

**Tobacco Settlement Financing Corporation**  
**October 12, 2012**  
**Minutes of the Meeting**

A Tobacco Settlement Financing Corporation meeting was held in the Budget Officer's Conference Room on the 4th floor of the Department of Administration Building, One Capitol Hill, Providence, on Friday, October 12, 2012.

At 3:10 p.m., Rosemary Booth Gallogly, Director, Department of Administration called the meeting to order. Corporation members present were: Rosemary Booth Gallogly, James Thorsen, Robert Cusack, and Andrew Reilly. Other attendees were: Jim Wilkinson, CPA, Braver PC and Peter Keenan, Office of the State Controller.

The first order of business is to approve the minutes of the October 14, 2011 meeting. A motion was made to approve the October 14, 2011 minutes by Mr. Thorsen. The motion was seconded by Mr. Cusack and approved unanimously.

The next item on the agenda is the approval of the 2012 Audit Report. Mr. Wilkinson from Braver, who serves as the Corporation's auditor, presented an overview of the financial statements and discussed the FY 2012 results.

The Chairperson, Ms. Booth Gallogly, noted the supplemental schedule that shows the difference between the MSA revenues received and what was expected. Comparing it to the estimates at the time of the 2002 bond issuance, MSA actually received were \$6.6 million less than what was anticipated. Compared to the estimates at the time the 2007 bonds were issued, actual MSA revenues were \$13.6 million less. There were \$27 million in disputed payments, which if and when received, could offset the cumulative underperformance. Ms Booth Gallogly also shared the detailed historical operating expenses of the Corporation which showed that expenses hover around \$70,000. Each year she communicates with the trustee, pursuant to the indenture, an amount to set aside for operating costs. This amount has been \$150,000 since 2002, but the expenses have never reached that level.

A brief discussion on investments was held. The members discussed the desire to have short term investments more diversified in more holdings to minimize risk when the investments mature in November and December, and Ms. Booth Gallogly indicated she would communicate that to the Trustee in order to be in line with the investment policy.

Ms. Booth Gallogly asked for a motion to approve the 2012 audit report. A motion was made to approve the audit report by Mr. Reilly. The motion was seconded by Mr. Thorsen and approved unanimously.

Under other business, Ms. Booth Gallogly informed the members that she was a witness in a federal criminal trial in August 2012 relating to guaranteed investment contracts that the Corporation and the State of Rhode Island entered into in 2002 relating to the 2002 bond proceeds. The investment of bond proceeds for the escrow fund established to defease state debt in 2002 was the subject of the Director of Revenue's testimony during the trial in August. In August 2012, a federal jury in New York City convicted three former financial services executives for their participation in frauds related to bidding for contracts for the investment of municipal bond proceeds and other municipal finance contracts. The verdict resulted from an ongoing investigation conducted by the Antitrust

Division's New York and Chicago Offices, the FBI and the IRS-CI. The Antitrust Division is coordinating its investigation with the U.S. Securities and Exchange Commission, the Office of the Comptroller of the Currency and the Federal Reserve Bank of New York.

According to evidence presented at trial, while acting as providers, the three men convicted, with their provider and broker co-conspirators, corrupted the bidding process for more than a dozen investment agreements to increase the number and profitability of the agreements awarded to their firm. At other times, while acting as brokers, the three men convicted and their co-conspirators arranged for their firm to receive kickbacks in exchange for manipulating the bidding process and steering investment agreements to certain providers.

During the trial, the government presented specific evidence relating to approximately 26 corrupted bids and approximately 76 recorded conversations made by the co-conspirator financial institutions. Among the issuers and not-for-profit entities whose agreements or contracts were subject to the defendants' schemes was the Tobacco Settlement Financing Corporation of Rhode Island. The Corporation and the State of Rhode Island had previously received proceeds from settlement agreements associated with the investment of the proceeds from the 2002 bond issue of the Tobacco Settlement Financing Corporation.

A total of 20 individuals have been charged as a result of the US Department of Justice's ongoing municipal bonds investigation. Including the August 2012 convictions, a total of 19 individuals have been convicted or pleaded guilty.

The Corporation and the State of Rhode Island had previously received proceeds from settlement agreements with financial institutions associated with the investment of the proceeds from the 2002 bond issue of the Tobacco Settlement Financing Corporation. The Tobacco Corporation received \$926,772 from Banc of America in FY2011, \$2,319,667 from JP Morgan in FY2012; and the State of RI received \$1,951,166 in FY2011 from UBS, and \$3,271,648 from Wachovia in FY2012. There is also a class action suit which names the Tobacco Corporation.

A motion was made to adjourn by Mr. Thorsen. The motion was seconded by Mr. Cusack and approved unanimously. The meeting adjourned at 3:50 p.m.

Respectfully submitted,

Robert Cusack  
Secretary