



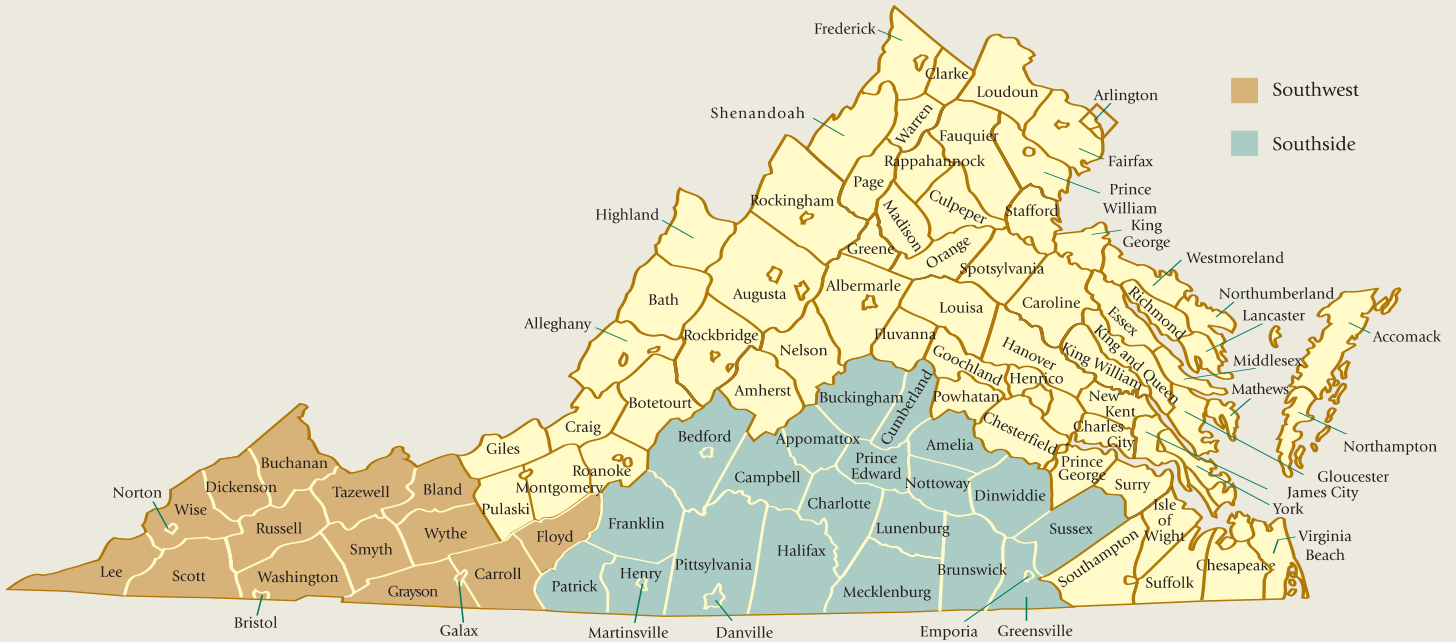
ANNUAL REPORT

Fiscal Year 2005



Virginia Tobacco Indemnification and
Community Revitalization Commission

Tobacco Commission Counties Southside and Southwest



ELIGIBLE SOUTHSIDE LOCALITIES

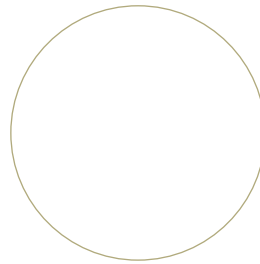
- | | | |
|------------------|------------------|-----------------------|
| Amelia | Cumberland | Lunenburg |
| Appomattox | City of Danville | City of Martinsville* |
| Bedford | Dinwiddie | Mecklenburg |
| City of Bedford* | City of Emporia* | Nottoway |
| Brunswick | Franklin | Patrick |
| Buckingham | Greensville | Pittsylvania |
| Campbell | Halifax | Prince Edward |
| Charlotte | Henry | Sussex |

*Eligible for all Commission funding sources except Southside Economic Development.

ELIGIBLE SOUTHWEST LOCALITIES

- | | | |
|-----------------|----------------|------------|
| Bland | City of Galax | Smyth |
| City of Bristol | Grayson | Tazewell |
| Buchanan | Lee | Washington |
| Carroll | City of Norton | Wise |
| Dickenson | Russell | Wythe |
| Floyd | Scott | All Towns |

Economic Development monies are available to all Southwest counties, cities and towns within the region.



October 1, 2005

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

This report covers the 6th fiscal year of the Virginia Tobacco Indemnification and Community Revitalization Commission. The numbers, lists and brief descriptions of our projects are but a snapshot of the true scope of our charge. Since 1999, we have invested more than \$389 million in Virginia's tobacco-producing regions. These monies have indemnified growers and quota holders, built educational facilities, provided critical infrastructure and allowed new jobs to locate in the region, but most importantly, our Commission has provided hope and assistance to a region in transformation.

This past year the Commission received \$67.1 million from the Master Settlement Agreement (MSA). As per your legislative mandate these funds were used exclusively for two purposes: indemnification and revitalization. Thirty percent of MSA revenue was used for indemnification purposes, 67 percent went into revitalization projects, and three percent was used for administration. This report details the specifics of revenues and expenditures.

The most dramatic change that occurred during this fiscal year was the securitization of one-half of the Commission's share of future MSA revenues. This securitization will allow us to continue our long term strategy for revitalization in tobacco-producing regions while minimizing the risks associated with future tobacco settlement revenues.

On behalf of our Commission, I thank you for your continued support and understanding of our mission and look forward to continuing our partnership as we strive to bring prosperity to Virginia. I deeply appreciate the opportunity to serve our citizens in this capacity.

Sincerely,

Charles R. Hawkins



FY2005 COMMISSION MEETINGS

July 22, 2004	Abingdon	Southwest Virginia Higher Education Center
October 20, 2004	Clarksville	Best Western on the Lake
January 11, 2005	Richmond	General Assembly Building
April 28, 2005	Roanoke	Hotel Roanoke and Conference Center
June 23, 2005	Roanoke	Hotel Roanoke and Conference Center

COMMISSION MEMBERS

As of June 30, 2005

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

Mr. J. Carlton Courter 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	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
The Honorable Barnie K. Day	Meadows of Dan	6/30/06
Mr. L. Jackson Hite	Clarksville	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
Mr. James C. Thompson	Tazewell	6/30/06
The Honorable Gary D. Walker	Charlotte Court House	6/30/05

COMMITTEES

Executive Committee

Charles Hawkins – Chairman
Terry Kilgore – Vice-Chairman
Tom Arthur
C.D. Bryant
Kathy Byron
Allen Dudley
Clarke Hogan
Joe Johnson
Phillip Puckett
Frank Ruff
Michael Schewel
Jim Thompson
Gary Walker
William Wampler

Economic Development Committee

Southside

Tom Arthur – Chairman
Frank Ruff – Vice-Chairman
Kathy Byron
C.D. Bryant
Barnie Day
Jack Hite
Clarke Hogan
Harrison Moody
Ed Owens
Michael Schewel
J.T. Taylor
Gary Walker
Tommy Wright

Economic Development Committee

Southwest

Terry Kilgore – Chairman
Phillip Puckett – Vice-Chairman
Steve Banner
Fred Fields
Joe Johnson
Ronnie Montgomery
Michael Schewel
Jim Thompson
William Wampler

Agribusiness Committee

Joseph Johnson – Chairman
C.D. Bryant – Vice-Chairman
Carlton Courter
Fred Fields
Jerry Jenkins
Buddy Mayhew
Claude Owen
John Stallard
Tom West

Education Committee

Frank Ruff – Chairman
Phillip Puckett – Vice-Chairman
Steve Banner
Barnie Day
Fred Fields
Isiah Hopkins
Joe Johnson
Buddy Mayhew
Harrison Moody
John Stallard
J.T. Taylor
Tommy Wright

Special Projects/Innovation Committee

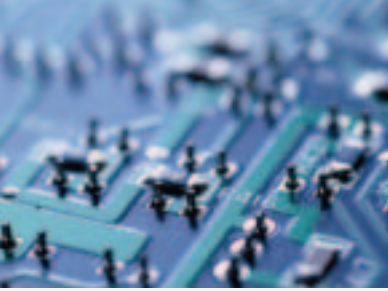
William Wampler – Chairman
Allen Dudley – Vice-Chairman
John Bennett
Isiah Hopkins
Jerry Jenkins
Terry Kilgore
Ronnie Montgomery
Claude Owen
Michael Schewel
Gary Walker
Tom West

Technology Committee

Clarke Hogan – Chairman
Jim Thompson – SW Vice-Chairman
Kathy Byron – SS Vice-Chairwoman
Tom Arthur
Jack Hite
Ronnie Montgomery
Claude Owen
Ed Owens
William Wampler
Tommy Wright

Long Range Plan Committee

Kathy Byron – Chairwoman
Gary Walker – Vice-Chairman
Tom Arthur
John Bennett
Allen Dudley
Ronnie Montgomery
Phillip Puckett
Frank Ruff
Michael Schewel
William Wampler



MAIN OFFICE

Tobacco Indemnification and Community Revitalization Commission

701 East Franklin Street, Suite 501
Richmond, Virginia 23219
Phone: 804-225-2027 • Toll-Free: 877-807-1086
Fax: 804-786-3210

COMMISSION STAFF

Ned Stephenson

*Executive Director (Acting)**
804-786-7690
ned.stephenson@tic.virginia.gov

Michal N. Burton

Office and Procurement Coordinator
804-786-6416
michal.burton@tic.virginia.gov

Martha S. Moore

Receptionist
804-225-2027
marty.moore@tic.virginia.gov
(effective October 11, 2005)

Timothy S. Pfohl

Grants Program Administration Manager
804-786-2403
tim.pfohl@tic.virginia.gov

Stephanie S. Wass

Director of Finance
804-786-2508
stephanie.wass@tic.virginia.gov

Crystal Williams

Administrative and Program Specialist
804-225-3572
crystal.williams@tic.virginia.gov

Patricia A. Wyatt

Financial Services Specialist
804-786-2308
patty.wyatt@tic.virginia.gov

** Ned Stephenson was appointed Acting Executive Director on September 19, 2005, by Governor Mark R. Warner. Stephenson succeeded Carthan F. Currin III, who served as the Executive Director from the establishment of the Tobacco Commission in 1999 until his resignation, effective September 16, 2005.*

FIELD OFFICES AND STAFF

Sara R. Griffith

Grants Program Administrator – Southwest
Southwest Virginia Higher Education Center
One Partnership Circle
P.O. Box 1987
Abingdon, VA 24212
Phone: 276-619-4325
Fax: 276-628-9730
sara.griffith@tic.virginia.gov

Britt E. Nelson

Grants Program Administrator – Southside
Southern Virginia Higher Education Center
820 Bruce Street
South Boston, VA 24592
Phone: 434-572-5460
Fax: 434-572-5462
britt.nelson@tic.virginia.gov



BACKGROUND

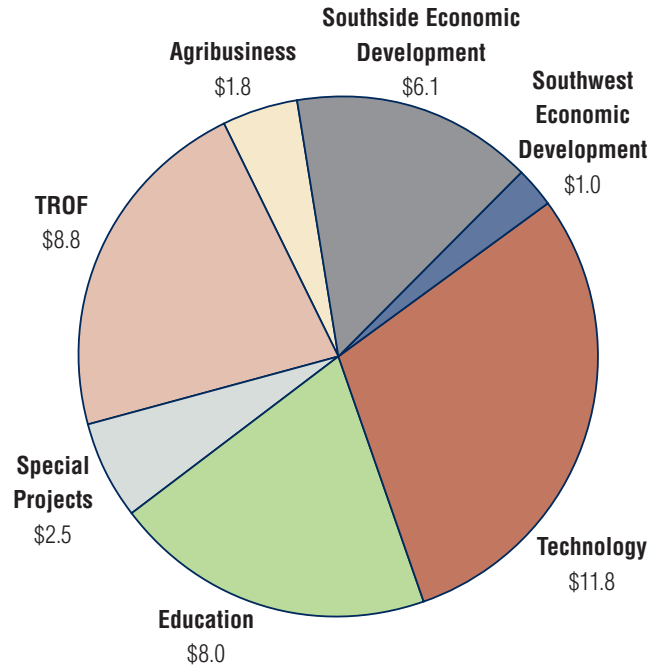
On November 23, 1998, the Attorneys General of forty-six states, five commonwealths and territories, and the District of Columbia reached an agreement with the five major tobacco companies, which represent 97.5 percent of the tobacco industry. The Master Settlement Agreement (MSA) will provide payments worth \$206 billion over 25 years*. Virginia is to receive approximately \$4.1 billion. The MSA impacted the producers and quota owners of the cigarette-type tobaccos, by virtue of substantially reduced quotas and opportunities to produce. Flue-cured quota has been reduced 48 percent and burley quota 53 percent since 1998.

As a result of the MSA, the 1999 Virginia General Assembly created the **Tobacco Indemnification and Community Revitalization Commission (Commission)**. The 31-member Commission is a body corporate and political subdivision of the Commonwealth whose members and Executive Director are appointed by the Governor and the General Assembly. Its purpose is to provide payments to Virginia tobacco growers and quota holders as compensation for economic losses resulting from the decline in annual quota. Concurrently, the Commission promotes economic growth and development in tobacco-dependent communities throughout the southside and southwest regions of the Commonwealth. This legislation also established the Tobacco Indemnification and Community Revitalization Fund as a special nonreverting fund to receive 50 percent of the annual payments received by the Commonwealth from the MSA (40 percent is deposited into the Virginia Health Care Fund and 10 percent to the Virginia Tobacco Settlement Fund.)

* Based on a formula developed by the Attorneys General

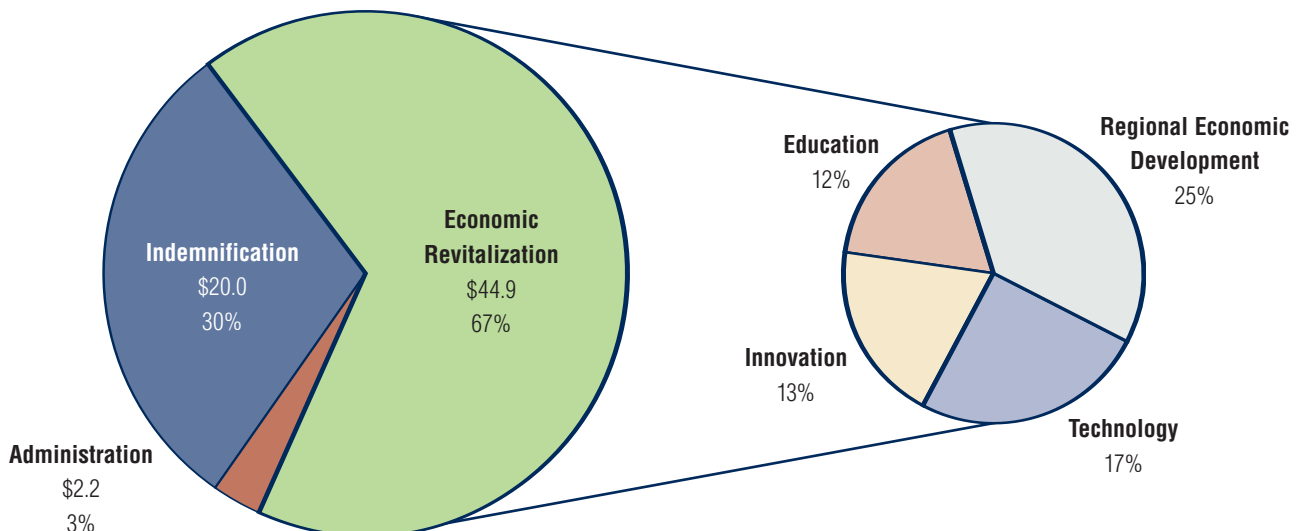
Fiscal Year 2005 Grant Awards

(in \$ millions)



Fiscal Year 2005 Budget

(in \$ millions)





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 \$2.5 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 new jobs and bring new private capital investment of at least \$1 million to localities within the region. This fund is successfully assisting communities by diversifying their economic base and reducing dependency on tobacco-related employment. The Commission works closely with the Virginia Economic Development Partnership to leverage the Governor's Opportunity Fund. The Commission made \$8.8 million in commitments to help attract 39 new companies, create 5,878 new jobs, and provide \$524 million in capital investment to the tobacco region.

Agribusiness grants are awarded to assist tobacco producers and the tobacco region's agricultural community in diversifying into new production opportunities and developing value-added enterprises. Three agribusiness projects received grants totaling \$1.8 million for programs and facilities.



Clintwood Mayor Donald Baker and Ralph Stanley Museum Curator Ginger Morelock have welcomed visitors from more than 40 states and nine countries in the museum's first year.

INNOVATION AT WORK

The Crooked Road: Virginia's Heritage Music Trail

American country music can trace its roots to the "old time mountain music" of Virginia and the legendary performers who continue to define the genre. "The Crooked Road: Virginia's Heritage Music Trail" is a cooperative marketing effort that spans ten counties in Southwest and Southside Virginia where music venues, artists and instrument makers are now attracting visitors from around the globe. The project received \$340,000 in Special Projects funding for marketing as well as \$186,544 in Southwest Economic Development funds for development of individual sites.

"The Crooked Road" driving route winds through the Appalachian Mountains from the eastern slopes of the Blue Ridge to the Coalfields region of the state. The trail connects major heritage music venues in the Appalachian region such as the Blue Ridge Music Center, Birthplace of Country Music Alliance, Ralph Stanley Museum and the Carter Family Fold. The traditional gospel, bluegrass, and mountain music heard today was passed down from generation to generation and lives on through a wealth of musicians and instrument makers along the trail. Annual festivals, weekly concerts, live radio shows, and informal jam sessions abound throughout the region.

Efforts to develop and promote "The Crooked Road" include production of a travel guide, website, and CD for trail visitors; production of audio CDs featuring musicians from the area; and highway pull-offs with radio transmitters and additional written information along the trail route.

The Commission partnered with many agencies and organizations to facilitate the success of this project. Other participants include the Appalachian Regional Commission, the United States Department of Agriculture, the Virginia Department of Housing and Community Development, the Virginia Coalfield Economic Development Authority, the Virginia Tourism Corporation, local governments and nonprofits.

For more information on "The Crooked Road" contact:

The Crooked Road

851 French Moore, Jr. Blvd.,
Suite 174
Abingdon, VA 24210
(866) MTN-MUSIC (686-6874)
www.thecrookedroad.org





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-four grants totaling \$8.0 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 \$1.4 million in competitive grants.



Faculty and students in research programs — including vehicle dynamics, polymers and forestry — are bringing the mission of the Institute for Advanced Learning and Research to life in Southside.

EDUCATION AT WORK

Tek.Xam Foundation, Inc.

The Tek.Xam curriculum in introductory computer skills has proven that individuals in need of workforce development training can successfully complete basic technology skills training for a reasonable cost in a compact timeframe. Now economic developers can tell prospective employers that hundreds of tobacco region residents are ready to bring those skills to work.

The jurisdictions served by the Commission have been hard hit by job losses and by the need to develop a technically proficient workforce in order to compete in today's economy. The Tek.Xam Training and Assessment for Workforce Skill Development will demonstrate the proficiency and skill of the workforce in Southside and Southwest Virginia to potential employers that are existing industries as well as those companies looking to relocate to the tobacco region.

The Tek.Xam Foundation is using funding from the Tobacco Commission, as well as the Literary Foundation of Virginia, to support the training and certification of citizens within 25 political subdivisions served by these organizations.

The Commission provided a grant of \$194,000 in FY 05 to the Tek.Xam Foundation to train and certify 100 citizens in 11 communities in the tobacco region, building on the 13 localities served with a previous grant. As of September 2005, more than 1,200 residents of Southside and Southwest Virginia have completed the Tek.Xam Program. By June 2006, it is anticipated that more than 2,000 residents of communities served by the Commission will complete the program.

For more information on Tek.Xam contact:

Tek.Xam

8010 Ridge Road – Suite B
Richmond, VA 23229
(804) 288-0903
www.tekxam.com



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.



Governor Warner and Appomattox County school children celebrate their new high-speed broadband connectivity.



TECHNOLOGY AT WORK

Mid-Atlantic Broadband Cooperative

High-speed broadband connectivity will no longer be the exclusive domain of larger metropolitan areas when an affordable, open-access network comes online in the tobacco region next year.

The Commission has awarded Technology grants totaling \$21.1 million to Mid-Atlantic Broadband Cooperative for the Regional Backbone Initiative for development of the telecommunications vision for the Southside region. The Regional Backbone Initiative is an economic revitalization plan that will provide 700 miles of advanced telecommunications infrastructure to 20 counties, four cities and 56 industrial parks. This open-access fiber optic network will provide high-speed Internet access to nearly 700,000 citizens and more than 19,000 businesses. In addition, the project will be integrated into a larger statewide fiber optic system.

The Tobacco Commission is a funding partner with the U.S. Department of Commerce-Economic Development Administration to make this initiative a reality. The network will provide rural communities in Southern Virginia access to competitive broadband telecommunication providers, help existing providers improve reliability and quality of service, and promote economic development by giving local companies and entrepreneurs access to affordable connections. In addition, it will serve as a financial model for communities across the nation seeking to duplicate long-term economic growth and vitality in other depressed rural communities.

For more information on the Mid-Atlantic Broadband Cooperative contact:

Mid-Atlantic Broadband Cooperative

701 E. Franklin Street, Suite 501
Richmond, VA 23219
(804) 786-7692
www.mbc-va.com

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 an annual application process. Southside localities and organizations received 15 regional grants totaling \$6.1 million, and Southwest received 14 regional grants totaling \$1.0 million.



Riverstone Technology Park's Building One opened in 2005 as a high-tech hub in South Boston.



Officials cut the ribbon to officially open for business the e-Corridor Regional Park - Southwest in Duffield.

ECONOMIC DEVELOPMENT AT WORK

e-Corridor Regional Park-Southwest

Southwest Virginia gained a premier site for attracting future employers when the e-Corridor Regional Park-Southwest in Duffield opened in August 2005. The \$2.5 million park is located adjacent to the Duffield Regional Industrial Park, the site of recent expansion announcements from TempurPedic, VFP, Midpaco and Joy Manufacturing. The e-Corridor Regional Park-Southwest gives Scott County a state-of-the-art location to attract high-tech firms to the region and provides nearly 40 acres of developable land in a Virginia Enterprise Zone.

"This park exemplifies our long-term strategy to strengthen the employment base in the burley-producing region of the state," said Delegate Terry Kilgore, Vice Chairman of the Virginia Tobacco Indemnification and Community Revitalization Commission. "Funding regional parks such as this one will advance economic development in Scott County and throughout the region."

The park will utilize the LENOWISCO rural area network, a broadband initiative that was funded by the Commission to bring high-tech infrastructure to rural areas. This infrastructure enhances the region's ability to attract high-tech industry by providing state-of-the-art infrastructure at a reasonable cost. Economic development officials project that the park will employ 500+ area residents when it is fully operational.

"To be competitive in the 21st Century global economy, full service business parks with open network, high speed internet with multiple redundancy are essential elements of our strategy," said Senator William Wampler. "I am pleased the Virginia Tobacco Commission was able to join the Virginia Coalfield Economic Development Authority in providing the funding for this shining example of where the future lies for Scott County and southwestern Virginia."

The Tobacco Commission along with the Virginia Coalfield Economic Development Authority (VCEDA) funded the park. The Commission approved a \$1.67 million grant in 2003; VCEDA provided an \$830,000 loan that financed the balance of the park's construction.

For more information on the e-Corridor Regional Park-Southwest contact:

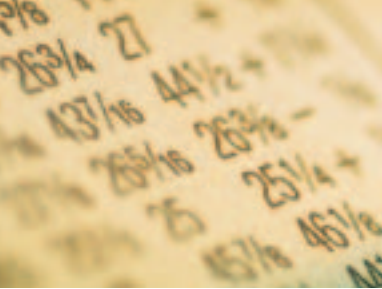
**Scott County
Economic Development Authority**
114 East Jackson Street
Gate City, VA 24251
(276) 386-2525 Fax: (276) 386-6158
www.scottcountyva.org



FY05 TOBACCO COMMISSION GRANT AWARDS

Organization <i>Project Description</i>	Grant Amount	Organization <i>Project Description</i>	Grant Amount
Agribusiness		Economic Development-Southwest	
Halifax County <i>Southside Value-Added Beef Initiative: Southwest & Southside Region</i>	\$1,440,000	Appalachian Sustainable Development <i>Value Added Economic Development Initiative</i>	\$70,000
Scott County Hair Sheep Association <i>Expanding Hair Sheep Education, Production and Marketing</i>	\$50,000	Barter Theatre Foundation <i>Stonewall Square Infrastructure and Site Improvements</i>	\$75,000
Virginia Nursery and Landscape Association <i>Virginia Ornamental Plant Evaluation and Introduction Program</i>	\$271,000	Birthplace of Country Music Alliance <i>Birthplace of Country Music Cultural Heritage Center</i>	\$125,544
Total Agribusiness	\$1,761,000	Carroll County <i>Southwest Virginia Farmers' Market Expansion</i>	\$60,000
Economic Development-Southside		Town of Clintwood <i>Ralph Stanley Museum Phase 2 Completion</i>	\$61,000
Campbell County <i>Seneca Commerce Park - Phase II & Median Break</i>	\$283,848	Dante Lives On, Inc. <i>Dante Coal Mining and Railroad Museum</i>	\$21,000
Cumberland County <i>Phase I/Cumberland Courthouse Water System</i>	\$42,038	City of Galax <i>Chestnut Creek School of the Arts</i>	\$40,000
Franklin County <i>Franklin County Workforce Center Initiative</i>	\$1,311,426	Lee County <i>Lee County Airport Improvements</i>	\$40,000
Halifax County IDA <i>Riverstone Technology Park Building - Two Additions</i>	\$590,542	Lee County IDA <i>Constitutional Oaks Industrial Park Expansion</i>	\$200,000
Halifax County IDA <i>Building One in Riverstone Technology Park</i>	\$1,000,000	Lonesome Pine Arts & Crafts, Inc. <i>Trail of the Lonesome Pine - Outdoor Drama Upgrades</i>	\$105,000
Town of Kenbridge <i>Kenbridge Community Center - Phase I</i>	\$200,000	Mount Rogers PDC <i>Whitetop Community Services Facility</i>	\$75,000
Lunenburg County <i>PER for Waterline Extension from Kenbridge to Victoria</i>	\$22,500	Scott County Economic Development Authority <i>Leadership Academy Southwest</i>	\$15,000
Lunenburg County <i>HVAC upgrades to STEPS Building in Victoria</i>	\$265,000	Town of Damascus <i>Creeper Trail Campground on Beaver Dam Creek - Phase I</i>	\$72,000
Mecklenburg County <i>South Hill Regional Wastewater Treatment Plant Expansion</i>	\$80,000	University of Virginia's College at Wise <i>Entrepreneurial Development Program</i>	\$50,000
Pittsylvania County <i>Regional Industrial Park - Sanitary Sewer Extension</i>	\$319,500	Total Economic Development-Southwest	\$1,009,544
Pittsylvania County <i>Brosville Industrial Park - Phase IV</i>	\$1,233,676	Education	
South Hill Community Development Association <i>The Colonial Center Renovation Project</i>	\$100,000	Central Virginia Community College Educational Foundation, Inc. <i>FY05 Allocation - Manufacturing Technology Training Equipment</i>	\$250,000
Town of Wakefield <i>Town of Wakefield Water System Improvements</i>	\$34,365	Central Virginia Community College Educational Foundation, Inc. <i>FY05 Allocation - CVCC Bedford Center Equipment Purchases</i>	\$100,000
Town of Victoria <i>Wastewater Infrastructure Improvements</i>	\$248,000	Central Virginia Community College Educational Foundation, Inc. <i>FY05 Allocation - Tobacco Family Scholarships & Training</i>	\$50,000
Total Economic Development-Southside	\$6,075,847		

Organization <i>Project Description</i>	Grant Amount	Organization <i>Project Description</i>	Grant Amount
Chase City Community Services <i>Estes Center Science Lab</i>	\$100,000	University of Virginia <i>Educating Nurse Leaders in Southside & Southwest Virginia</i>	\$248,828
Crater Regional Partnership <i>Skill Streams For Success - A Workforce Development Program</i>	\$50,000	Virginia Highlands Community College <i>FY05 Allocation - Scholarships</i>	\$400,000
Danville Community College <i>Equipping RCATT</i>	\$49,000	Virginia Highlands Community College <i>Appalachian Tricollege Nursing Program</i>	\$169,300
Danville Community College <i>Lean Manufacturing Applied Studies Program</i>	\$50,000	Total Education	\$7,974,148
Danville Community College Educational Foundation, Inc. <i>FY05 Allocation</i>	\$400,000	Special Projects	
Halifax Educational Foundation <i>Southern Virginia Higher Education Center - Technology Training Lab</i>	\$180,000	Crossroads Regional Industrial Facility Authority <i>Progress Park Phase II Infrastructure - Water/Sewer</i>	\$350,000
Mount Rogers Regional Adult Education Program <i>Southwest Virginia Regional RACE to GED Initiative</i>	\$153,020	Cumberland Plateau Electronic Business Village <i>Advancing Electronic Commerce in Southwest Virginia</i>	\$80,000
Mountain Empire Community College Foundation <i>FY05 Allocation - Scholarships</i>	\$400,000	Heart of Appalachia Tourism Authority <i>Marketing the Crooked Road - Virginia's Heritage Music Trail</i>	\$250,000
Patrick Henry Community College Foundation <i>FY05 Allocation - Building a Competitive Workforce</i>	\$400,000	Institute for Advanced Learning and Research <i>VIPER</i>	\$1,305,250
Town of Saltville <i>Workforce Development for Technology-Based Employment</i>	\$40,000	Lenowisco PDC <i>Virginia Coalfields Regional Sewer Study</i>	\$100,000
SCORE, Inc. <i>Establishment of a Middle College in Alberta</i>	\$140,000	Lenowisco PDC <i>"The Crooked Road" Virginia's Music Heritage Trail Project</i>	\$90,000
Southside Virginia Community College <i>FY05 Allocation - Scholarships</i>	\$100,000	Southwest Virginia Higher Education Center <i>Southwest Export Trade Initiative</i>	\$75,000
Southside Virginia Community College <i>FY05 Allocation - Community College Career Coach</i>	\$100,000	Tobacco Region Automotive Corridor Consortium <i>Auto Assembly Mega-Sites Study</i>	\$170,000
Southside Virginia Community College <i>FY05 Allocation - Southside Virginia Motorcycle Skills Academy</i>	\$200,000	Virginia Southwest Blue Ridge Highlands Tourism Association <i>E-Commerce and Packaging Online Mall</i>	\$36,900
Southwest Virginia Community College Foundation <i>FY05 Allocation - Tobacco Outreach Scholarship Program</i>	\$400,000	Total Special Projects	\$2,457,150
Southwest Virginia Higher Education Center <i>FY05 Southwest Burley Scholarship Program</i>	\$1,000,000	Technology	
Southwest Virginia Higher Education Center <i>FY05 Southside VA Tobacco Scholarship/Loan Program</i>	\$2,800,000	Bristol Virginia Utilities <i>Marion to Independence Fiber Engineering</i>	\$154,624
Tek.Xam Foundation, Inc. <i>Tek.Xam Training and Assessment for Workforce Skill Development</i>	\$194,000	Town of Independence <i>Independence Fiber Network</i>	\$100,000
		Mid-Atlantic Broadband Cooperative, Inc. <i>Regional Backbone Initiative</i>	\$11,500,000
		Total Technology	\$11,754,624



Organization	Grant Amount	Organization	Grant Amount
<i>Project Description</i>		<i>Project Description</i>	
TROF			
City of Bristol <i>Snack Alliance</i>	\$350,000	Mecklenburg County <i>Home Care Delivered</i>	\$125,000
Carroll County <i>AmerLink LTD</i>	\$300,000	Prince Edward County <i>Paris Ceramics</i>	\$300,000
City of Danville <i>Yorktowne Cabinets</i>	\$1,000,000	Russell County IDA <i>Designer Wood Tile</i>	\$150,000
City of Emporia <i>Charah, Inc.</i>	\$60,000	Town of Saltville <i>Global Contract Services 2</i>	\$200,000
Franklin County <i>CTS&I Incorporated</i>	\$100,000	Scott County Economic Development Authority <i>Midpaco</i>	\$175,000
Franklin County <i>Mod-U-Kraf</i>	\$75,000	Tazewell County IDA <i>Clinch River Forest Products</i>	\$200,000
Grayson County <i>Universal Food and Beverage</i>	\$150,000	Washington County IDA <i>Strongwell-Highlands</i>	\$100,000
Greensville County <i>Toll Brothers, Inc.</i>	\$225,000	Washington County IDA <i>KVAT Food Stores</i>	\$250,000
Henry County <i>StarTek</i>	\$250,000	Wythe County <i>Klockner Pentaplast</i>	\$125,000
Henry County <i>Texturing Services, Inc.</i>	\$250,000	Wythe County <i>SVC Manufacturing/PepsiCo, Inc.</i>	\$600,000
Henry County <i>Ridgeway Clocks</i>	\$50,000	Committed funds for projects not yet announced	\$3,537,719
Mecklenburg County <i>Peebles Distribution Center</i>	\$275,000	Total TROF	\$8,847,719
		Grand Total	\$39,880,032



Commission member Delegate Allen Dudley presents a check to Jeff Powell, Vice President and General Manager of Mod-U-Kraf, a manufacturer of modular single-family homes that will make a \$2.8 million expansion and create 50 new jobs.



Commission member Tom Arthur makes a TROF presentation to Jack Edl, President and Chief Operating Officer of Elkay Manufacturing Company, which owns Yorktowne Cabinetry. Yorktowne will make a \$19.2 million capital investment and create 431 new jobs at Cane Creek Centre Regional Park in Danville.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

September 21, 2005

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 and Endowment Special Revenue Fund, the two major funds of the Tobacco Indemnification and Community Revitalization Commission, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2005, 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 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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Tobacco Indemnification and Community Revitalization Commission as of June 30, 2005, 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 21, 2005 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 grant agreements 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 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 accounting principles generally accepted in the United States of America. 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, 2005.

Financial Highlights

- Through the Tobacco Settlement Financing Corporation, the Commission securitized one-half of its future Master Settlement Agreement payments and received net proceeds of \$389.8 million, which were deposited into the Tobacco Indemnification and Community Revitalization Endowment ("Endowment").
- The assets of the Commission exceeded its liabilities at the close of FY05 by \$477.8 million (net assets).
- The Commission's unrestricted net assets increased by \$3.9 million over the prior year.
- At the end of the fiscal year, the Commission's unreserved fund balance for the special revenue fund was \$87.6 million and \$390.2 million in reserved fund balance with \$351.3 million of this amount remaining in the Endowment.

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 Special Revenue Fund accounts for revenues received from the Master Settlement Agreement and other revenues deposited to the Tobacco Indemnification and Community Revitalization Fund and used for community

revitalization projects and indemnifying tobacco farmers. The Endowment Special Revenue Fund reflects proceeds and earnings from the securitization of one-half of the Commission's future Master Settlement Agreement funds, less amounts transferred to the Special Revenue Fund.

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 FY05 since grants are paid on a reimbursement basis and eligibility requirements may not have been met as of June 30, 2005.

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, 2005, the Commission's governmental fund balance was \$477.9 million, an increase of \$394.2 million over the prior year. Of the total fund balance, \$87.6 million is unreserved, which is available for spending at the Commission's discretion, and \$390.2 million is reserved for capital projects. Of the reserved fund balance, \$39.0 million has been transferred from the Endowment Special Revenue Fund to the Commission's regular Special Revenue Fund.

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 \$477.8 million.



Most of the Commission's net assets are restricted and held in the Endowment for future capital projects. The Commission's unrestricted net assets 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

	Governmental Activities	
	FY05	FY04
Current and other assets	\$516,265,026	\$113,161,598
Capital assets	10,584	14,171
Total assets	\$516,275,610	\$113,175,769
Long-term liabilities	39,650	33,424
Current and other liabilities	38,399,078	29,463,957
Total liabilities	\$38,438,728	\$29,497,381
Net assets:		
Invested in capital assets, net of related debt	10,584	14,171
Restricted	390,227,997	
Unrestricted	87,598,301	83,664,217
Total net assets	\$477,836,882	\$83,678,388

The Commission's net assets increased by \$394.2 million. Most of this increase is attributable to the securitization proceeds. Current assets increased significantly as a result of securitization. The increase in current and other liabilities is due to higher indemnification payments payable as well as a \$4.2 million increase in the securities lending program administered by the Department of the Treasury.

Commission's Revenue and Expenditures

	FY05	FY04
REVENUES:		
Master settlement agreement payments	\$65,157,743	\$64,198,262
Proceeds from securitization	389,776,674	
Other income	9,661	
Interest, dividends, and other investment income	2,784,779	1,571,318
Total revenues	\$457,728,857	\$65,769,580

EXPENDITURES:

Tobacco Settlement Expense

Administration	\$2,142,467	\$1,571,225
Indemnification payments	22,900,412	19,483,809
Community Revitalization	38,011,870	36,406,466
Payments for securities lending transactions	512,027	41,244
Depreciation	3,587	3,456
Total expenditures	\$63,570,363	\$57,506,200
Excess of revenue over expenditures	\$394,168,307	\$8,263,380

Proceeds from securitization accounted for the majority of the revenue increase. The increase in expenditures is primarily attributable to additional indemnification payments being made and additional community revitalization grants being awarded and disbursed.

Fiscal Year 2006's Budget

For the year ended June 30, 2005, the unreserved fund balance in the special revenue fund was \$87.6 million. Of this amount, the Commission has already committed \$53.1 million for previous community revitalization grant awards and another \$12.7 million for awards made in July and August 2005 from unrestricted funds.

The reserved fund balance in the special revenue fund was \$39.0 million, which has been allocated in the FY06 budget. Of this reserved fund balance, \$27.5 million was awarded in July and August 2005 and will be reflected on the statements for fiscal year 2006. In the Endowment special revenue fund, \$351.3 million remains as a reserved fund balance to be transferred in the future for capital projects funded by the Commission.

The Commission anticipates additional grant awards in the first half of FY06 that will obligate most of the remaining reserve balance.

The Commission has approved a budget of \$102,861,902 for FY06, a 23 percent increase from the final FY05 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, 2005

	Special Revenue Fund	Endowment Special Revenue Fund (Note 10)	Adjustments (Note 1-F)	Statement of Net Assets
ASSETS:				
Cash held by the Treasurer of Virginia (Note 2)	\$ 94,598,394		\$ -	\$ 94,598,394
Cash equivalents held by the Treasurer of Virginia (Note 2)	22,275,044		-	22,275,044
Investments held by the Treasurer of Virginia (Note 2)	4,733,307		-	4,733,307
Investments held by the Treasurer (restricted funds) (Note 10)	38,977,667	\$ 351,250,330	-	390,227,997
Accounts and loans receivable	489,791		-	489,791
Prepaid items	4,768		-	4,768
Grant advances (Note 6)	3,935,725		-	3,935,725
Capital assets (Note 1-D)	-		10,584	10,584
Total assets	\$ 165,014,696	\$ 351,250,330	10,584	516,275,610
LIABILITIES:				
Accounts payable	\$ 45,637		\$ -	\$ 45,637
Accrued payroll	45,789		-	45,789
Grants payable (Note 6)	6,645,173		-	6,645,173
Indemnification payments payable (Note 7)	4,654,128		-	4,654,128
Obligations under securities lending (Note 2)	27,008,351		-	27,008,351
Compensated absences (Note 1-E)	-		39,650	39,650
Total liabilities	38,399,078	0	39,650	38,438,728
FUND BALANCES/NET ASSETS:				
Fund Balances:				
Unreserved	87,637,951	-	(87,637,951)	-
Reserved	38,977,667	351,250,330	(390,227,997)	-
Total liabilities and fund balances	\$ 165,014,696	\$ 351,250,330		
Net assets:				
Invested in capital assets, net of related debt			10,584	10,584
Unrestricted			87,598,301	87,598,301
Restricted			390,227,997	390,227,997
Total net assets			\$ 477,836,882	\$ 477,836,882

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



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, 2005

	Special Revenue Fund	Endowment Special Revenue Fund (Note 10)	Adjustments (Note 1-F)	Statement of Activities
REVENUES:				
Master settlement agreement payments	\$ 65,157,743		\$ -	\$ 65,157,743
Proceeds from securitization (Note 10)		\$ 389,776,674		389,776,674
Other income	9,661		-	9,661
Interest, dividends, and other investment income (Note 2)	2,333,456	451,323	-	2,784,779
Total revenues	67,500,860	390,227,997	-	457,728,857
EXPENDITURES:				
Tobacco settlement expense:				
Administration (Note 8)	2,136,241		6,226	2,142,467
Indemnification payments (Note 7)	22,900,412		-	22,900,412
Community revitalization (Note 6)	38,011,870		-	38,011,870
Payments for securities lending transactions (Note 2)	512,027		-	512,027
Depreciation (Note 1-D)	-		3,587	3,587
Total expenditures	63,560,550	-	9,813	63,570,363
Revenues Over (Under) Expenditures	3,940,310	390,227,997	(394,168,307)	-
OTHER FINANCING SOURCES (USES):				
Transfers In	38,977,667		-	38,977,667
Transfers Out		(38,977,667)	-	(38,977,667)
Total Other Financing Sources (Uses)	38,977,667	(38,977,667)	-	-
Change in net assets	-	-	394,158,494	394,158,494
Fund balance/net assets, July 1, 2004	83,697,641	0	(19,253)	83,678,388
Fund balance/net assets, June 30, 2005	\$ 126,615,618	\$ 351,250,330	\$ (29,066)	\$ 477,836,882

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, 2005

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
Master settlement agreement payments	\$ 63,094,800	\$ 63,094,800	\$ 65,157,743	\$ 2,062,943
Interest, dividends, rents and other investment income	1,500,000	1,500,000	2,230,401	730,401
Other income	-	-	9,661	9,661
Total revenues	64,594,800	64,594,800	67,397,805	2,803,005
EXPENDITURES:				
Administration	2,219,940	2,219,940	2,130,936	89,004
Indemnification payments (Note 7)	20,000,000	20,000,000	18,308,170	1,691,830
Community revitalization (Note 6)	42,385,995	44,885,995	38,506,263	6,379,732
Total expenditures	64,605,935	67,105,935	58,945,369	8,160,566
Revenues over (under) expenditures	(11,135)	(2,511,135)	8,452,436	10,963,571
Fund balance, July 1, 2004	86,145,957	86,145,957	86,145,957	-
Fund balance, June 30, 2005	\$ 86,134,822	\$ 83,634,822	\$ 94,598,393	\$ 10,963,571

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



TOBACCO INDEMNIFICATION AND COMMUNITY REVITALIZATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

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. 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.
- Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences, claims, and judgments are recorded only when payment is due.

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, 2005, is summarized as follows:

	Beginning Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Office and computer equipment	\$24,767	0	0	\$24,767
Less Accumulated Depreciation	10,596	3,587	0	14,183
Ending Balance	\$14,171	3,587	0	\$10,584

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, 2005. 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 2004 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 and cash equivalents held by the Treasurer of Virginia	\$ 116,873,438
Investments held by the Treasurer of Virginia	394,961,304
Total cash, cash equivalents and investments	\$511,834,742

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, 2005	\$94,598,393
Deduct: Accrued expenses	(11,390,727)
Add: Receivables, Advances, and Prepaid Items	4,430,285
Add: Unbudgeted securitization proceeds and earnings	390,227,997
Fund balance, <i>GAAP basis</i> , June 30, 2005	\$477,865,948



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, 2005, was \$13,062. The Commission has, as of June 30, 2005, the following minimum rental payments due under the above leases:

2006	\$11,656
2007	<u>8,105</u>
Total	<u>\$19,761</u>

6. COMMUNITY REVITALIZATION EXPENDITURES

The Commission awarded grants totaling \$39,880,032 in fiscal year 2005 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 since the inception of the Commission, \$53,055,536 is not reflected in these statements since eligibility requirements were not met as of June 30, 2005, in accordance with Governmental Accounting Standards Board Statement No. 33, “Accounting and Financial Reporting for Nonexchange Transactions.” This amount not reflected in the statements includes grants awarded in prior years that have not yet been paid. The Commission awarded an additional \$40,181,386 in grants in FY06 that are not reflected in these statements. Grants payable includes amounts awarded to grantees with all contingencies met but unpaid as of June 30, 2005. Grant advances include amounts disbursed to grant recipients who have not incurred expenses as of June 30, 2005.

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. At its June 23, 2005, meeting, the Commission approved extending the original deadline of June



6, 2005, to accept additional verification forms through July 11, 2005. Indemnification Payments Payable includes amounts payable to recipients who met the eligibility requirement of submitting the appropriate verification form as of June 30, 2005.

8. ADMINISTRATION

Agency Service Costs

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

Indemnification Costs

Administration expenditures include \$393,000 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 of 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.

10. SECURITIZATION

The Governor, with the Commission's endorsement, authorized the sale of one-half of the Commission's allocation of revenues derived from the Master Settlement Agreement to the Tobacco Settlement Financing Corporation, pursuant to Chapters 482 and 488 of the 2002 Virginia Acts of Assembly. The Corporation sold bonds resulting in net proceeds to the Tobacco Indemnification and Community Revitalization Endowment of \$389,776,674 on May 16, 2005. As authorized by the Acts, the Commission requested a transfer of 10 percent of the Endowment to the Tobacco Indemnification and Community Revitalization Fund, which is reflected under the Special Revenue Fund column. The remaining Endowment balance includes interest earned on the Endowment through June 30, 2005. At June 30, the Endowment was invested in two money market accounts.



Virginia Tobacco Indemnification and Community Revitalization Commission

7th & Franklin Building • 701 E. Franklin Street, Suite 501 • Richmond, Virginia 23219
804-225-2027 • 1-877-807-1086 • FAX: 804-786-3210 • www.vatobaccocommission.org