALENTS, AND INVESTMENTS

A. Cash and Cash Equivalents

Cash and cash equivalents represent cash in the General Account at the Department of the Treasury. Treasury manages the General Account Investment Portfolio. Information related to the composition of this portfolio is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

B. Securities Lending Transactions

Investments and cash equivalents held by the Treasurer of Virginia represent the Virginia Tobacco Settlement Foundation's (VTSF) allocated share of cash collateral received and reinvested and securities received for the State Treasury's securities lending program. Information related to the credit risk of these investments and the State Treasury's securities lending program is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

Cash with the Treasurer of Virginia	\$ 7,908,583
Investments held by the Treasurer of Va.	<u>2,257,943</u>
Total cash, cash equivalents and investments	\$ 10,166,526

Note 2: LEASE DEPOSITS and PREPAID RENT and PREPAID EXPENSES

VTSF rents office space at 701 E. Franklin for the main office and has field staff offices located in Bremono Bluff, Blacksburg, Midlothian, Herndon and Grafton, Virginia. Four leases required deposits. The Richmond office is \$5,126.00, Midlothian office is \$350.00, the Grafton office is \$225.00 and the Herndon office is \$1048.00, for a total of \$6,749.00 in deposits for rental leases. Prepaid rent for July 2005 is \$10,412. VTSF contracts with Rescue Productions to do street marketing as part of the VTSF statewide campaign. Per contract they were allotted \$50,000 start up funds.

Note 3: CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5000.00 and an estimated life in excess of two years. The Virginia Tobacco Settlement Foundation shares capital assets consisting of a server with the Tobacco Indemnification and Community Revitalization Commission. The Commission shows the full expenditure amount and depreciation in the Commonwealth's FAACS system, but through internal tracking of expenses and depreciation with VTSF they are allocated and reported accordingly. The net balance for VTSF's portion as of June 30, 2005 totaled \$925. All other purchases did not meet the capital asset requirements and are therefore maintained in an internal inventory control system by the VTSF.

Note 4: LIABILITIES

A. Accounts Payable

Operating expenses accrued but unpaid as of June 30, 2005 totaled \$8,427.

B. Accrued Payroll

All VTSF employees are paid on a semi-monthly schedule. Accrued payroll expenses of \$64,471 represents work performed between June 10 and June 30, 2005 but not paid prior to June 30, 2005.

C. Grants Payable

The VTSF awarded funding to programs all over the Commonwealth for the prevention of tobacco use by youths. At the end of the fiscal year there were outstanding payables for which we had received invoices totaling \$790,770.

D. Contractual Obligations

The VTSF contracted with higher education universities to conduct research, surveys and evaluations on tobacco use and prevention. They also have a contract with barbermartin advertising, a marketing agency to head a major campaign geared toward youths throughout Virginia on the prevention of tobacco use. At the end of the fiscal year we had outstanding contract payables for which we had received invoices in the amount of \$13,086.

Note 5: COMPENSATED ABSENCES

Compensated absences represent the amounts of annual, disability credits, and compensatory leave earned by VTSF employees, but not taken as of June 30, 2005. The \$50,687 represents the balances at the fiscal year end provided by the Commonwealth's leave liabilities tracking program. To determine how much of this amount should be recorded as long-term liability, calculations were made by adding estimated additional earned leave and subtracting estimated leave to be taken during FY06. Balances for staff with longer years of service were based on the allowable carry forward amounts. As a result, it has been determined that \$31,480 of the entire amount should be reported as a long-term liability and the remainder is considered a short-term liability.

Note 6: REVENUES

The VTSF is funded by receiving 10% of Virginia's share of the Master Settlement Agreement (MSA) negotiated between the various Attorneys General and the cigarette manufacturers in 1998. In FY 2005, the VTSF received \$13,0351,549 in MSA payments and interest payments from MSA funds of \$143,143.

Note 7: ADMINISTRATION

Administrative costs are all of the operating expenses needed for the maintenance of the VTSF. These include expenses of the Board of Trustees, Payroll (including accrued leave liabilities), rents, utilities, insurances, equipment (repairs, maintenance, rental and purchases), furniture and supplies, postage and delivery, printing, state vehicle fees, employee travel and trainings. In addition, it includes expenses incurred for professional services provided by private industries such as temporary employees, marketing services, website design and maintenance, etc.



Note 8: PROGRAM

Program Expenses include funding provided to local organizations to conduct tobacco use prevention programs with youth and funding provided to the Department of Alcoholic Beverage Control for retail compliance checks.

Note 9: RESEARCH AND EVALUATION

These expenses include the contracts and agreements with higher education universities in Virginia focused on the research, evaluation of tobacco use prevention programs, evaluation of the statewide marketing campaign as well as a statewide Youth Tobacco Survey.

Note 10: INTER-AGENCY EXPENSE

These include expenses incurred as a result of Memorandums Of Understanding with agencies such as the Department of Health for fiscal and payroll support and VITA for system support.

Note 11: TRANSFERS

Transfers out are to reimburse the General Fund for expenses by the Office of the Attorney General, Department of Taxation and for savings due to the suspension of the state employee group life employer contribution rate.

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