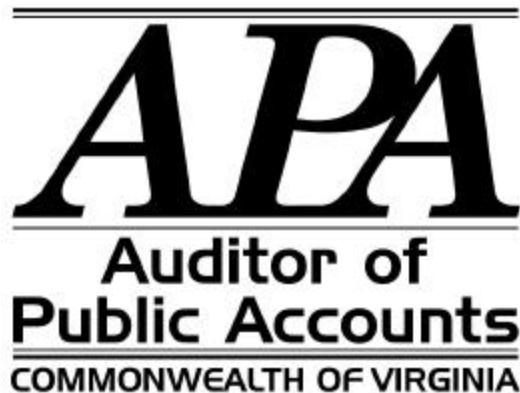


**VIRGINIA TOBACCO SETTLEMENT FOUNDATION
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2000**



AUDIT SUMMARY

Our audit of the Virginia Tobacco Settlement Foundation for the year ended June 30, 2000, found:

- proper recording and reporting of transactions, in all material aspects, in the Commonwealth Accounting and Reporting System;
- no material weaknesses in internal controls; and
- no instances of noncompliance with applicable laws and regulations that are required to be reported.

January 4, 2001

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

FINANCIAL OVERVIEW

The Virginia Tobacco Settlement Foundation (the Foundation) is a political subdivision of the Commonwealth created in 1999 to receive a portion of Virginia's funds from the Master Settlement Agreement with tobacco manufacturers. A Board of Trustees governs and administers the Foundation.

The Foundation assists in financing efforts to restrict the use of tobacco products by minors. Funding for these activities comes primarily from the Virginia Tobacco Settlement Fund and represents ten percent of Virginia's share of the Master Settlement Agreement. The Foundation received revenues of \$16,734,600 from the settlement fund and \$350,910 from interest and had expenses of \$114,924 during the fiscal year, leaving an available balance of \$16,970,587 at June 30, 2000.

The Virginia Department of Health processes financial transactions, including all payroll and accounts payable transactions, for the Foundation. The Foundation employs an executive director and two additional staff.

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Virginia Tobacco Settlement Foundation** for the year ended June 30, 2000. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Foundation's internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observations of the Foundation's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and

regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Revenues	Payroll
Expenses	Contracts

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Foundation's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Foundation's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Foundation properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Foundation records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we considered to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

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VIRGINIA TOBACCO SETTLEMENT FOUNDATION
Richmond, Virginia

Clarence Carter, Executive Director

BOARD OF TRUSTEES
As of June 30, 2000

Steven J. Danish, Chairman

John M. O'Bannon, III, Vice Chairman

John D. Andrako	Emmett W. Hanger, Jr.
Walter H. Bass, III	Becky Hartt-Minor
Judy A. Brannock	Barbara D. Hughes
Whittington Clement	Robert Leek
Curtis Coleburn	V. Carole Loughheed
Christopher E. Desch	James Lund McDaniel
Dennis L. Desilvey	E. Anne Peterson
Jordan Forbes	Scott K. Radow
Rickie Fulcher	Michael Sloan
Franklin P. Hall	John Watkins

Percy Wootton