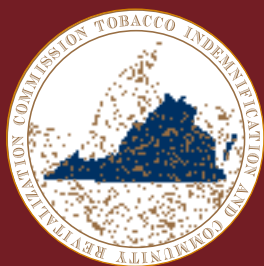




# ANNUAL REPORT

Fiscal Year 2004



Virginia Tobacco Indemnification and  
Community Revitalization Commission



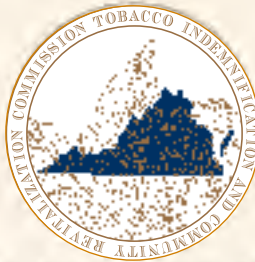




The Honorable Charles R. Hawkins  
Chairman

The Honorable Terry G. Kilgore  
Vice Chairman

Carthan E. Currie, III  
Executive Director



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**Virginia Tobacco Indemnification and Community Revitalization Commission**

701 E. Franklin Street, Suite 501 • Richmond, Virginia 23219

October 11, 2004

To the Governor and Members of the General Assembly of Virginia:

On June 30, 2004, the Virginia Tobacco Indemnification and Community Revitalization Commission closed its 5th fiscal year of service to the citizens of the tobacco-producing region of the Commonwealth. In those five short years, we have strategically invested nearly \$255 million in an unprecedented transformation of the Commonwealth's oldest and largest farm economy. The last 12 months have been one of the most productive and rewarding periods of our short history, and it is my privilege to bring you this report of the events from the last year.

Under your legislative mandate, funds received by the Commission from the Master Settlement Agreement (MSA) were used exclusively for two purposes: indemnification and revitalization. Thirty-three percent of MSA revenue was committed directly to individual Virginia tobacco farmers as indemnification for their losses, and 60 percent went into revitalization projects, all within the tobacco-producing region. Three percent of the funds remain in reserve. Additional details on these investments are addressed in this report.

The key to ultimately achieving our mission is our Long Range Plan. This strategy was created in early 2003 by a coalition of visionary public and private individuals who understand the economic conditions and hardships experienced by too many Virginians within the region served by the Commission. The Commission has been true to this Plan. In fact, it is a "living document" that will continue to serve as a guide to revitalizing Virginia's tobacco region.

The Commission members and I thank you for your continued participation in and support of our mission, and we look forward to the task of bringing continued prosperity to Virginia.

Sincerely,

Charles R. Hawkins

## **FY2004 COMMISSION MEETINGS**

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July 10, 2003	Farmville	Longwood University
October 22, 2003	Wise	University of Virginia's College at Wise
January 13, 2004	Richmond	General Assembly Building
March 4, 2004	Richmond	General Assembly Building
May 20, 2004	Danville	Institute for Advanced Learning and Research

## **COMMISSION MEMBERS**

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As of June 30, 2004

### **House of Delegates Members**

The Honorable Kathy J. Byron	Lynchburg
The Honorable Allen W. Dudley	Rocky Mount
The Honorable Clarke N. Hogan	Keysville
The Honorable Joseph P. Johnson	Abingdon
The Honorable Terry G. Kilgore, Vice-Chairman	Gate City
The Honorable Thomas C. Wright, Jr.	Victoria

### **Secretary of Commerce and Trade**

The Honorable Michael Schewel Richmond

### **Secretary of Finance**

The Honorable John Bennett Richmond

### **Commissioner of Agriculture and Consumer Services**

J. Carlton Courter, III Richmond

### **Senate Members**

The Honorable Charles Hawkins, Chairman	Chatham
The Honorable Phillip Puckett	Lebanon
The Honorable Frank M. Ruff	Clarksville
The Honorable William Wampler, Jr.	Bristol

### **Active Flue-Cured Tobacco Producers**

Mr. Clarence D. Bryant, III	Blairs	<b>Term Expires</b> 6/30/05
Mr. Buddy Mayhew	Blairs	6/30/06
Mr. Thomas E. West	Nathalie	6/30/07

### **Active Burley Tobacco Producers**

Mr. Stephen S. Banner	Castlewood	6/30/06
Mr. Fred M. Fields	Pennington Gap	6/30/05
Mr. John M. Stallard	Nickelsville	6/30/07

### **Virginia Farm Bureau Federation Representative**

Mr. Jordon M. Jenkins, Jr Blackstone 6/30/07

### **Citizens**

Mr. Thomas Arthur	Blairs	6/30/07
Mr. L. Jackson Hite	Clarkesville	6/30/06
The Honorable Isiah G. Hopkins	Lunenburg	6/30/05
The Honorable Harrison A. Moody	Blackstone	6/30/07
Mr. H. Ronnie Montgomery	Jonesville	6/30/07
Mr. Claude B. Owen, Jr.	Danville	6/30/06
The Honorable Edward Owens	South Boston	6/30/05
The Honorable John Thomas Taylor	Clarksville	6/30/05
The Honorable Mary Sue Terry	Critz	6/30/06
Mr. James C. Thompson	Tazewell	6/30/06
The Honorable Gary D. Walker	Charlotte Court House	6/30/05

**Tobacco Indemnification and  
Community Revitalization Commission**

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**FIELD OFFICES AND STAFF**

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**Sara R. Griffith**

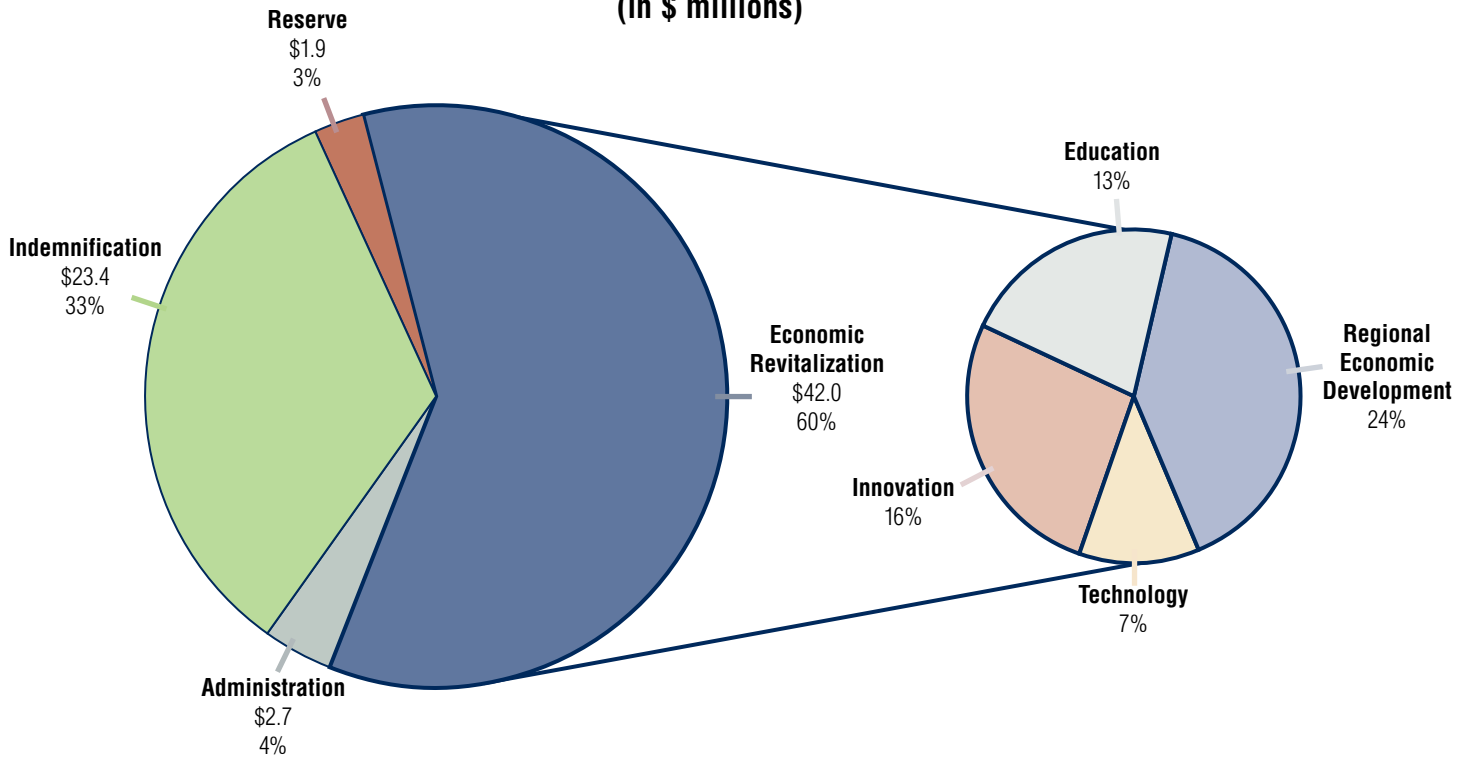
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# Fiscal Year 2004 Budget

(in \$ millions)



## Motorsports Initiative

With seven racing tracks in Virginia's tobacco region, the multi-billion dollar motorsports industry has the potential to significantly improve economic development in Southside and Southwest Virginia.

Taking the cue from the Governor's "Motorsports Initiative," the Commission funded several motorsports-related programs in 2003 and 2004. It also increased funding for marketing initiatives, with the additional dollars dedicated solely for motorsports marketing. Finally, the Commission approved a new "Motorsports Tobacco Region Opportunity Fund."

In 2003, the Commission approved \$150,000 for marketing and a business plan for a facility to house the Virginia Institute for Performance Engineering and Research (VIPER). VIPER will conduct research in mechanical engineering and offer engineering and testing services to motorsport teams. An additional grant of \$1.3 million the following year will be used to fund start-up costs as well as to install testing and engineering equipment. A \$500,000 grant to Henry County assisted with infrastructure improvements and seating expansion at the Martinsville Speedway, helping to boost tourism for the area.

The Commission voted at its October 2003 meeting to set aside \$150,000 for a Motorsports Tobacco Region Opportunity Fund to encourage growth of the motorsports industry in the tobacco region. These monies will be used to

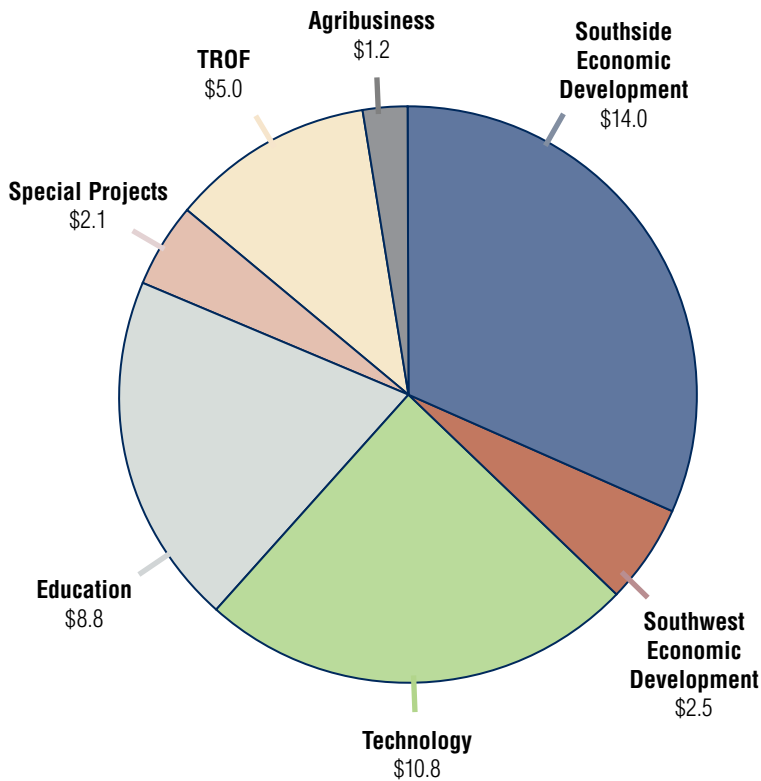
recruit research and design facilities, specialized machine shops, racecar teams and other businesses that support the racing industry. Funds will be awarded as incentive grants for job creation and investment. In 2004, Henry County received the first of these grants to help bring the HT Motorsports Craftsman Series Truck Race team to the Henry County area. The relocation of this one team will create 75 jobs in Henry County.



HT Motorsports #59 Craftsman Truck Series Dodge.

## Fiscal Year 2004 Grant Awards

(in \$ millions)



### Institute for Advanced Learning and Research

"Grass appears to be growing outside our building," the Executive Director of the Institute for Advanced Learning and Research wrote in the Institute's September 2004 newsletter. The real growth, however, is cropping up within the glass-framed walls of this facility. Technology, partnerships, and ideas are taking shape. The innovations taking place are the result of over three years and more than \$14 million of support from the Virginia Tobacco Commission.

Located in Danville, the Institute for Advanced Learning and Research is a hub for technology research and advancements. As a midpoint to an envisioned "Research Quadangle," the Institute will serve to bring together ideas from Virginia Tech and Roanoke in the north and universities such as Wake Forest, Duke, North Carolina State, and UNC in the south.



*The Institute, opened Spring 2004.*

In 2001, the Commission began its commitment with an initial grant of \$3.2 million for a land purchase and preliminary engineering for the establishment of the Institute. Since then, the Commission has provided assistance for construction, equipment, and start-up costs. The Commission will continue its commitment to the Institute by contributing up to \$2 million per year through 2010 for debt service related to construction costs.



## ECONOMIC REVITALIZATION EFFORTS

### Innovation

Innovation grants include three areas of funding: Special Projects, Tobacco Region Opportunity Fund (TROF), and Agribusiness.

Grants are awarded under the Special Projects fund for projects that benefit several localities within one region or have the potential to have a significant impact in the tobacco region as a whole. These funds are provided for projects such as research facilities and regional business development that impact the larger geographic area. Nine special projects totaling \$2.1 million were funded this fiscal year.

TROF was created to revitalize the economies of the tobacco region through incentive grants to companies that will create at least 25 new jobs and bring new private capital investment of at least \$1 million to localities within the region. This fund specifically targets the Commission's goal to stimulate economic growth and development in tobacco-dependent localities and is successfully assisting these communities by reducing their dependency on tobacco and tobacco-related business. The Commission works closely with the Virginia Economic Development Partnership to leverage the Governor's Opportunity Fund. The Commission made \$5.0 million in commitments to help attract 29 new companies, create 3,192 new jobs, and provide \$147.5 million in capital investment to the tobacco region.



Virginia Bioinformatics Institute at Virginia Tech.

Agribusiness grants are awarded to assist tobacco producers and the tobacco region's agricultural community diversify into new production opportunities and develop value-added enterprises. Six agribusiness projects received grants totaling \$1.2 million for programs and facilities.

### Tempur Productions

Rapidly increasing sales and a strong market forecast left Tempur Productions wondering how it could meet the growing demand of U.S. consumers. The answer: a \$19.6 million expansion and the addition of over 100 jobs at its production facility in the Duffield Regional Industrial Park.



Tempur officials review expansion plans with Commission members – photo by Chris Starnes, LENOWISCO PDC.

Recognizing the need to replace valuable manufacturing jobs that were lost in Southwest Virginia, the Tobacco Commission awarded \$300,000 to Scott County to encourage and assist an expansion that will result in the creation of 112 jobs at the Tempur Productions USA production facility in Duffield, Virginia.

Tempur Productions, a Swedish foam bedding products manufacturer, decided in 1999 to locate its first U.S. manufacturing facility in Scott County, Virginia. After four years of rising demand, the company realized it needed more space and more workers to meet the expanding market.

On April 15, 2003, construction began on a 205,000 square-foot addition to the existing facility in Duffield with production starting in the spring of 2004 in the expanded portion of the facility. This multi-million dollar expansion will increase the number of jobs at the Duffield site from 153 to 265 by 2005. Tempur's Vice President and Duffield plant manager Paul Key expects manufacturing capacity to double with the extension of the facility.



Site preparation at Duffield Regional Industrial Park.

## Education

Education funds are awarded for various projects that will create a world-class workforce in the tobacco region, including scholarships, community college programs, workforce training, and vocational and adult education programs. Twenty-nine grants totaling \$8.8 million were awarded this fiscal year for educational projects, including \$2.8 million to the tobacco region's seven community colleges for continuing programs, \$3.8 million in scholarships for tobacco region residents who are attending four-year degree-granting institutions, and \$2.2 million in competitive grants for educational projects.



*Opening of Southside Virginia Community College's pre-engineering academy.*

## Lake Country Advanced Knowledge Center

A study conducted by Mecklenburg County in 2001 revealed a reduction in the number of small farms, an unemployment rate of over 8 percent, and a recent loss of over 1,300 jobs due to the downsizing and closing of several local companies. To make matters worse, many of the unemployed farmers and factory workers did not have the skills and training needed for a new generation of jobs.

In March of 2001, the Tobacco Commission awarded \$804,514 to help the County purchase and renovate a 23,620 square-foot building that had remained vacant for over two years in downtown South Hill. This building would become the Lake Country Advanced Knowledge Center—a resource for educating and training workers for the jobs of a changing economy.



*Former furniture store transformed into workforce training center.*

The following year, the Commission awarded \$888,673 to complete interior classroom renovations for computer and machine-shop training. An additional grant was approved in the spring of 2003 to purchase equipment for the machine shop.

Computer training courses began at the Lake Country Advanced Knowledge Center in the summer of 2003. Classes in welding, machinery, and electronics were offered for the fall 2003 semester. Enrollment in the Center's 36 academic and training programs has steadily increased since its doors opened with over 250 students enrolled for the fall 2004 semester.



## Technology

Technology grants are awarded to develop regional fiber optic “backbone” networks that will provide high speed, redundant connectivity at an affordable cost to regional users. These networks will allow the tobacco region to grow businesses that require this connectivity and to more effectively market the region as a location for business development. Four grants totaling \$10.8 million were awarded to build infrastructure in the tobacco region.



*Leaders of the Commission, Mid-Atlantic Broadband, and Adesta break ground in southside.*

## Rural Area Network

LENOWISCO Planning District's Rural Area Network is making high speed broadband access a reality in Southwest Virginia. The regional broadband fiber network will serve Scott, Lee, and Wise counties. Communities that will benefit from this network include Jonesville, Dryden, Pennington Gap, Big Stone Gap, Appalachia, Coeburn, and Norton. The Commission has awarded grant and loan funds totaling \$2.8 million for engineering and construction of this infrastructure initiative.

The LENOWISCO network is an equitable, open-access network. It leverages a public/private partnership to utilize 117 miles of the Scott County Telephone Cooperative (SCTC) backbone. In addition, LENOWISCO Planning District Commission will utilize a Commission grant to install fiber conduit concurrently with future public water and sewer projects. This cooperation will significantly reduce construction costs. The high-level network configuration, which will be built in phases, is a ring network architecture that provides redundancy and enhances survivability.

As of June 2004, construction was nearly complete to Jonesville. This line will continue to be built toward Pocket. Construction has also started through Powell Valley toward Wise. The LENOWISCO network will eventually connect with other Commission-funded telecommunications networks in Southwest and Southside Virginia. This infrastructure will dramatically enhance economic revitalization of the Tobacco Region by providing world-class resources to attract new business to the area.



*Cable plow installing fiber optic cable.*

## Regional Economic Development

Regional economic development funds for Southside and Southwest are designated for projects that will expand and diversify the economic base in the tobacco-dependent region, creating new employment opportunities and reducing dependence on tobacco-related activities. The funds are used to develop industrial sites, improve water and sewer infrastructure, establish training facilities, and develop tourism infrastructure. Local governments, government entities (such as Planning District Commissions and Industrial Development Authorities), and non-profit organizations are eligible for these grants. Regional economic development grants are awarded through a semi-annual application process. Southside localities and organizations received 33 regional grants totaling \$14.0 million, and Southwest received 22 regional grants totaling \$2.5 million.



*Ralph Stanley Museum in Clintwood, an anchor destination on the Crooked Road Heritage Music Trail – photo by Chris Starnes, LENOWISCO PDC.*

## Cumberland Plateau Regional Industrial Park

The Tobacco Commission awarded \$66,000 to Russell County in 2001 to develop a regional industrial park in the Town of Lebanon. This investment was leveraged with federal grants and loans along with local funds. The Cumberland Plateau Regional Industrial Park has the potential to bring over a thousand jobs to Russell County.

The Cumberland Plateau Regional Industrial Park now serves as an impetus to attract high-tech businesses and jobs to the area. In 2003, AT&T Wireless announced it would locate a customer service center in one of the park's available shell buildings. A Tobacco Region Opportunity Fund grant of \$250,000 helped secure the deal. AT&T invested \$5.4 million in this project and will create as many as 450 jobs in Russell County.

The Commission has awarded over a million dollars to Russell County for telecommunications infrastructure that will link the park and the County's business corridor to a high-speed network. The County received a \$450,000 grant in 2002 and an \$850,000 grant the following year for broadband deployment.

Technology is a key component for economic strength in the emerging knowledge-based economy. The Tobacco Commission is committed to ensuring that the Tobacco Region has a seamless, high-speed advanced communications infrastructure that is among the best in the world.



## FY04 TOBACCO COMMISSION GRANT AWARDS

Organization Project Description	Grant Amount	Organization Project Description	Grant Amount
<b>Agribusiness</b>			
<b>Appalachian Sustainable Development</b> <i>Value Adding Rural Economy Initiative</i>	\$72,000	<b>Franklin County</b> <i>Franklin County Workforce Development Center Project</i>	\$150,000
<b>Clinch Mountain Farmers Inc.</b> <i>Transportation and Cooling for Commercial Vegetable Producers</i>	\$175,000	<b>Halifax County IDA</b> <i>Riverstone Technology Park - Building Two</i>	\$1,180,200
<b>Clinch Mountain Farmers Inc.</b> <i>Wholesale Marketer for Commercial Vegetable Producers</i>	\$154,000	<b>Halifax County IDA</b> <i>IDA Industrial Park Building</i>	\$53,000
<b>Halifax County</b> <i>Southside Value-Added Beef Initiative: A Pilot Project</i>	\$500,000	<b>Halifax County IDA</b> <i>Purchase and revitalization of 104-acre site.</i>	\$175,000
<b>Heart of Appalachia Tourism Authority</b> <i>Appalachian Legacy - Marketing Tourism through Heritage Products</i>	\$50,000	<b>Halifax County IDA</b> <i>Building One in Riverstone Technology Park</i>	\$1,000,000
<b>Virginia Small Fruit and Special Growers Association</b> <i>Promoting a Vibrant Virginia Small Fruit Industry</i>	\$258,200	<b>Halifax Educational Foundation</b> <i>Expansion of Southern Virginia Higher Education Center</i>	\$750,000
<b>Total Agribusiness</b>	\$1,209,200	<b>Town of Lawrenceville</b> <i>Lawrenceville Infrastructure Improvement</i>	\$448,190
<b>Economic Development-Southside</b>			
<b>Amelia County, Virginia</b> <i>Amelia County Business Park Utility Extensions</i>	\$154,961	<b>Lunenburg County</b> <i>Victoria Water Treatment Plant Upgrade</i>	\$165,664
<b>Appomattox County</b> <i>Industrial Park Utility Extension</i>	\$50,177	<b>Mecklenburg County Industrial Development Authority</b> <i>Lakeside Commerce Park Technology Cluster</i>	\$1,197,911
<b>Appomattox County IDA</b> <i>Industrial Park Master Planning</i>	\$31,096	<b>Nottoway County</b> <i>Nottoway County Community Resource Project</i>	\$290,125
<b>Bedford County Economic Development Authority</b> <i>Lot grading - New London Business and Technology Center</i>	\$83,274	<b>Patrick County Board of Supervisors</b> <i>Virginia Narrow Fabrics Building Purchase</i>	\$240,000
<b>Blue Ridge Foundation</b> <i>Community Revitalization in Ferrum</i>	\$250,000	<b>Pittsylvania County</b> <i>Virginia International Raceway (VIR) Regional Sanitary Sewer System and Waterline</i>	\$158,500
<b>Town of Brookneal</b> <i>Wastewater System Enhancement</i>	\$81,000	<b>Pittsylvania County</b> <i>Regional Industrial Park - Phase III</i>	\$551,889
<b>Brunswick County/Lake Gaston Tourism Association, Inc.</b> <i>South Brunswick Small Business/Community Project</i>	\$20,000	<b>Pittsylvania County</b> <i>Institute for Advanced Learning and Research - Debt Service</i>	\$1,000,000
<b>Campbell County</b> <i>Wireless Broadband Internet Access Infrastructure</i>	\$50,000	<b>Pittsylvania County</b> <i>Regional Sanitary Sewer Pump Station and Force Main</i>	\$314,000
<b>Campbell County</b> <i>IDA Brookneal Industrial Property</i>	\$125,000	<b>Prince Edward County</b> <i>High Bridge Rails-to-Trails Project</i>	\$60,000
<b>Charlotte County</b> <i>Care Rehab and Orthopedic Products, Inc.</i>	\$1,000,000	<b>Town of South Boston</b> <i>Route 58 Sewer Interceptor Upgrade</i>	\$737,880
<b>Chase City Community Services</b> <i>Estes Center Project Expansion - Phase II</i>	\$750,000	<b>Sussex County</b> <i>Route 460 Industrial Park Phase 1 Site Development</i>	\$249,720
<b>Town of Clarksville</b> <i>Lake Country Cove Project</i>	\$550,000	<b>Total Economic Development-Southside</b>	\$14,044,167
<b>City of Danville</b> <i>Institute for Advanced Learning and Research - Debt Service</i>	\$1,000,000	<b>Economic Development-Southwest</b>	
<b>City of Danville</b> <i>Regional Industrial Park - Phase II</i>	\$551,889	<b>Barter Theatre Foundation</b> <i>Stonewall Square Infrastructure Improvements</i>	\$100,000
<b>Dinwiddie County</b> <i>Dinwiddie County Industrial Park, Phase III</i>	\$624,691	<b>Town of Big Stone Gap</b> <i>Town of Big Stone Gap, Regional Dam Replacement Project</i>	\$250,000
		<b>City of Bristol</b> <i>Island Road Business Park</i>	\$125,000
		<b>Town of Clintwood</b> <i>Ralph Stanley Museum - Phase 2</i>	\$139,000

Organization Project Description	Grant Amount	Organization Project Description	Grant Amount
<b>Dickenson County Board of Supervisors</b> <i>Dickenson County Wireless Network</i>	\$50,000	<b>Cumberland County Public Schools and Cumberland County Public Schools Foundation, Inc.</b> <i>Center on Education and Training for Employment (CETE) for Cumberland, Amelia, and Buckingham Counties</i>	\$250,000
<b>Historic Crab Orchard Museum and Pioneer Park</b> <i>Phase II Expansion</i>	\$75,000	<b>Danville Community College</b> <i>Allied Health and Industrial Technology Workforce Training</i>	\$268,000
<b>Lee County Industrial Development Authority</b> <i>Constitutional Oaks Industrial Park Expansion</i>	\$50,000	<b>Danville Community College Educational Foundation, Inc.</b> <i>Entrepreneurship, Advanced Manufacturing, and Industrial Maintenance Programs; Workforce Training; Student Outreach</i>	\$400,000
<b>Lee County Industrial Development Authority</b> <i>Structural Renovations - VAMCO #1</i>	\$150,000	<b>Town of Farmville</b> <i>Southside One-Stop Career, Education and Workforce Training Center Planning Project</i>	\$15,000
<b>Lincoln Theatre, Inc.</b> <i>Lincoln Theatre Start-Up and Cinema Equipment</i>	\$75,000	<b>Mecklenburg County Business-Education Partnerships, Inc.</b> <i>Mecklenburg County Adult Education Project</i>	\$99,000
<b>The Nature Conservancy</b> <i>Rikemo Property Infrastructure Improvements</i>	\$20,000	<b>Mount Rogers Regional Adult Education Program</b> <i>Southwest Virginia Regional RACE to GED Initiative</i>	\$125,000
<b>Old High School Renovation, Inc.</b> <i>Old Chilhowie High School Construction Renovation</i>	\$59,000	<b>Mountain Empire Community College</b> <i>AIMS Higher Scholarship Program</i>	\$50,000
<b>Saltville Foundation</b> <i>Project "Mammoth": Expansion/Development of MoMA</i>	\$125,000	<b>Mountain Empire Community College Foundation</b> <i>Scholarships and New Information Technology Program</i>	\$400,000
<b>Scott County Economic Development Authority</b> <i>Reimbursement Grant for Private Business Expansion</i>	\$156,750	<b>Old Dominion University</b> <i>Promoting Economic Development through Science Education</i>	\$50,000
<b>Scott County Public Service Authority</b> <i>Holston Region Wastewater Treatment Plant Upgrade</i>	\$162,500	<b>Patrick Henry Community College</b> <i>PHCC Plan for Recovery: Building a Competitive Workforce</i>	\$50,000
<b>Smyth County</b> <i>Saltville Wastewater Treatment Plant Improvements Project</i>	\$114,000	<b>Patrick Henry Community College Foundation</b> <i>Scholarships; IT Improvements; Motorsports and Allied Health Programs</i>	\$400,000
<b>Southwest Virginia Higher Education Center</b> <i>Southwest Export Trade Initiative</i>	\$154,075	<b>Smyth Washington Regional Industrial Facilities Authority</b> <i>Workforce Training Deficiencies that Hinder Industrial Recruitment: Identification of Regional Problems and Needs</i>	\$22,500
<b>Tazewell Community Hospital Foundation</b> <i>Four Seasons Wellness Center</i>	\$200,000	<b>Southside Virginia Community College</b> <i>Scholarships; Truck Driver Training Range; Public Safety Complex</i>	\$400,000
<b>University of Appalachia</b> <i>University of Appalachia School of Pharmacy</i>	\$67,500	<b>Southside Virginia Community College Foundation</b> <i>Engineering/Science/Math Laboratory</i>	\$261,000
<b>Whites Mill Foundation</b> <i>Whites Mill Tourism Development Project</i>	\$50,000	<b>Southwest Virginia Community College</b> <i>AIMS Higher Scholarship Program</i>	\$50,000
<b>William King Regional Arts Center</b> <i>Capital Improvement Phase 2</i>	\$200,000	<b>Southwest Virginia Community College</b> <i>Meeting Critical Nursing Workforce Needs through Flexible Program Delivery</i>	\$150,000
<b>Wise County Industrial Development Authority</b> <i>Regional Business/Technology Park - Site Work</i>	\$100,000	<b>Southwest Virginia Community College Foundation</b> <i>Scholarships; Rural Distance Learning Centers; Program Enhancements</i>	\$400,000
<b>Town of Wytheville</b> <i>Regional Visitors Center &amp; Homestead Museum Site</i>	\$50,000	<b>Southwest Virginia Higher Education Center</b> <i>FY04 Southside VA Tobacco Teacher Scholarship/Loan Program</i>	\$2,760,000
<b>Total Economic Development-Southwest</b>	<b>\$2,472,825</b>		
<b>Education</b>			
<b>Central Virginia Community College Educational Foundation</b> <i>Scholarships; Technical Training Equipment; Bedford Center</i>	\$400,000		
<b>Central Virginia Community College Educational Foundation</b> <i>On-Site Workforce Instructional Capabilities</i>	\$50,000		
<b>Crater Regional Partnership</b> <i>Skill Streams for Success - A Workforce Development Program</i>	\$90,000		
<b>Crossroads Rural Entrepreneurial Institute</b> <i>Crossroads Technologies, Educational Solutions for Southwest Virginia</i>	\$90,000		

**Organization**  
*Project Description*

**Grant Amount**

**Organization**  
*Project Description*

**Grant Amount**

<b>Southwest Virginia Higher Education Center</b> <i>FY04 Southwest Burley Scholarship Program</i>	<b>\$1,000,000</b>
<b>Tek.Xam Foundation, Inc.</b> <i>Tek.Xam Training and Assessment for Workforce Skill Development</i>	<b>\$195,000</b>
<b>University of Appalachia</b> <i>University of Appalachia School of Pharmacy</i>	<b>\$20,000</b>
<b>Virginia Commonwealth University</b> <i>VCU Rural Nurse Anesthesia Education Project</i>	<b>\$128,000</b>
<b>Virginia Department of Education</b> <i>GED Distance Learning</i>	<b>\$217,500</b>
<b>Virginia Highlands Community College</b> <i>Scholarships; Highlands Educational Literacy Program</i>	<b>\$400,000</b>
<b>Virginia Highlands Community College</b> <i>AIMS Higher Scholarship Program</i>	<b>\$50,000</b>
<b>Total Education</b>	<b>\$8,791,000</b>

**Special Projects**

<b>Halifax County IDA</b> <i>VIPER</i>	<b>\$150,000</b>
<b>Henry County</b> <i>HT Motorsports</i>	<b>\$50,000</b>
<b>Lee County Industrial Development Authority</b> <i>Lee County Airport</i>	<b>\$270,000</b>
<b>Mount Rogers Planning District Commission</b> <i>Water System</i>	<b>\$200,000</b>
<b>Roanoke River Service Authority</b> <i>Roanoke River Regional Water Project</i>	<b>\$150,000</b>
<b>Southside Business Initiative</b> <i>Regional coalition for economic development marketing and venture capital</i>	<b>\$550,000</b>
<b>Southwest Virginia Economic Development Alliance</b> <i>Southwest Virginia Economic Development Alliance</i>	<b>\$265,000</b>
<b>Sunnyside Communities</b> <i>Holston Retirement Community</i>	<b>\$40,000</b>
<b>Tazewell County</b> <i>Regional Industrial Park</i>	<b>\$150,000</b>
<b>Washington County Industrial Development Authority</b> <i>Oak Park Fire Suppression System-FY04</i>	<b>\$291,490</b>
<b>Total Special Projects</b>	<b>\$2,116,490</b>

**Technology**

<b>Bristol Virginia Utilities Board</b> <i>BVU High Speed Bandwidth in Rural Areas</i>	<b>\$2,030,000</b>
<b>Lenowisco PDC</b> <i>Lenowisco Rural Area Network</i>	<b>\$1,879,877</b>

<b>Mid-Atlantic Broadband Cooperative, Inc.</b> <i>Professional Telecommunications Outside Plant Engineering Services</i>	<b>\$6,000,000</b>
<b>Russell County Board of Supervisors</b> <i>Cumberland Plateau Broadband Project</i>	<b>\$850,000</b>
<b>Total Technology</b>	<b>\$10,759,877</b>

**TROF**

<b>Bland County</b> <i>ABB, Inc.</i>	<b>\$150,000</b>
<b>City of Emporia</b> <i>Franklin Braid</i>	<b>\$75,000</b>
<b>City of Danville</b> <i>Essel Propack #2</i>	<b>\$100,000</b>
<b>City of Danville</b> <i>Telvista</i>	<b>\$300,000</b>
<b>City of Danville</b> <i>Luna Nano Materials</i>	<b>\$400,000</b>
<b>Halifax County</b> <i>Sunshine Mills</i>	<b>\$70,000</b>
<b>Halifax County</b> <i>ABB</i>	<b>\$50,000</b>
<b>Henry County</b> <i>Master Brand Cabinets</i>	<b>\$750,000</b>
<b>Henry County</b> <i>Chenille - Globaltex</i>	<b>\$150,000</b>
<b>Martinsville Industrial Development Authority</b> <i>MZM, Inc.</i>	<b>\$250,000</b>
<b>Mecklenburg County</b> <i>APT</i>	<b>\$70,000</b>
<b>Mecklenburg County</b> <i>Basic Sportswear</i>	<b>\$100,000</b>
<b>Patrick County Industrial Development Authority</b> <i>Hopkins Lumber</i>	<b>\$50,000</b>
<b>Scott County Economic Development Authority</b> <i>Joy Manufacturing</i>	<b>\$125,000</b>
<b>Smyth County</b> <i>Utility Trailers</i>	<b>\$200,000</b>
<b>Tazewell County</b> <i>Blue Ridge Wood Products</i>	<b>\$250,000</b>
<b>Wythe County</b> <i>Wytheville Technologies</i>	<b>\$250,000</b>
<b>Committed funds for projects not yet announced</b>	<b>\$1,633,000</b>
<b>Total TROF</b>	<b>\$4,973,000</b>

**Grand Total** **\$44,366,559**



## Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218

September 10, 2004

The Honorable Mark R. Warner  
Governor of Virginia

The Honorable Lacey E. Putney  
Chairman, Joint Legislative Audit  
and Review Commission

Commission Members  
Tobacco Indemnification and  
Community Revitalization Commission


### INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the governmental activities and the Special Revenue Fund, a major fund of the **Tobacco Indemnification and Community Revitalization Commission**, a component unit of the Commonwealth of Virginia, as of and for the year then ended June 30, 2004, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the Special Revenue Fund of the Tobacco Indemnification and Community Revitalization Commission as of June 30, 2004, and the respective changes in its financial position thereof and the respective budgetary

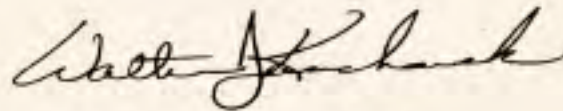




comparison for the Special Revenue Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 10, 2004 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



AUDITOR OF PUBLIC ACCOUNTS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Tobacco Indemnification and Community Revitalization Commission ("Commission"), we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended June 30, 2004.

### Financial Highlights

- The assets of the Commission exceeded its liabilities at the close of FY04 by \$83.7 million (net assets).
- The Commission's total net assets increased by \$8.3 million over the prior year.
- At the end of the fiscal year, the Commission's unreserved fund balance for the special revenue fund was \$83.7 million.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements are comprised of two components: 1) combined fund financial statements and government-wide financial statements and 2) notes to the financial statements.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Commission are governmental funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Commission adopts an annual budget within the appropriation set forth in the Appropriation Act. A budgetary comparison statement has been provided to demonstrate compliance with this budget. The Commission approved several transfers and redistributions of funds from prior year balances between designated purposes during the year.

This statement does not reflect all of the grant award commitments made by the Commission in FY04 since grants are paid on a reimbursement basis and eligibility requirements may not have been met as of June 30, 2004.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Commission's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The statement of activities presents information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### Financial Analysis of the Commission's Governmental Funds

The focus of the Commission's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Commission's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2004, the Commission's governmental fund balance was \$83.7 million, an increase of \$8.3 million over the prior year. The entire amount is unreserved fund balance, which is available for spending at the Commission's discretion. These funds, however, have already been committed or designated by the Commission for specific purposes in the future.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Commission's financial position. Assets for the Commission exceeded liabilities by \$83.7 million.

Almost all of the Commission's net assets are unrestricted and may be used to meet the Commission's ongoing obligations to citizens and creditors. A small portion of the Commission's net assets reflects investment in capital assets. The Commission uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

## Commission's Net Assets

<b>Governmental Activities</b>	<b>FY04</b>	<b>FY03</b>
Current and other assets	\$113,161,598	\$83,412,562
Capital assets	14,171	9,766
<b>Total assets</b>	<b>\$113,175,769</b>	<b>\$83,422,328</b>
Long-term liabilities	33,424	28,993
Other liabilities	29,463,957	7,978,327
<b>Total liabilities</b>	<b>\$29,497,381</b>	<b>\$8,007,320</b>

### Net assets:

Invested in capital assets, net of related debt	14,171	9,766
Unrestricted	83,664,217	75,405,242
<b>Total net assets</b>	<b>\$83,678,388</b>	<b>\$75,415,008</b>

The Commission's net assets increased by \$8.3 million. Most of this increase is attributable to the cumulative effect of additional community revitalization grants being awarded, resulting in more grant advances and grants payable. Both current assets and other liabilities have increased significantly due to \$22.8 million in the securities lending program administered by the Department of the Treasury.

## Commission's Revenue and Expenditures

	<b>FY04</b>	<b>FY03</b>
<b>REVENUES:</b>		
Master settlement agreement payments	\$64,198,262	\$75,014,948
Interest, dividends, and other investment income	1,571,318	1,266,086
<b>Total revenues</b>	<b>\$65,769,580</b>	<b>\$76,281,034</b>

### EXPENDITURES:

Tobacco Settlement Expense		
Administration	\$1,571,225	\$2,319,760
Indemnification payments	19,483,809	18,686,739
Community Revitalization	36,406,466	14,138,407
Payments for securities lending transactions	41,244	51,691
Depreciation	3,456	2,076
<b>Total expenditures</b>	<b>\$57,506,200</b>	<b>\$35,198,673</b>

<b>Excess of revenue over expenditures</b>	<b>\$8,263,380</b>	<b>\$41,082,361</b>
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Per the terms of the master settlement agreement, payments were adjusted for various factors and initial payments discontinued in 2003, resulting in the Commission's decreased revenue in FY04. The increase in expenditures is primarily attributable to additional community revitalization grants being awarded and disbursed.

## Next Year's Budget

For the year ended June 30, 2004, the unreserved fund balance in the special revenue fund increased to \$83.7 million. Of this amount, the Commission has committed \$62.3 million for indemnification payments and community revitalization grant awards.

The following table shows the unpaid commitments on the unreserved fund balance as of June 30, 2004. These unpaid commitments are not reflected in the financial statements since eligibility requirements may not have been met as of June 30, 2004.

	<b>Unreserved Fund Balance</b>	<b>Unpaid Commitments</b>	<b>Reserve for FY05</b>
Indemnification	\$6,550,038	\$4,462,776	\$2,087,262
Community Revitalization	74,177,892	57,797,331	16,380,561
Undesignated	2,969,711	0	2,969,711
<b>TOTAL</b>	<b>\$83,697,641</b>	<b>\$62,260,107</b>	<b>\$21,437,534</b>

The Commission anticipates additional grant awards in the first half of FY05 that will obligate most of the remaining reserve balance.

The Commission has approved a budget of \$64,605,935 for FY05, a 5.1 percent decrease from the final FY04 budget.

## Requests for Information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the Commission's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, Tobacco Indemnification and Community Revitalization Commission, 701 East Franklin Street, Suite 501, Richmond, Virginia 23219.

TOBACCO INDEMNIFICATION AND COMMUNITY REVITALIZATION COMMISSION  
 STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET  
 As of June 30, 2004

	Special Revenue Fund	Adjustments (Note 1-F)	Statement of Net Assets
<b>ASSETS:</b>			
Cash held by the Treasurer of Virginia (Note 2)	\$ 86,145,957	\$ -	\$ 86,145,957
Investments held by the Treasurer of Virginia (Note 2)	22,858,600	-	22,858,600
Interest Receivable	408,972	-	408,972
Accounts and loans receivable	507,552	-	507,552
Prepaid items	10,510	-	10,510
Grant advances (Note 6)	3,230,007	-	3,230,007
Capital assets (Note 1-D)	-	14,171	14,171
<b>Total assets</b>	<b>\$ 113,161,598</b>	<b>14,171</b>	<b>113,175,769</b>
<b>LIABILITIES:</b>			
Accounts payable	\$ 45,971	\$ -	\$ 45,971
Accrued payroll	43,664	-	43,664
Grants payable (Note 6)	6,453,836	-	6,453,836
Indemnification payments payable (Note 7)	61,886	-	61,886
Obligations under securities lending (Note 2)	22,858,600	-	22,858,600
Compensated absences (Note 1-E)	-	33,424	33,424
<b>Total liabilities</b>	<b>29,463,957</b>	<b>33,424</b>	<b>29,497,381</b>
<b>FUND BALANCES/NET ASSETS:</b>			
Fund Balances:			
Unreserved	83,697,641	(83,697,641)	-
<b>Total liabilities and fund balances</b>	<b>\$ 113,161,598</b>		
Net assets:			
Invested in capital assets, net of related debt		14,171	14,171
Unrestricted		83,664,217	83,664,217
<b>Total net assets</b>		<b>\$ 83,678,388</b>	<b>\$ 83,678,388</b>

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

Audited

TOBACCO INDEMNIFICATION AND COMMUNITY REVITALIZATION COMMISSION  
 STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,  
 EXPENDITURES, AND CHANGES IN FUND BALANCE  
 For the Fiscal Year Ended June 30, 2004

	Special Revenue Fund	Adjustments (Note 1-F)	Statement of Activities
<b>REVENUES:</b>			
Master settlement agreement payments	\$ 64,198,262	\$ -	\$ 64,198,262
Interest, dividends, and other investment income (Note 2)	1,571,318	-	1,571,318
<b>Total revenues</b>	<b>65,769,580</b>	<b>-</b>	<b>65,769,580</b>
<b>EXPENDITURES:</b>			
Tobacco settlement expense:			
Administration (Note 8)	1,574,655	(3,430)	1,571,225
Indemnification payments (Note 7)	19,483,809	-	19,483,809
Community revitalization (Note 6)	36,406,466	-	36,406,466
Payments for securities lending transactions (Note 2)	41,244	-	41,244
Depreciation (Note 1-D)	-	3,456	3,456
<b>Total expenditures</b>	<b>57,506,174</b>	<b>26</b>	<b>57,506,200</b>
Excess (deficiency) of revenue over expenditures	8,263,406	(8,263,406)	-
Change in net assets	-	8,263,380	8,263,380
Fund balance/net assets, July 1, 2003	75,434,235	(19,227)	75,415,008
Fund balance/net assets, June 30, 2004	<b>\$ 83,697,641</b>	<b>\$ (19,253)</b>	<b>\$ 83,678,388</b>

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

TOBACCO INDEMNIFICATION AND COMMUNITY REVITALIZATION COMMISSION  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGETARY COMPARISON - CASH BASIS  
 SPECIAL REVENUE FUND  
 For the Fiscal Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES:</b>				
Master settlement agreement payments	\$ 63,978,078	\$ 63,978,078	\$ 64,198,262	\$ 220,184
Interest, dividends, rents and other investment income	1,000,000	1,000,000	1,121,102	121,102
Proceeds from securities lending transactions (Note 2)	-	-	41,244	41,244
<b>Total revenues</b>	<b>64,978,078</b>	<b>64,978,078</b>	<b>65,360,608</b>	<b>382,530</b>
<b>EXPENDITURES:</b>				
Administration	2,664,702	2,664,702	2,280,577	384,125
Indemnification payments (Note 5)	23,400,000	23,400,000	19,421,923	3,978,077
Community revitalization (Note 4)	40,000,000	42,022,715	33,328,414	8,694,301
Payments for securities lending transactions (Note 2)	-	-	41,244	(41,244)
<b>Total expenditures</b>	<b>66,064,702</b>	<b>68,087,417</b>	<b>55,072,158</b>	<b>13,015,259</b>
<b>Revenues over (under) expenditures</b>	<b>(1,086,624)</b>	<b>(3,109,339)</b>	<b>10,288,450</b>	<b>13,397,789</b>
Fund balance, July 1, 2003	75,857,507	75,857,507	75,857,507	-
<b>Fund balance, June 30, 2004</b>	<b>\$ 74,770,883</b>	<b>\$ 72,748,168</b>	<b>\$ 86,145,957</b>	<b>\$ 13,397,789</b>

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

Audited

TOBACCO INDEMNIFICATION AND COMMUNITY REVITALIZATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Tobacco Indemnification and Community Revitalization Commission (the Commission) was established on July 1, 1999, by Chapters 880 and 962 of the 1999 Acts of Assembly, and operates as a body corporate and political subdivision of the Commonwealth. The Commission's major activities are to compensate tobacco farmers in the Commonwealth for the decline or elimination of tobacco quota, to promote economic growth and development in tobacco-dependent communities, and to assist such communities in reducing their dependency on tobacco and tobacco-related business.

The Commission is a component unit of the Commonwealth of Virginia. A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Commission is an integral part of the reporting entity of the Commonwealth of Virginia; accordingly, the financial statements of the Commission are included in the financial statements of the Commonwealth as a part of the reporting entity.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant awards and similar items are recognized as expenditures as soon as the recipient has met all eligibility requirements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Interest associated with the current fiscal period is reported on an accrual basis. All other revenue items are considered to be measurable and available only when cash is received by the Commission.

The cash basis of accounting is used during the year.

C. Fund Accounting

The accounts of the Commission were developed to account for specified financial activities. Resources were allocated to and accounted for in a special revenue fund, "Tobacco Indemnification and Community Revitalization Fund," established under Section 3.1-1111, Subsection B of the Code of Virginia. Special revenue funds account for transactions related to resources received and used for restricted or specific purposes.

D. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Office and computer equipment, the only capital assets owned by the Commission, are depreciated using the straight-line method over an estimated useful life of five years. Capital asset activity for the year ended June 30, 2004, is summarized as follows:

Beginning Balance	\$16,906
Acquisitions	<u>7,861</u>
Ending Balance	\$24,767
Less Accumulated Depreciation	<u>-10,596</u>
Net Capital Assets	<u>\$14,171</u>

E. Compensated Absences

Compensated absences represent the amounts of vacation, sick, and compensatory leave earned by the Commission's employees, but not taken at June 30, 2004. Compensated absences were calculated in accordance with Governmental Accounting Standards Board (GASB) Statement No. 16, "Accounting for Compensated Absences." This statement requires the accrual of the following: (1) Sick leave earned by employees who, while not currently vested for payment, will probably attain the years of service required to vest, and (2) Social Security and Medicare taxes to be paid by the Commission on all accrued compensated absences.

F. Adjustments

The adjustments column represents the recording of Capital Assets and Compensated Absences for the Statement of Net Assets and the related effect of these transactions on the Statement of Activities. Governmental fund statements do not reflect Capital Assets and Compensated Absences.



G. Budgets and Budgetary Accounting

The Commission's budget was established by the Commission within the appropriation set forth in the 2003 Appropriation Act. Payments from the Master Settlement Agreement were deposited into the state treasury's general account in accordance with the provisions of Chapter 46 of Title 3.1 of the Code of Virginia and expended for purposes stated in those provisions.

The budget is prepared principally on a cash basis. Since a cash basis budget differs from generally accepted accounting principles (GAAP), a reconciliation of actual data reported on a cash basis to actual data reported on a GAAP (modified accrual) basis is presented in Note 3.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, Cash Equivalents and Investments

Cash and cash equivalents are held 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.

Cash held by the Treasurer of Virginia	\$ 86,145,957
Investments held by the Treasurer of Virginia	<u>22,858,600</u>
Total cash, cash equivalents and investments	<u>\$109,004,557</u>

Securities Lending Transactions

Investments held by the Treasurer of Virginia represent the Commission's 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.

3. RECONCILIATION OF BUDGETARY FUND BALANCE TO GAAP FUND BALANCE

The accompanying Statement of Revenues, Expenditures, and Changes in Fund Balance - Budgetary Comparison - Cash Basis - Special Revenue Fund presents a comparison of the legally adopted budget prepared on a cash basis with actual data prepared on a cash basis. To enhance this comparison, actual data on a cash basis is reconciled to actual data on a GAAP basis as follows:

Fund balance, <i>Budgetary basis</i> , June 30, 2004	\$86,145,957
Deduct: Accrued expenses	(6,605,357)
Add: Receivables, Advances, and Prepaid Items	<u>4,157,041</u>
Fund balance, <i>GAAP basis</i> , June 30, 2004	<u>\$83,697,641</u>

#### 4. PENSION PLAN AND OTHER RETIREMENT BENEFITS

Employees of the Tobacco Indemnification and Community Revitalization Commission are treated as state employees for purposes of participation in the Virginia Retirement System (VRS), health insurance, and all other employee benefits offered by the Commonwealth to its classified employees. The employees participate in a defined benefit pension plan administered by the VRS. The VRS also administers life insurance and health related plans for retired employees. Information relating to these plans is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The Commonwealth, not the Tobacco Indemnification and Community Revitalization Commission, has overall responsibility for contributions to these plans.


#### 5. OPERATING LEASES

The Commission has entered into two agreements to lease equipment. The operating leases contain the provision that the Commission may renew the operating leases at the expiration date of the lease on a month-to-month basis. Management expects that in the normal course of business, the leases will be renewed or replaced by other leases of a similar nature. Rental expense for the Commission under these operating leases for the year ended June 30, 2004, was \$3,551. The Commission has, as of June 30, 2004, the following minimum rental payments due under the above leases:

2005	\$11,656
2006	11,656
2007	<u>8,105</u>
Total	<u>\$31,417</u>

#### 6. COMMUNITY REVITALIZATION EXPENDITURES

The Commission awarded grants totaling \$44,366,559 in fiscal year 2004 to various localities and other entities for community revitalization projects, including regional economic development projects, educational programs, technology initiatives, and other special projects in Southside and Southwest Virginia. Of the total amount awarded to date, \$54,272,462 is not reflected in these statements since eligibility requirements were not met as of June 30, 2004, in accordance with Governmental Accounting Standards Board Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions." This amount includes grants awarded in prior years that have not yet been paid. The Commission awarded an additional \$3,524,869 in grants in July 2004 that are not reflected in these statements. In April 2002, the Commission adopted new grant disbursement guidelines changing to a reimbursement policy. Grants payable includes amounts awarded to grantees with all contingencies met but unpaid as of June 30, 2004. Grant advances include amounts disbursed to grant recipients who have not incurred expenses as of June 30, 2004.



7. INDEMNIFICATION PAYMENTS

Indemnification payments represent amounts paid to tobacco producers and quota owners as compensation for the adverse economic effects resulting from the loss in tobacco production opportunities associated with a decline in tobacco quota. Indemnification Payments Payable includes amounts payable to recipients who met the eligibility requirement of submitting the appropriate verification form as of June 10, 2004. At its July 22, 2004, meeting, the Commission approved extending the deadline to accept additional verification forms through August 23, 2004. Indemnification payments for these additional claims will be reflected in next year's financial statements.

8. ADMINISTRATION

Agency Service Costs

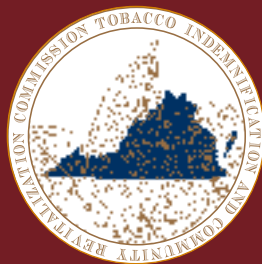
Administration expenditures include \$50,000 of Agency Service Costs paid to the Virginia Department of Agriculture and Consumer Services. The Department of Agriculture and Consumer Services (DACS) serves as the fiscal agent for the Commission. Agency Service Costs consist of the amount DACS charges the Commission for the costs DACS incurs to provide fiscal and administrative services to the Commission.

Indemnification Costs

Administration expenditures include \$390,500 of Indemnification Costs paid to Troutman Sanders, L.L.P., representing the contract cost to validate payees and update the database for calculating payment amounts related to the indemnification payments.

9. RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft, or damage to, and destruction of assets; errors and omissions; non-performance duty; injuries to employees; and natural disasters. The Commission has purchased Virginia Local Government Risk Management Plan liability insurance through the Department of the Treasury, Division of Risk Management. Commercial insurance for property coverage and worker's compensation plans have been purchased from private insurers through the Department of the Treasury since the Commonwealth of Virginia does not provide such coverage for the Commission. The Commission participates in the state employee health care plan administered by the Department of Human Resource Management. The Commission pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.



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