TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA

FINANCIAL STATEMENT AUDIT
FOR THE YEAR ENDED JUNE 30, 2012
ISSUED JANUARY 16, 2013

LOUISIANA LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397

LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

FIRST ASSISTANT LEGISLATIVE AUDITOR
AND STATE AUDIT SERVICES
PAUL E. PENDAS, CPA

DIRECTOR OF FINANCIAL AUDIT
THOMAS H. COLE, CPA

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EXECUTIVE SUMMARY

We conducted a financial statement audit of the Tobacco Settlement Financing Corporation (Corporation) for the year ended June 30, 2012, as required by the Corporation's bond indenture and to provide accountability over public funds for the period July 1, 2011, through June 30, 2012.

We considered the Corporation's controls, compliance, and financial reporting related to certain accounts such as investments, bonds, settlement revenues, and bond principal and interest payments. We also examined financial trends to look for unusual changes that did not follow a logical pattern and analyzed the Corporation's tobacco settlement revenues over the last four years. Our procedures disclosed the following:

- The financial statements are fairly stated.
- We did not report any weaknesses in controls or violations of laws.
- We found no unexplained variances relating to our analytical procedures.
- During the last four years, tobacco settlement revenues have generally declined as a result of adjustments applied by cigarette manufacturers to the Master Settlement Agreement and declining tobacco use.

This report is a public report and has been distributed to state officials. We appreciate the Corporation's assistance in the successful completion of our work.

LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

January 10, 2013

Independent Auditor's Report

TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the debt service fund and governmental activities of the Tobacco Settlement Financing Corporation (Corporation), a blended component unit of the State of Louisiana, as of and for the year ended June 30, 2012, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the debt service fund and governmental activities of the Corporation as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2013, 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 other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis beginning on page 5 be presented to supplement the basic financial statements. Such information, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The accompanying supplemental information schedule beginning on page 28 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

SGW:DG:BDC:THC:ch

TSFC 2012

TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA

Management's Discussion and Analysis, June 30, 2012

This section of the Tobacco Settlement Financing Corporation's (TSFC or Corporation) annual financial report represents management's analysis of the TSFC's financial performance during the fiscal year ended June 30, 2012 in comparison to that of the previous fiscal year. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The TSFC's net asset deficit decreased by $39,466,467 to $637,811,494 as of June 30, 2012. Net assets represent the net financial position of the Corporation on the full accrual basis of accounting. On the modified accrual basis, $127,291,318 of fund balance is available for debt service and operations.
- The revenues of the TSFC increased $5,659,651 or 6.68%.
- The expenses of the TSFC decreased $2,015,942 or 3.81%.

The TSFC was formed by an act of the Louisiana Legislature for the purpose of purchasing Tobacco Settlement Revenues (TSRs) from the State of Louisiana. This purchase was financed by the issuance of bonds to be repaid solely from the TSRs. The TSRs consist of amounts to be collected as part of a Master Settlement Agreement (MSA) between cigarette manufacturers (PMs) and 46 states and other U.S. jurisdictions (Settling States). Under the MSA, the PMs are required to pay the Settling States annual payments in perpetuity.

Much of the TSRs represent a portion of future domestic sales of tobacco products, the amount of which is to be determined based upon future domestic sales of tobacco products. TSR payments are remitted to the Corporation annually based upon those sales. Under generally accepted accounting principles (GAAP), such contingent amounts can be recognized as a receivable and revenue on a full accrual basis when the domestic sale of tobacco products is known. Under the modified accrual basis of accounting, revenue should be recognized as the sales occur and the TSR's become available for use by the Corporation.

OVERVIEW OF THE FINANCIAL STATEMENTS

These financial statements consist of two sections – Management's Discussion and Analysis (this section) and the basic financial statements (including the notes to the financial statements).

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are two basic financial statements that report information about the TSFC as a whole using a long-term economic resources focus. The financial data is reported using the full accrual basis of accounting and provides insight as to the TSFC's total, long-term, financial position and whether or not the TSFC's total financial position has improved as a result of the current year's activities.

GOVERNMENT-WIDE FINANCIAL STATEMENTS (continued)

Comparative condensed Statements of Net Assets and Activities for 2012 and 2011 are as follows:

Statement of Net Assets
June 30, 2012 and 2011

	June 30, 2012	June 30, 2011
Current assets	$ 277,199	$ 264,037
Noncurrent assets	176,263,750	176,419,957
Total assets	176,540,949	176,683,994
Current liabilities	45,444,465	40,726,893
Noncurrent liabilities	768,907,978	813,235,063
Total liabilities	814,352,443	853,961,956
Total net assets (deficit) - unrestricted	$ (637,811,494)	$ (677,277,962)

Statement of Activities
For the Years Ended June 30, 2012 and 2011

	June 30, 2012	June 30, 2011
Tobacco settlement revenues	$ 85,533,179	$ 80,579,987
Investment income	4,853,674	4,147,215
Total revenues	90,386,853	84,727,202
Expenses	(50,920,386)	(52,936,328)
Change in net assets	$ 39,466,467	$ 31,790,874

An increase in current liabilities of $4,717,572 is a result of assumptions and estimates regarding the future principal payments on the Series 2001B bonds payable.

The net asset deficit is a result of bonds payable and other liabilities exceeding recognized assets. The bonds are recognized as a liability, while the resources to repay the bonds - the future TSR's - are not recognized as assets until the underlying sales of tobacco products are known.

Revenues of the Corporation increased by approximately 6.68% compared to prior year's revenue. The increase is attributable to variations in the TSR's that continue to occur as a result of adjustments to the MSA applied by the participating manufacturers as well as changes to the estimated amounts of future revenues.

Expenses of the Corporation decreased due to a reduction of interest expense due to a lower level of outstanding principal on the bonds.

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the TSFC as a debt service fund as defined by the Governmental Accounting Standards Board. A fund is a fiscal and accounting entity with a self-balancing set of accounts that a governmental entity uses to keep track of specific sources of funding and spending for a particular purpose.

For fund level reporting, all of the TSFC's transactions are reported in the debt service fund, which is a type of governmental fund. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources. This approach applies a flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the TSFC's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the TSFC.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliations are provided to facilitate this comparison between the governmental fund and the government-wide financial statements. These reconciliations are presented separately in the Reconciliation of the Debt Service Fund Balance Sheet to the Statement of Net Assets and the Reconciliation of the Debt Service Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities.

The TSFC's debt service fund reported fund balance of $127,291,318 as of June 30, 2012, all of which is restricted for the repayment of the outstanding bonds. Much of this fund balance is contained in reserve accounts as required by the Trust indenture.

LONG-TERM DEBT ACTIVITY

At June 30, 2012, the TSFC had $823,100,000 in outstanding bonded debt which reflects principal repayments of $39,835,000 made during the year ended June 30, 2012, as well as redemptions made from previous years. The Corporation has issued no debt since issuing its initial offering of the 2001 A & B series. A description of the long-term debt activity is located at Note 4. The Corporation's 2001B bonds, maturing on May 15, 2030 and May 15, 2039, carried "A" and "A negative" rating, respectively from Standard and Poor's as of June 30, 2012.

CONTACTING THE TOBACCO SETTLEMENT FINANCING CORPORATION'S MANAGEMENT

This financial report is designed to provide a general overview of the TSFC finances and to demonstrate the TSFC's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Tobacco Settlement Financing Corporation, P.O. Box 44154, Baton Rouge, LA 70804.

TOBACCO SETTLEMENT FINANCING CORPORATION
STATEMENT OF NET ASSETS
JUNE 30, 2012

ASSETS	
Current assets:	
Cash	$ 277,199
Total current assets	277,199
Non-current assets:	
Unamortized bond issue cost	6,306,868
Restricted assets:	
Investments	127,023,998
Tobacco settlement receivable	42,932,763
Accrued interest receivable	121
Total non-current assets	176,263,750
TOTAL ASSETS	176,540,949
LIABILITIES	
Current liabilities:	
Accrued interest payable	5,900,026
Fees payable	10,000
Bonds payable-current	39,534,439
Total current liabilities	45,444,465
Non-current liabilities:	
Bonds payable	768,907,978
TOTAL LIABILITIES	814,352,443
NET ASSETS (DEFICIT) - UNRESTRICTED	$ (637,811,494)

The accompanying notes are an integral part of this statement.

TOBACCO SETTLEMENT FINANCING CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

EXPENSES	
Current:	
Bond issue cost amortization	$ 559,540
Bank fees	32,890
Professional services	55,774
Debt Service:	
Interest expense	50,272,182
Total expenses	50,920,386
REVENUES	
Tobacco settlement revenue	85,533,179
Interest income	4,853,674
Total revenues	90,386,853
Change in net assets	39,466,467
Net assets (deficit) beginning of year	(677,277,961)
Net assets (deficit) end of year	$ (637,811,494)

The accompanying notes are an integral part of this statement.

TOBACCO SETTLEMENT FINANCING CORPORATION
DEBT SERVICE FUND BALANCE SHEET
JUNE 30, 2012

ASSETS		
Cash	$	277,199
Investments		127,023,998
Accrued interest receivable		121
TOTAL ASSETS		127,301,318
LIABILITIES		
Fees payable		10,000
TOTAL LIABILITIES		10,000
FUND BALANCE		
Fund balance - Restricted		127,291,318
TOTAL LIABILITIES AND FUND BALANCE	$	127,301,318

The accompanying notes are an integral part of this statement.

TOBACCO SETTLEMENT FINANCING CORPORATION
RECONCILIATION OF THE DEBT SERVICE FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

Total fund balance - Debt Service Fund	$ 127,291,318
Assets reported in governmental activities that are not financial resources and therefore, are not reported in the governmental fund:	
Unamortized bond issue cost	6,306,868
Revenues collected more than 45 days after year-end and are not available to pay current period expenditures:	
Tobacco settlement receivable - restricted	42,932,763
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the governmental fund:	
Accrued interest payable	(5,900,026)
Bonds payable (net of unamortized discount)	(808,442,417)
Total net assets (deficit) at June 30, 2012 - Governmental Activities	$ (637,811,494)

TOBACCO SETTLEMENT FINANCING CORPORATION
DEBT SERVICE FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2012

REVENUES	
Tobacco settlement revenue	$ 84,744,276
Interest income	4,853,674
Total revenues	89,597,950
EXPENDITURES	
Current:	
Bank fees, rating service fees and other	32,890
Professional services	55,774
Debt Service:	
Principal retirement	39,835,000
Interest	50,046,694
Total expenditures	89,970,358
Excess of expenditures over revenues	(372,408)
Fund balance beginning of year	127,663,726
Fund balance end of year	$ 127,291,318

The accompanying notes are an integral part of this statement.

TOBACCO SETTLEMENT FINANCING CORPORATION
RECONCILIATION OF THE DEBT SERVICE FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2012

Excess of expenditures over revenues	$	(372,408)
Amounts reported in the statement of activities are different because:		
The change in revenues not collected within 45 days of year-end that are not considered "available" and therefore not recognized as revenues in the governmental fund:		
Tobacco settlement revenue		788,903
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal on long-term debt consumes the current financial resources of a governmental fund. Neither transaction, however has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
Bond issue cost amortization		(559,540)
Principal retirement		39,835,000
Interest expense and discount amortization		(225,488)
Change in net assets	$	39,466,467

INTRODUCTION

The Tobacco Settlement Financing Corporation (referred to as the Corporation or TSFC) was created by Act 1145 of the 2001 Regular Session of the Louisiana State Legislature codified under the provisions of Louisiana Revised Statutes (R.S.) 39:99.1 through 39:99.20. The Corporation is a special purpose, public corporate entity, an instrumentality independent of the state.

On November 23, 1998, the State of Louisiana entered into a Master Settlement Agreement with the major United States tobacco product manufacturers that should result in Louisiana receiving substantial monies in perpetuity. The Corporation is authorized and empowered to, among other things, (1) purchase the state's allocation of monies to be received as a result of the master settlement agreement and receive, or authorize the indenture trustee to receive the tobacco settlement payments when they become due; (2) issue bonds; (3) determine the amounts of the residual interests, and pay and transfer such residual interests to the state treasurer, semiannually, in accordance with the provisions of the Louisiana Revised Statutes noted above; and (4) do any and all other acts and things necessary, convenient, appropriate or incidental in carrying out the provisions of the Louisiana Revised Statutes noted above.

Income of the Corporation and bond proceeds, if any, not previously paid to the state that are in excess of the Corporation's requirements to pay its operating expenses, debt service, sinking fund requirements, reserve fund requirements, and any other contractual obligations to the holders or that may be incurred in connection with the issuance of the bonds shall be transferred and paid by the Corporation to the state treasurer for deposit in and credit to the Millennium Trust.

The Corporation shall have perpetual existence; provided, however, the board shall dissolve and terminate the existence of the Corporation no later than two years after the date of final payment of all outstanding bonds and the payments or satisfaction of all other outstanding obligations and liabilities of the Corporation. Upon dissolution of the Corporation, title to all assets and properties of the Corporation shall vest in and become the property of the State of Louisiana and shall be deposited in and credited to the Millennium Trust.

At June 30, 2012, the Corporation was governed by a board consisting of 13 members as follows: (i) the Governor or his designee; (ii) the State Treasurer or his designee; (iii) the Attorney General or his designee; (iv) the President of the Senate or his designee; (v) the Speaker of the House of Representatives or his designee; (vi) seven members appointed by the Governor from each of the seven congressional districts; and (vii) one additional member appointed from the state. The State Treasurer serves as the secretary-treasurer of the Corporation and the board. The TSFC is a blended component unit of the state and is included in the state's financial statements.

Operations of the Corporation were funded initially with a portion of bond proceeds but are now funded with investment income. The Corporation has no employees. R.S. 39:99.8(A) states the staff of the Department of the Treasury, including that of the State Bond Commission, may, pursuant to a cooperative endeavor agreement, serve as staff to the Corporation under the supervision of the state treasurer.

TOBACCO SETTLEMENT FINANCING CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

Using the criteria in Governmental Accounting Standards Board (GASB) Codification Section 2100, the Division of Administration, Office of Statewide Reporting and Accounting Policy, has defined the governmental reporting entity to be the State of Louisiana. The Office of Statewide Reporting and Accounting Policy considers the Corporation to be a blended component unit of the State of Louisiana because the state has financial accountability for fiscal matters as follows: (1) a majority of the members of the governing board are appointed by the governor; (2) the state has control and exercises authority over budget matters; (3) no later than two years after the full payment of tobacco settlement asset-backed bonds principal and interest, the board shall dissolve and terminate the existence of the Corporation; and (4) services are provided entirely to the primary government. Annually, the State of Louisiana issues financial statements, which include the activity contained in the accompanying financial statements. Those financial statements are audited by the Louisiana Legislative Auditor.

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental entities and promulgated by the Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards.*

The accompanying 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 recognized when they become measurable and available to fund current operations. Expenditures are recognized when the related fund liability is incurred, except for principal and interest on long-term debt which is recognized when due.

The accompanying government-wide statements (Statement of Net Assets and Statement of Activities) are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when the related liability is incurred, regardless of the timing of related cash flows.

Reconciliations are provided to facilitate the comparisons between the governmental fund and the government-wide financial statements. These reconciliations are presented separately in the Reconciliation of the Debt Service Fund Balance Sheet to the Statement of Net Assets (page 11) and in the Reconciliation of the Debt Service Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities (page 13).

C. FUND ACCOUNTING

The activities of the Corporation are accounted for in a Debt Service Fund. Debt Service Funds account for the accumulation of resources for, and the payment of, long-term debt principal and interest. The Corporation's Debt Service Fund balance sheet portrays the current assets and current liabilities of the Corporation with the difference being fund balance restricted for debt service.

D. CASH AND INVESTMENTS

Cash consists of demand deposits. Investments consist of direct investments in commercial paper and money market funds. Under state law, the Corporation may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States.

Funds held by the Corporation or by the indenture trustee may be invested and reinvested in investments and securities as allowed under an indenture of trust within the limitations for investments under the laws of the State of Louisiana as defined in R.S. 49:342(C). The Corporation's investments, with the exception of the money market mutual funds, are stated at amortized cost, which approximates fair value, in accordance with GASB Statement No. 31 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The money market mutual funds are stated at fair value.

E. RESTRICTED ASSETS

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

F. BOND ISSUANCE COSTS

Bond issuance costs are capitalized and amortized over the lives of the related debt using the interest method or methods that approximate the interest method.

G. NET ASSETS/FUND BALANCE

Net assets represent the difference between assets and liabilities and are classified as unrestricted net assets which are free of restrictions.

The following fund balance classifications are defined by GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definition* and describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance – amounts that are not in spendable form or are required to be maintained intact;
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, enabling legislation, indentures of trust, or other external means;

G. NET ASSETS/FUND BALANCE (continued)

- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint;
- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance – amounts that are available for any purpose; positive amounts are reported in the general fund only.

All of the Corporation's fund balance is considered restricted based on enabling legislation under the provisions of Louisiana Revised Statutes 39:99.1 through 39:99.20.

H. FUTURE SETTLEMENT PAYMENTS PURCHASED FROM THE STATE AND REVENUE RECOGNITION

As described more fully in Notes 4 and 5, the Corporation initially purchased 60% of the future revenues to be received under the Master Settlement Agreement with bond proceeds. The Corporation follows GASB Technical Bulletin 2004-1 as amended by GASB Statement No. 48 *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* in establishing accounting policy for the purchase of future settlement collections which, for the Corporation, require no asset recognition.

In accordance with GASB Technical Bulletin 2004-1, settlement payments to be received by the Corporation are recognized as revenue as the underlying tobacco product sales occur.

I. ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates. There are two significant estimates contained within the financial statements: the current portion of bonds payable (net) of $39,534,439 (Note 4) and the tobacco settlement revenue receivable of $42,932,763 (Note 5).

2. CASH

For deposits in financial institutions, custodial credit risk is the risk that, in the event of failure of the financial institution, TSFC will not be able to recover the value of its deposits.

At June 30, 2012, the Corporation has cash (book and bank balances) totaling $277,199 held in a demand deposit account. The deposits (collected bank balances) are secured from risk by federal deposit insurance. The Corporation does not have a formal policy for custodial credit risk for cash.

3. INVESTMENTS

At June 30, 2012, investments of $127,023,998 consisted of the following:

Investment Type	Reported Amount	Credit Quality Rating		% of Investments	Maturity Less Than 1
JPM US Government Money Market Fund	$ 36,629,484	AAA-mf	**	28.84%	$ 36,629,484
Royal PK Investment Funding Corporation (Commercial Paper)	90,394,514	P-1	**	71.16%	90,394,514
Total Investments	$ 127,023,998			100.00%	$ 127,023,998

** Credit quality rating obtained from Moody's Corporation (short-term rating)

Of the total investment balance of $127,023,998, a total of $105,158,982 is held in separate accounts to satisfy the Liquidity Reserve requirements set forth in the bond trust indenture. The Corporation met its reserve balance requirements at June 30, 2012.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, TSFC will not be able to recover the value of its investment that are in the possession of an outside party.

The $36,629,484 of money market mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The commercial paper investments totaling $90,394,514 at amortized costs are held by the Bank of New York as trustee for the Corporation. TSFC does not have a formal investment policy for custodial credit risk.

Credit Risk: This risk is defined as the risk that an issuer or other counterparty to an investment transaction will not fulfill its obligations. The Corporation does not have a formal credit risk policy. However, in practice, credit risk is minimized by investing in money market funds containing underlying securities which are guaranteed by the U.S. government and commercial paper of corporations rated no less than A-1+ by Standard & Poor's or its equivalent. The P-1 short-term rating of Royal Park Investment Funding Corporation is the equivalent of long term ratings ranging from Aaa to A3.

Concentration of Credit Risk: The Corporation does not have a policy for this type of risk, which is defined as the risk of loss attributed to the magnitude of the Corporation's investment in a single issuer. As indicated in the listing of investments above, the Corporation's portfolio contains concentrations in single debt issuers in excess of 5% of its total portfolio.

Interest Rate Risk: This risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. TSFC has an agreement with Bayerische Hypo-Und Vereinsbank AG, New York Branch (counterparty) that guarantees semi-annual delivery of short-term investments bearing an annual investment rate of return of 4.63% to the 2001-B Liquidity Reserve Requirement account. This agreement and the rate of return provided for therein rate was contracted as a means of mitigating the Corporation's net rate risk with respect to the fixed rate bonds. Upon default of the agreement by the counterparty, the Corporation would be exposed to interest rate risk. The counterparty's debt has not been rated by the leading debt rating companies. The Corporation does not have a formal interest rate risk policy.

4. LONG-TERM DEBT

Long-term debt is composed of the following:

Series 2001B (Tax Exempt) Term Bonds due May 15, 2030, with interest of 5.50% due semiannually on May 15 and November 15, commencing on May 15, 2002	$ 133,695,000
Series 2001B (Tax Exempt) Term Bonds due May 15, 2039, with interest of 5.875% due semiannually on May 15 and November 15, commencing on May 15, 2002	689,405,000
Total bond debt	823,100,000
Less: unamortized bond discount	(14,657,583)
Total bond debt, net of unamortized bond discount	$ 808,442,417

The following is a summary of the debt obligation transactions for the year ended June 30, 2012:

	Debt Payable at June 30, 2011	Additions	Deductions	Debt Payable at June 30, 2012	Amounts Due Within One Year
Tobacco Settlement Asset-Backed bonds:					
Series 2001B (Tax Exempt) due May 15, 2030	$ 173,530,000	$ -	$ 39,835,000	$ 133,695,000	$ 40,000,000
Series 2001B (Tax Exempt) due May 15, 2039	689,405,000	-	-	689,405,000	-
Total	862,935,000	-	39,835,000	823,100,000	40,000,000
Less: unamortized bond discount	(15,153,185)	495,602	-	(14,657,583)	(465,561)
Total, net of unamortized discounts	$ 847,781,815	$ 495,602	$ 39,835,000	$ 808,442,417	$ 39,534,439

The amounts due within one year represent an estimate of the surplus collection to be available in 2012-2013 for Turbo redemptions. See description of Turbo redemption features in subsequent paragraphs of this note.

On November 7, 2001, the Corporation issued $1,202,770,000 in Tobacco Settlement Asset-Backed Bonds. The bonds were issued to finance the Corporation's purchase of 60% of the state's future receipts from the Master Settlement Agreement with participating cigarette manufacturers. The bonds are secured by the Corporation's claim to 60% of these future receipts. The claim is on parity with the claim of the state to the ownership of the remaining 40% of all amounts expected to be paid to the state under the Master Settlement Agreement. In addition, the bonds are secured by all earnings on investments held in certain accounts established under an indenture of trust.

4. LONG-TERM DEBT (continued)

The bond indenture states that the Series 2001 bonds shall not be deemed to be nor constitute a debt or obligation of the state or a pledge of the full faith or credit of the state or any political subdivision thereof. The Corporation has no taxing power. No assets or revenues of the state or any political subdivision thereof is or shall be obligated or pledged to the payment of the principal of or interest on the bonds.

The proceeds of this issue were used for the following:

Purchase of 60% of the expected MSA proceeds	$	1,069,510,895
Liquidity reserve accounts		103,920,481
Capitalized operating expenses		75,000
Costs of issuance account		2,274,000
Underwriters' discount		9,294,328
Original issue discount		17,695,296
Total Bond Proceeds	$	1,202,770,000

The official bond documents provide several schedules for the repayment of principal: the Term Bond maturity schedule, the Sinking Fund Installment schedule and the Turbo Redemption schedule. A description of each of the re-payment schedules and the requirements of the Corporation with respect to those schedules is as follows:

Term bond maturities represent the minimum amount of principal that the Corporation must pay as of specific distribution dates in order to avoid an event of default under the indenture.

Sinking fund installments represent the amount of principal that the Corporation will pay according to the terms of the indenture. The Corporation is required to make these payments to the extent that funds are available for payment. Failure by the Corporation to make a sinking fund installment according to the terms of the indenture will not constitute an event of default. The amount of any sinking fund installments made will be credited against term maturities in ascending chronological order.

Turbo redemptions are not scheduled principal payments but are an estimate of the potential repayment 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 2001B Bonds will be withdrawn, reduced or suspended. The amount of any turbo redemption paid is credited against both sinking fund installments and term bond maturities in ascending chronological order. Surplus collections applied toward the turbo redemptions totaled $39,835,000 for fiscal year 2012.

As stated in the indenture, the required debt service payments under the term maturities and sinking fund installments are scheduled to occur as set forth below. In accordance with the turbo redemption features of the bonds, if surplus collections are received, then principal amounts will be paid advance of these scheduled dates. Such Turbo redemptions would result in lesser interest payments over the remaining life of the bonds.

4. LONG-TERM DEBT (continued)

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

	Term Bond Maturities		Sinking Fund Maturities	
Fiscal Year	Principal	Interest	Principal	Interest
2013	$ -	$ 47,855,769	$ -	$ 47,855,769
2014	-	47,855,769	-	47,855,769
2015	-	47,855,769	-	47,855,769
2016	-	47,855,769	-	47,855,769
2017	-	47,855,769	-	47,855,769
2018-2022	-	239,278,843	-	239,278,843
2023-2027	-	239,278,843	-	239,278,843
2028-2032	133,695,000	224,572,394	255,535,000	215,091,206
2033-2037	-	202,512,719	395,465,000	123,021,325
2038-2039	689,405,000	81,005,088	172,100,000	15,114,907
Totals	$ 823,100,000	$ 1,225,926,732	$ 823,100,000	$ 1,071,063,969
Less: unamortized discount	(14,657,583)		(14,657,583)	
Total, net of unamortized bond discount	$ 808,442,417		$ 808,442,417	

5. PLEDGED TOBACCO SETTLEMENT REVENUES AND RECEIVABLE

Tobacco Settlement Financing Corporation, a special purpose public corporate entity and an instrumentality independent of the State, issued $1,202,770,000 of tobacco settlement asset-backed bonds in 2001. The revenue bonds were issued to finance the Corporation's purchase of the pledged tobacco settlement revenues (TSRs). The pledged TSRs consist of 60% of all amounts required to be paid to the State after the issuance of the Series 2001 Bonds. Participating cigarette manufacturers (PMs) entered into a Master Settlement Agreement (MSA) with 46 states and six other U.S. jurisdictions in 1998. The MSA requires the PMs to make certain initial, annual and strategic contribution payments to each entity included in the MSA. The Corporation's claim to pledged TSRs is on parity with the State's claim of the remaining 40% of all amounts payable to the State. The Bonds are secured by and payable from (i) the pledged TSRs and all investment earnings on the amounts on deposit in certain collection accounts, (ii) amounts held in a liquidity reserve account, and (iii) all amounts, if any, on deposit in other accounts established. The Corporation received $90,386,853 in pledged revenues and investment earnings for fiscal year 2012. The bonds, payable through 2039, have total principal outstanding of $823,100,000. The principal and interest paid for the current year was $39,835,000 and $50,046,694.

Tobacco Settlement Revenues (TSRs) consist of the amounts to be received under the terms of a Master Settlement Agreement (MSA) among participating cigarette manufacturers and 46 states and six other U.S. jurisdictions (Settling States). The MSA is an industry wide settlement of litigation between the Settling States and the Original Participating Manufacturers (OPMs) and was entered into between the

5. PLEDGED TOBACCO SETTLEMENT REVENUES AND RECEIVABLE (continued)

attorneys general of the Settling States and the OPMs on November 23, 1998. The MSA provides for other tobacco companies, referred to as Subsequent Participating Manufacturers (SPMs), to become parties to the MSA. The four OPMs together with the 30+ SPMs are referred to as the Participating Manufacturers (PMs). The settlement represents the resolution of a large potential financial liability of the PMs for smoking-related injuries, the cost of which have been borne and will likely to continue to be borne by cigarette consumers. Pursuant to the MSA, the Settling States agreed to settle all their past and future smoking-related claims against the PMs in exchange for agreements and undertakings by the PMs concerning a number of issues. These issues include, among other things, making payments to the Settling States, abiding by more stringent advertising restrictions and funding educational programs, all in accordance with the terms and conditions set forth in the MSA. Distributors of the PMs are also covered by the settlement of such claims to the same extent as the PMs.

Under the MSA, the PMs are required to pay to the Settling States (i) five initial payments, the first of which was due on November 12, 1999, with the remaining four due on January 10, 2000 through 2003 (Initial Payments); (ii) annual payments required to be made on April 15, commencing April 15, 2000, and continuing in perpetuity (Annual Payments) and (iii) ten annual payments required to be made on each April 15, commencing April 15, 2008, and continuing through April 15, 2017 (Strategic Contribution Payments). Prior to the formation of the Corporation, the PMs made the first of the three required Initial Payments and the Annual Payments due April 15, 2000 and 2001, none of which the Corporation had any right to receive.

The TSRs due under the MSA are subject to numerous adjustments, some of which may be material. Such adjustments include, among others, reductions for decreased domestic cigarette shipments, reductions for amounts paid by PMs to four states which had previously settled their claims independently of the MSA, and in the case of Annual Payments and Strategic Contribution Payments, increases related to inflation of not less than 3% per annum. Furthermore, TSR's are subject to a Nonparticipating Manufacturer (NPM) adjustment which may be triggered by, among other occurrences, the determination that the MSA has contributed to market share loss. In recent years the PM's have applied these adjustments in determining their annual payments to be remitted and those adjustments have resulted in lesser payments than would otherwise have been made. The Settling States dispute the application of these adjustments and are engaged in ongoing deliberations with the OPM's regarding these adjustments.

Much of the TSRs represent a portion of future sales of tobacco products. GASB Technical Bulletin No. 2004-1 clarified guidance relating to the recognition of revenues and receivables. Specifically, the bulletin allows for the recognition of revenue based on the shipment of domestic cigarettes. The receivable recognized in the financial statements represents an estimate of the shipments made through June 30, 2012.

6. ADMINISTRATIVE EXPENSES

The State of Louisiana's Division of Administration performs certain accounting and administrative services for the Corporation for which it receives no compensation. The value of such services was immaterial to the Corporation's financial statements.

7. CONTINGENCIES

Certain smokers, consumer groups, cigarette manufacturers, cigarette importers, cigarette distributors, Native American tribes, taxpayers, taxpayers' groups and other parties have instituted litigation against various tobacco manufacturers, including the PMs, as well as certain Settling States, including Louisiana, and other federal and public entities. The lawsuits allege, among other things, that the Master Settlement Agreement or "MSA" (as well as 'tobacco' statutes, including both escrow and complementary legislation in MSA states) violates certain provisions of the United States Constitution, state constitutions, the federal antitrust laws, federal civil rights laws, state consumer protection laws and unfair competition laws, while other suits allege breach of the MSA. These actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. The lawsuits seek, among other things, an injunction against one or more of the Settling States from collecting any monies under the MSA and barring the PMs from collecting cigarette price increases related to the MSA and/or a determination that the MSA is void or unenforceable. To date, no such lawsuits have been successful. The enforcement of the terms of the MSA may, however, continue to be challenged in the future.

In April 2003, Carolina Tobacco Company filed suit in United States District Court in Oregon against states officers in Louisiana and the other Settling States with claims that the plaintiff had been deprived of property without due process of law in violation of the Fourteenth Amendment of the U.S. Constitution (*Carolina Tobacco Company v. Angela Watson, et al*, D.C. No. CV-03-00423). Carolina Tobacco Company claimed that the defendants failed to grant releases of certain funds that had been placed into escrow by Carolina Tobacco Company under the escrow legislation. Upon a motion to dismiss filed by the defendants, the judge granted the motion on the grounds that venue was not proper against the defendants under a contractual forum selection clause to which Carolina Tobacco Company had agreed and dismissed the lawsuit without prejudice on August 11, 2003. Carolina Tobacco Company filed a motion to appeal the trial court's ruling with the United States Court of Appeals for the Ninth Circuit; however, various defendants, including the Louisiana state officer defendant, were dismissed by stipulation on December 22, 2003.

Specific to the TSFC and the State of Louisiana, a case challenging the Master Settlement Agreement was filed in federal court in Shreveport, Louisiana, on August 2, 2005. This case (*A.B. Coker, et al. vs. Charles Foti, Jr.*, CV-05-1372S) raised a multitude of constitutional challenges in an attempt to overturn the MSA. On October 31, 2005, the State of Louisiana filed a motion to dismiss this case. In November 2006, the district judge granted Louisiana's motion to dismiss as to the Tenth Amendment claim, but denied the motion as to the other claims. The remaining claims in Coker were based on Federal Cigarette Labeling and Advertising Act ("FCLAA") preemption and alleged violations of the Commerce, Due Process, and Compact Clauses of the U.S. Constitution. Defendant filed a Motion for Summary Judgment dismissing S&M Brands, Inc.'s claims for lack of standing in July 2008. Plaintiffs, S&M Brands, Inc., Tobacco Discount House #1, Inc., and Mark Heacock, filed an opposition in early August 2008 and oral argument was heard on February 9, 2009.

7. CONTINGENCIES (continued)

On September 24, 2009, Judge Hicks granted the State of Louisiana's Motion for Summary Judgment, rejecting Plaintiffs' claims based on the Compact Clause, FCLAA, the Commerce Clause and Due Process. The Plaintiffs appealed and, on August 10, 2010, the United States Fifth Circuit Court of Appeal affirmed the Court's decision. On November 8, 2010, S & M Brands, Inc., Tobacco Discount House #1, and Mark Heacock filed a Writ of Certiorari with the United States Supreme Court (*S & M Brands, v. Caldwell*, U.S. Supreme Court, Docket Number 10-0622). The Writ raised two issues: antitrust and the compact clause. However, the United States Supreme Court ultimately denied certiorari and refused to review the decision of the United States Fifth Circuit Court of Appeals. Since July 2007, the firm of McGlinchey Stafford represented the State of Louisiana in the litigation, through a National Association of Attorneys General ("NAAG") grant.

On January 12, 2004, *Xcaliber International Limited, LLC vs. Foti* (Civil Action No. 04-0069 Section "S") was filed in the United States District Court for the Eastern District of Louisiana whereby Plaintiff, a Non-Participating Manufacturer ("NPM") sought declaratory and injunctive relief regarding the constitutionality of La. 13:5061-5063 (the "Escrow Statutes"), - particularly 13:5063(c)(2)(b) – the Allocable Share Amendment. The Plaintiff alleged it was harmed by the allocable share amendment and sought to have the amendment declared unconstitutional and an injunction issued against the enforcement of that amendment. This challenge is based on antitrust preemption and constitutional grounds. On May 7, 2009, the U.S. District Court – Eastern District of Louisiana, granted the State of Louisiana's Motion for Summary Judgment and denied the Plaintiff's Motion for Summary Judgment. The Plaintiff appealed and on July 15, 2010, the Fifth Circuit Court of Appeal affirmed summary judgment in favor of the State of Louisiana. No Writ of Certiorari was filed to the U.S. Supreme Court. Thus, the Fifth Circuit Court of Appeal's ruling that dismissed the *Xcaliber* complaint is now a final judgment. As in *Coker*, pursuant to a NAAG grant, the firm of McGlinchey Stafford represented the State of Louisiana in this matter.

In addition, Louisiana was also a defendant in litigation filed in New York, - the United States District Court, Southern District of New York (*Grand River Enterprises Six Nations Ltd., et al. vs. Troy King*, No. 02-Civ. 5068 (JFK/DLE)). This case was also an attack of the MSA including constitutional challenges to the escrow statute(s) of defendant states. The lead counsel on the case was the New York Attorney General's Office. In March 2008, plaintiff filed an amended and supplemental complaint. In August 2009, cross motions for summary judgment were filed. On March 17, 2011, the United States District Court, Southern District of New York held that Plaintiff's motion for summary judgment on the Commerce Clause and Sherman Act claims was denied in all respects. The Court further held that the States' motion for summary judgment on the the Commerce Clause and Sherman Act preemption claims was granted and all Sherman Act violation claims were foreclosed on the basis of state action immunity. Per the Court, the decision resolved all claims in the amended complaint. Plaintiff filed a Notice of Appeal on April 21, 2011. The appeal was docketed by the United States Court of Appeals for Second Circuit on May 11, 2011. Additionally, plaintiff filed a motion to amend the portion of the Court's order of March 17, 2011 and accompanying judgment that granted the States' motion for summary judgment and dismissed the Sherman Act and Commerce Clause claims. The States filed an Opposition to same and the plaintiff filed a reply brief. The Court denied the plaintiff's motion to amend the judgment on January 30, 2012. The plaintiff's appeal of the judgment granting the States' motion for summary judgment was still pending; however, on August 10, 2012, the parties filed a stipulation withdrawing the appeal.

7. CONTINGENCIES (continued)

The Participating Manufacturers to the MSA and the Settling States, including Louisiana, were previously involved in diligent enforcement proceedings (*Foti v. Philip Morris, et al*, Suit No. 98-6473) regarding the manufacturers' responsibilities and the states' positions relative to the diligent enforcement efforts of individual states and a potential downward adjustment of the annual payment made to the States. Louisiana is currently involved in a multi-state arbitration of such matters with the Participating Manufacturers before an arbitration panel, whereby Louisiana is prepared to show our efforts in the enforcement of LSA-R.S. 13:5061, et seq. The Participating Manufacturers are challenging the efforts of Louisiana and the other Settling States to the MSA in 2003 and are therefore seeking a downward adjustment of their 2004 annual payment to the states.

As background for this pending arbitration, the MSA provides that if any state does not enact and diligently enforce its Qualifying Statute (See LSA-R.S. 13:5061, et seq.), and certain other condition precedents are not met, then the State's annual MSA payments will be reduced by an NPM Adjustment (MSA § IX (d)(2)). The MSA includes a series of adjustments and the Participating Manufacturers have claimed that certain conditions have been met and therefore, they are entitled to the NPM Adjustment, a downward adjustment, to the annual payment made to the Settling States. However, these claims are disputed by Louisiana and the other Settling States whose diligent enforcement activities are being contested by the PMS. The Common Case Hearing occurred in April 2012, whereby the arbitration panel heard testimony and received evidence on common enforcement issues that existed around the country in the relevant time frame. The State Specific Hearings have begun in which each contested state will have an opportunity to present testimony and evidence as to its diligent enforcement activities during 2003. Louisiana's State-Specific Hearing is currently scheduled for March 2013 in Ft. Myers, Florida. The State-Specific Hearings are anticipated to be ongoing through June 2013 and a decision will be issued by the panel sometime thereafter. The PMs and seventeen (17) Settling States, including Louisiana, have reached a preliminary settlement agreement; however, at this time, the agreement remains tentative and our March 11 - 14 hearing has not been either deferred or rescheduled.

Additionally, the PMs have sent formal notice that they are instituting the 2004 NPM Adjustment proceeding whereby the PMs will challenge the diligent enforcement actions of the Settling States, including Louisiana, in 2004 and seek a downward adjustment of the 2005 annual payment to the states. An arbitration panel has not yet been chosen for the 2004 NPM Adjustment proceeding.

The State of Louisiana has also agreed to participate in arbitration against Liggett, Commonwealth and Lignum. Over the past several years, Liggett has withheld approximately $37 million from its annual MSA payments due because Liggett disputes the Independent Auditor's decision to change the units used to measure the total domestic cigarette market and each Participating Manufacturer's payment obligation from gross (which is the quantity of cigarettes on which federal excise tax is paid) to net (which is the quantity of cigarettes on which federal excise tax is ultimately paid after adjustments have been made for cigarettes unsold which are returned to the manufacturer and for which the manufacturer obtains a refund on federal excise tax paid). A letter notifying Liggett, Commonwealth and Lignum of the intent to pursue arbitration was sent by the participating states in August, 2011. Subsequent to the notice of arbitration being sent, the PMs notified the states that they also want to simultaneously arbitrate the "RYO" conversion issue. A panel of three retired federal judges was selected and the matter was heard December 11-13, 2012, in Philadelphia, Pennsylvania. No ruling has yet been made by the arbitration panel at this time. If the States prevail in the proceeding, the withheld amounts would likely be distributed among the States according to their allocable share.

7. CONTINGENCIES (continued)

The corporation is also exposed to various risks of loss related to torts, theft of assets, and errors and omissions that could occur in the normal course of business. The corporation retains the risk of loss in the event of any judgments against it. As of December 6, 2012, no known asserted or unasserted claims or judgments were against the corporation. Members of the board and persons acting on the corporation's behalf, while acting within the scope of their duties or employment, shall not be subject to any personal liability resulting from carrying out the powers and duties conferred on them pursuant to R.S. 39:99.5 and shall have the indemnification rights provided in R.S.13:5108.1 with respect to such actions.

8. UNRESTRICTED NET ASSETS (DEFICIT)

The net assets deficit is a result of bonds payable and other liabilities exceeding recognized assets. The bonds are recognized as a liability, while the resources to repay the bonds, consisting of future TSR's are not recognized as assets until the underlying sales of tobacco products are known.

SUPPLEMENTARY INFORMATION SCHEDULE

CONTINUING DISCLOSURE REQUIREMENTS
PURSUANT to SECTION 6.05 of the TRUST INDENTURE

TOBACCO SETTLEMENT FINANCING CORPORATION
CONTINUING DISCLOSURE REQUIREMENTS
PURSUANT to SECTION 6.05 of the TRUST INDENTURE

Projection of Initial Payments to be Received by the Corporation:

	Projected Total Initial Payments to the Corporation	Actual Total Initial Payments to the Corporation
2002	$ 28,751,826	$ 26,984,314
2003	28,632,490	28,948,293
Total	$ 57,384,316	$ 55,932,607

Projection of Annual Payments to be Received by the Corporation:

	Projected Total Annual Payments to the Corporation	Actual Total Annual Payments to the Corporation
2002	$ 69,574,125	$ 72,028,299
2003	69,285,353	69,210,776
2004	86,260,259	86,103,458
2005	87,217,465	85,298,610
2006	88,368,729	79,171,256
2007	89,524,811	82,868,340
2008	92,551,226	88,885,871
2009	93,861,802	93,161,957
2010	95,104,251	76,979,309
2011	96,462,061	72,967,529
2012	97,824,163	74,413,357
Total	$ 966,034,245	$ 881,088,762

Projection of Strategic Contribution Payments to be Received by the Corporation:

	Projected Strategic Contribution Payments to the Corporation	Actual Strategic Contribution Payments to the Corporation
2008	12,972,695	7,489,875
2009	13,156,396	12,139,998
2010	13,330,547	11,132,717
2011	13,520,868	10,143,664
2012	13,711,791	10,330,919
Total	$ 66,692,297	$ 51,237,173

TOBACCO SETTLEMENT FINANCING CORPORATION
CONTINUING DISCLOSURE REQUIREMENTS
PURSUANT to SECTION 6.05 of the TRUST INDENTURE

Projection of Total Payments to be Received by the Corporation:

	Projected Total Payments to the Corporation	Actual Total Payments to the Corporation
2002	$ 98,325,951	$ 99,012,612
2003	97,917,843	98,159,069
2004	86,260,259	86,103,458
2005	87,217,465	85,298,610
2006	88,368,729	79,171,256
2007	89,524,811	82,868,340
2008	105,523,922	96,375,746
2009	107,018,197	105,301,955
2010	108,434,797	88,112,026
2011	109,982,929	83,111,193
2012	111,535,954	84,744,276
Total	$ 1,090,110,857	$ 988,258,541

Estimated Debt Service Coverage:

	Estimated Debt Service Coverage for Series 2001 Bonds	Actual Debt Service Coverage for Series 2001 Bonds
2002	1.39	1.02
2003	1.35	0.95
2004	1.27	1.34
2005	1.27	1.38
2006	1.29	1.32
2007	1.31	1.43
2008	1.40	1.68
2009	1.51	1.90
2010	1.54	1.70
2011	1.56	1.68
2012	1.57	1.79

OTHER REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Exhibit A

The following pages contain our report on internal control over financial reporting and on compliance with laws, regulations, and other matters as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based on the audit of the financial statements and includes, where appropriate, any significant deficiencies and/or material weaknesses in internal control or compliance and other matters that would be material to the presented financial statements.

LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

January 10, 2013

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*

TOBACCO SETTLEMENT FINANCING CORPORATION
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the financial statements of the debt service fund and the governmental activities of the Tobacco Settlement Financing Corporation (Corporation), a blended component unit of the State of Louisiana, as of and for the year ended June 30, 2012, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated January 10, 2013. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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*.

This report is intended solely for the information and use of management, the Corporation's board of directors, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

SGW:DG:BDC:THC:ch

TSFC 2012