

**The Virginia Tobacco Indemnification and  
Community Revitalization Commission**

**Annual Report**

**FISCAL YEAR 2002**



The Honorable Charles R. Hawkins  
Chairman

The Honorable Terry G. Kilgore  
Vice Chairman

Carthan F. Currin, III  
Executive Director



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## Virginia Tobacco Indemnification and Community Revitalization Commission

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

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

It is a privilege to present you with the Annual Report of the Virginia Tobacco Indemnification and Community Revitalization Commission for the fiscal year ending June 30, 2002. This report is required by Section 3.1-1109 of the *Code of Virginia*.

The members of the Commission and I are pleased to announce that we have awarded over \$80 million in grants and loans across the Commonwealth since the inception of the Commission in 1999. Throughout the attached report, success stories detail the jobs that have been created, the educational and workforce training programs that have been implemented, and the partnerships with the business community that are revitalizing Southside and Southwest. Each of these stories points to the economic growth fostered by the Tobacco Commission.

The Commission has, as a significant part of its mission, the promotion of economic growth and development in tobacco-dependent communities. As representatives from the tobacco region, we are determined to ensure the economic growth and prosperity of our area. These communities deserve focused commitment, and we have promised to deliver. As the Commission continues its work, your interest, support, and participation will be essential to our success.

Thank you for your commitment to helping Virginia's tobacco farmers and in revitalizing the economies of the tobacco-dependent region.

Sincerely,  
Charles R. Hawkins

Chairman

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[www.vatobaccocommission.org](http://www.vatobaccocommission.org)



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## A GLIMPSE INTO THE COMMISSION

The rolling hills and fertile farmland of Southside and Southwest Virginia were once home to many prosperous and vast tobacco farms. But today, the continuing decline in tobacco quota has put a strain on the economic growth of the region. The Tobacco Commission addresses this problem in two ways: by helping compensate for the loss that individual tobacco farmers have suffered in the short-term, while also putting resources toward a long-term solution by investing in diverse economic growth and development in tobacco-dependent communities throughout this region.

The Tobacco Indemnification and Community Revitalization Commission was created by the General Assembly as a body corporate and political subdivision of the Commonwealth of Virginia. Additionally, the Tobacco Indemnification and Community Revitalization Fund was established by this legislation as a special non-reverting fund to receive 50 percent of the annual amount received by Virginia from the Master Settlement Agreement. The Tobacco Master Settlement Agreement, signed in November of 1998, is expected to yield Virginia approximately \$4 billion over the next 25 years.

The Commission is comprised of 31 members consisting of legislators and citizens representing tobacco communities in Southside and Southwest Virginia, a representative of the Virginia Farm Bureau Federation, the Secretary of Finance, the Secretary of Commerce and Trade, and the Commissioner of Agriculture and Consumer Services. A committee structure has been established to facilitate the mission of the Commission.

## FY2002 COMMISSION MEETINGS



# COMMISSION MEMBERS

*As of June 30, 2002*

## Chairman

The Honorable Charles R. Hawkins

## Vice-Chairman

The Honorable Terry G. Kilgore

## House of Delegates Members

The Honorable Kathy J. Byron  
 The Honorable Allen W. Dudley  
 The Honorable Clarke N. Hogan  
 The Honorable Joseph P. Johnson, Jr.  
 The Honorable Terry G. Kilgore  
 The Honorable Thomas C. Wright, Jr.

Lynchburg, Virginia  
 Rocky Mount, Virginia  
 South Boston, Virginia  
 Abingdon, Virginia  
 Gate City, Virginia  
 Victoria, Virginia

## Senate Members

The Honorable Charles R. Hawkins  
 The Honorable Phillip P. Puckett  
 The Honorable Frank M. Ruff, Jr.  
 The Honorable William Wampler, Jr.

Chatham, Virginia  
 Lebanon, Virginia  
 Clarksville, Virginia  
 Bristol, Virginia

## Secretary of Commerce and Trade

The Honorable Michael J. Schewel

Richmond, Virginia

## Secretary of Finance

The Honorable John M. Bennett

Richmond, Virginia

## Commissioner of Agriculture and Consumer Services

Mr. J. Carlton Courter, III

Richmond, Virginia

## Active Flue-Cured Tobacco Producers

Mr. Don L. Anderson  
 Mr. Clarence D. Bryant, III  
 Mr. Thomas E. West

South Boston, Virginia  
 Blairs, Virginia  
 Nathalie, Virginia

## Term Expires

6/30/02  
 6/30/05  
 6/30/03

## Active Burley Tobacco Producers

Mr. Fred M. Fields  
 Mr. William E. Osborne  
 Mr. John M. Stallard

Pennington Gap, Virginia  
 Tannersville, Virginia  
 Nickelsville, Virginia

6/30/05  
 6/30/02  
 6/30/03

## Virginia Farm Bureau Federation Representative

Mr. Joseph H. Williams

Chatham, Virginia

6/30/03

## Citizens

Mr. Thomas W. Arthur  
 Mr. Paul L. Grinstead  
 The Honorable Isiah G. Hopkins  
 Mr. John Lang Hurley  
 Mr. Donald K. Lawson  
 Mr. Joe Leigh  
 Mr. H. Ronnie Montgomery  
 Mr. John Thomas Taylor  
 Ms. Cindy M. Thomas  
 The Honorable Gary D. Walker  
 Mr. Tucker C. Watkins

Blairs, Virginia  
 Marion, Virginia  
 Lunenburg, Virginia  
 Bluefield, Virginia  
 Martinsville, Virginia  
 Halifax, Virginia  
 Jonesville, Virginia  
 Clarksville, Virginia  
 Lynchburg, Virginia  
 Charlotte Court House, Virginia  
 Randolph, Virginia

6/30/03  
 6/30/02  
 6/30/05  
 6/30/02  
 6/30/02  
 6/30/05  
 6/30/03  
 6/30/05  
 6/30/02  
 6/30/05  
 6/30/03

# COMMITTEES

*As of June 30, 2002*

## **Executive Committee**

Charles Hawkins – *Chairman*  
Terry Kilgore – *Vice-Chairman*  
Clarence Bryant  
Kathy Byron  
Allen Dudley  
Isiah Hopkins  
Joseph Johnson  
Frank Ruff  
Cindy Thomas  
Gary Walker  
William Wampler

## **Economic Development, Southside**

Thomas Arthur – *Chairman*  
Clarke Hogan  
Frank Ruff  
Michael Schewel  
John Taylor  
Cindy Thomas  
Gary Walker  
Tucker Watkins  
Thomas Wright

## **Economic Development, Southwest**

William Wampler – *Chairman*  
Fred Fields  
Paul Grinstead  
John Hurley  
Joe Johnson  
Ronnie Montgomery  
Phillip Puckett  
Michael Schewel

## **Tobacco Committee**

Joe Johnson – *Chairman*  
Don Anderson  
Clarence Bryant  
Fred Fields  
Terry Kilgore  
Phillip Puckett  
John Stallard  
Tucker Watkins  
Thomas West  
Joseph Williams

## **Finance Committee**

William Wampler – *Chairman*  
Don Anderson  
Clarence Bryant  
Cindy Thomas

## **Special Projects Committee**

William Wampler – *Chairman*  
Thomas Arthur  
Kathy Byron  
Allen Dudley  
Ronnie Montgomery  
William Osborne  
Michael Schewel  
Gary Walker

## **Education Committee**

Frank Ruff – *Chairman*  
Thomas Arthur  
Isiah Hopkins  
Joseph Johnson  
Donald Lawson  
William Wampler

## **Personnel Committee**

Allen Dudley – *Chairman*  
Kathy Byron  
Phillip Puckett  
Gary Walker

## **eCorridors Task Force**

Ben Davenport, Jr.\* – *Chairman*  
Paul Elswick\* – *Vice-Chairman*  
Anne Armstrong\*  
Thomas Arthur  
Jean Clary\*  
Bette Dillehay\*  
Eugene Huang\*  
Robert Hurt\*  
Ronnie Montgomery  
Phillip Puckett  
William Wampler  
Tucker Watkins

## **Long-Range Planning Task Force**

Charles Majors\* – *Co-Chairman*  
Tom Morris\* – *Co-Chairman*  
Tom Arthur  
John Bennett  
Clarence Bryant  
Allen Dudley  
Ronnie Montgomery  
Phillip Puckett  
Frank Ruff  
Michael Schewel  
William Wampler

\*Not a Commission member

# COMMITTEE ROLES AND RESPONSIBILITIES

## **Executive Committee**

The Executive Committee addresses issues of significance to the Commission and may exercise administrative functions when the full Commission is unable to meet, in emergencies and when otherwise authorized by the Commission.

## **Southside and Southwest Economic Development Committees**

The Southside and Southwest Economic Development Committees develop priorities and guidelines for their designated funds and decide how the total budget allotment for the respective region will be allocated. These committees also review all Economic Development grant applications that are submitted and make recommendations for funding to the full Commission.

## **Education Committee**

The Education Committee designs scholarship programs and reviews all grant applications for educational programs and facilities for recommendation to the full Commission.

## **Securitization/Finance Committee**

The Securitization/Finance Committee addresses the more technical aspects of the Commission's budget and securitization transaction, working out potential scenarios for recommendation to the full Commission.

## **Special Projects Committee**

The Special Projects Committee hears all funding applications that represent a broad regional project scope or have the potential to have a significant impact on the region as a whole. These projects would be larger in scope or geographic impact than the Economic Development Projects.

## **Tobacco Committee**

This group addresses the Commission's indemnification payments and determines the percentage distribution between the grower and the quota owner.

## **Personnel Committee**

The Personnel Committee addresses the personnel issues of the Commission. The Executive Committee must approve any staff person hired at the Director Level or above. The Committee makes recommendations to the Executive Committee regarding these staff issues as well as delegating particular authority to the Executive Director related to personnel.

## **eCorridors Task Force**

The group is charged with focusing on the eCorridors project, which will provide high-speed Internet access along the Route 58 corridor and provide greater broadband access to the region's communities.

## **Long Range Planning Task Force**

The Long Range Planning Task Force is developing a Long Range Strategic plan to be reviewed by the full Commission and the Governor. This plan will outline the Commission's funding priorities once securitization takes place.



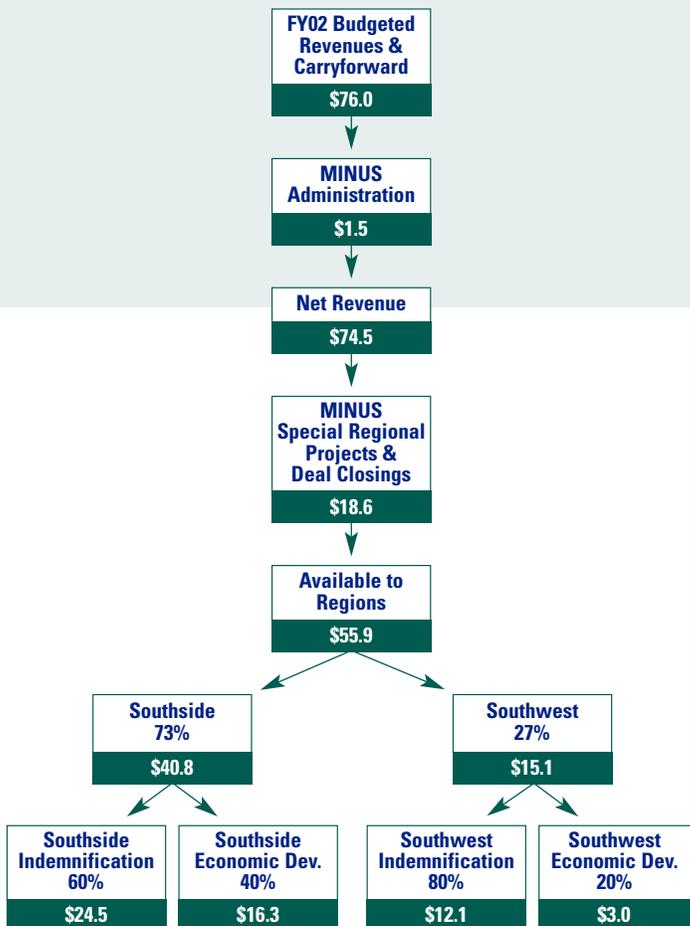
# A SUCCESSFUL YEAR FOR THE COMMISSION

## Administration

The Commission's budget for FY2002 was \$76 million. Consistent with its mission to provide economic assistance and indemnification funds to Southside and Southwest Virginia, the Commission successfully kept its administrative costs to a minimum. With less than two percent of its funds going to administrative costs, the Commission voted to designate 25 percent of its FY2002 net revenues for Special Projects, which included regional projects and deal closing incentive grants. The remaining funds were distributed between the two regions with 73 percent designated for Southside and 27 percent designated for Southwest. Southside allocated 60 percent of its funds for indemnification payments to tobacco farmers and 40 percent for economic development projects. Southwest allocated 80 percent of its funds for indemnification payments to farmers and 20 percent for economic development. The following chart summarizes the budget distribution of FY2002 funds.

## Tobacco Indemnification and Community Revitalization Commission

### FY2002 Budget Splits (in millions)



## Hope in Henry County

In November 2001, a manufacturing facility closed its doors, eliminating about 2,300 jobs in Martinsville and Henry County and delivering a serious economic blow to the community.

During his campaign for Governor, Mark Warner promised to come to the aid of economically struggling communities in Southside, and upon his election as Governor, he created an Economic Strike Force. This group was designed specifically to address and give aid to communities that were dealing with catastrophic economic situations. The Strike Force's first announcement came in February of 2002 – Nautica Enterprises, Inc. would come to Henry County. This gave new hope to the recently laid off area residents. This announcement was made possible by a grant from the Governor's Opportunity Fund and a grant from The Virginia Tobacco Indemnification and Community Revitalization Commission.

The Tobacco Commission provided a \$200,000 grant so that Nautica could expand its facility to include a central administrative office and transaction processing center at the Patriot Centre industrial park. Nautica built its 500,000-square-foot plant in the Patriot Centre in 2000.

The 2001 expansion would provide 150 new jobs for Henry County and the surrounding areas.



"To see a major company like Nautica expand its operations demonstrates the positive business climate here in Martinsville and Henry County. This announcement proves that an aggressive economic development strategy can play a major role in economic recovery," said Governor Warner.

Nautica makes products ranging from sportswear and accessories to a complete home collection. The Company, through its subsidiaries, designs, sources, markets and distributes apparel under the following brands: Nautica; Nautica Competition; Nautica Jeans Company; Earl Jean; John Varvatos; E. Magrath; and Byron Nelson.

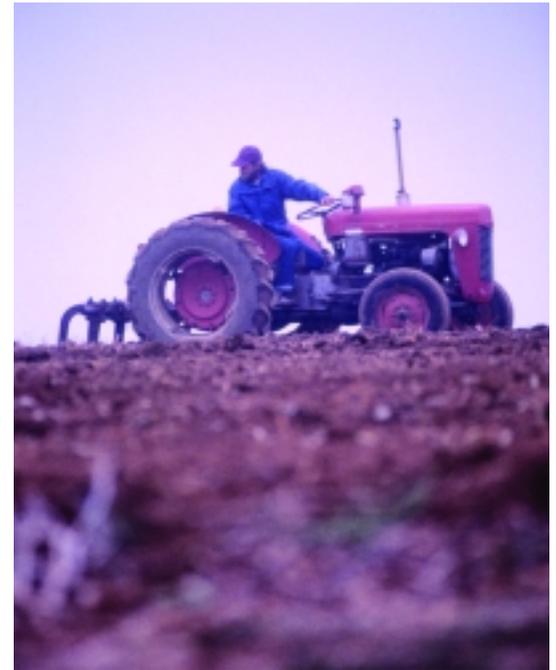
"We are pleased to be locating the customer service operation in Henry County and appreciate the continuing efforts being made by the Commonwealth of Virginia and Henry County. We are also glad to be in a position to assist with the efforts to decrease unemployment in the County," said Harvey Sanders, Chairman and CEO of Nautica Enterprises.

"The willingness of existing companies to expand in our community is a strong signal to other prospects that we in Martinsville and Henry County have everything a growing company needs to flourish," said Mayor Mark Crabtree of Martinsville.

## Indemnification

The 2001 indemnification distribution was completed in FY2002, with a final deadline of July 2, 2001, for verification forms to be submitted. A total of \$34.3 million was paid to tobacco farmers in this second year distribution of Phase I monies. For the 2002 indemnification distribution, Troutman Sanders, LLP, sent out verification letters in mid-April of 2002. The State Treasurer in FY2002 issued payments totaling \$35.0 million for the 2002 indemnification distribution. The Commission anticipates that an additional \$71,583 will be paid in FY2003 to complete the 2002 distribution.

Southside committed \$24.5 million to indemnify flue-cured tobacco farmers for 2002. The amount for flue-cured tobacco farmers was further split with 50 percent made available to growers and 50 percent made available to quota owners. Southwest committed \$12.1 million to indemnify burley tobacco farmers for 2002. The amount for burley tobacco farmers was split with 62 percent made available to growers and 38 percent made available to quota owners.



## Economic Development

For FY2002, the Commission awarded regional economic development grants in June 2001 (remainder of FY01 funds) and April 2002. Southside localities and organizations received 54 grants totaling \$18.0 million, and Southwest received 43 grants totaling \$4.1 million. Appendix A lists the specific grant recipients and the projects funded. \$12.9 million in grants were awarded from Special Projects, including \$6 million for seven community colleges in Southside and Southwest for various programs. In addition, \$4.9 million was committed from the Tobacco Region Opportunity Fund for deal closing incentive grants.

### Southside/Southwest Economic Development Fund

This Fund provides assistance to economic development projects that will have significant impact in expanding and diversifying the economic bases of the tobacco-dependent region. The money from this fund is used to develop sites and infrastructure, establish training programs and facilities, and provide assistance to new or expanding businesses. These funds are available to local governments, government entities (such as Planning District Commissions and Industrial Development Authorities), and non-profit organizations. Economic development grants are awarded through an annual application process.



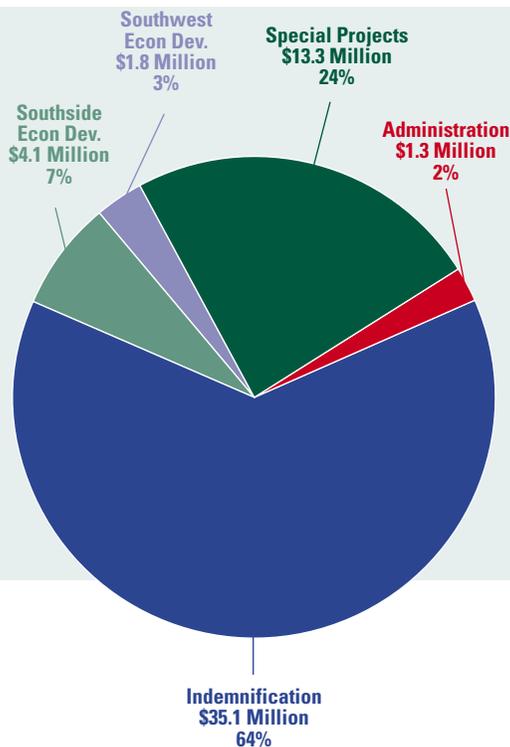
### Special Projects and Deal Closings Fund

This allocation is used to fund projects that will benefit a number of localities within one region or that have the potential to have a significant impact on both regions as a whole. These projects are larger in scope and geographic impact than the projects typically funded by the Southside and Southwest Economic Development Funds. There is a rolling submission process for applications for Special Project grants. All grants are evaluated by the Commission staff, reviewed by the Special Projects Committee, and approved by the full Commission. Deal closing incentive grants are also awarded from this fund to help local governments attract larger economic development projects that create at least 25 new jobs and bring new private capital investment of at least \$1 million to our tobacco regions. There is a rolling application process to receive money from this fund and grants are awarded throughout the year.

## Overview of Expenditures

The Commission received a total of \$74.8 million in revenue from the Master Settlement Agreement for FY2002. In addition, \$548,899 in interest was earned from deposits held in the state treasury. Administrative expenses were 1.7 percent of total revenues. Total expenditures for FY2002, including indemnification payments and economic development grants, were \$55.6 million. This amount does not include \$20.7 million in grants that have been awarded but have not yet requested reimbursement. The following diagram illustrates how FY2002 funds were spent.

### FY2002 Expenditures \$55.6 million



Surplus FY2002 revenues will be carried forward and distributed in the FY2003 budget. The Commission ended FY2002 with a fund balance of \$34.3 million, and a cash and cash equivalents balance of \$34.7 million. Approximately \$4 million of the ending fund balance is held as indemnification reserve for pending or potential claims. The remaining fund balance is used as a reserve to fund awarded projects and administration in the first six months of FY2003 until the initial MSA payment is received in January.

## From Tobacco Warehouse to Center for Higher Learning

*In keeping with its mission to change the bleak economic outlook of the rural communities in the Commonwealth, the Virginia Tobacco Commission uses every means at its disposal to promote economic growth and development in tobacco-dependent communities. One way the Commission hopes to promote economic growth and development in tobacco-dependent communities is through higher education. The Commission identifies and grants funds to colleges, educational institutions and other organizations that implement educational and workforce training programs to benefit the communities of Southside and Southwest Virginia.*

*The Southern Virginia Higher Education Center is one example of how the Tobacco Commission's funding has paid off. Uniquely housed in a converted tobacco warehouse in Historic Downtown South Boston, the Southern Virginia Higher Education Center understands the population it serves and the people it is committed to helping. The Center regularly serves students from Martinsville, Clarksville, Gretna, South Hill, and other cities throughout the region.*

*In cooperation with area higher education programs and colleges such as Virginia Tech, the University of Richmond, and many others, the Center offers bachelor's degrees in Criminal Justice, Nursing, and Organizational Management. The Center offers Master's degrees in Business Administration, Education, Engineering, Public Health Leadership and Divinity. Certifications and Associate degrees in Computer Science, Information Systems Technology, Medical Lab Technology, and Truck Driving School and various literacy programs are just a few of many programs the Southern Virginia Higher Education Center offers to the community.*



*The Southern Virginia Higher Education Center also encourages economic development in the community and region by housing the Longwood Small Business Development Center. The small business center is dedicated to providing assistance for clients who want to start a small business. The Center provides seminars and guidance in obtaining start-up financing for the small business owner.*

*The Virginia Tobacco Commission awarded the Center almost \$2 million in economic development and educational grants for renovation of the tobacco warehouse facility and to purchase and upgrade the facility's computers and other equipment.*

*"Without the assistance of the Virginia Tobacco Commission, the renovation of the tobacco warehouse would not have been possible," said Amy Lammerts, Executive Director of the Southern Virginia Higher Education Center. "With the renovation of the tobacco warehouse and purchase of new computer technology, we were able to add more classroom space and offer a variety of new education programs."*

*It is the mission of the Southern Virginia Higher Education Center to support regional economic development, professional advancement and lifelong learning to area students through quality educational programs and services. In assisting the Center to achieve its goal, the Virginia Tobacco Commission takes another step in achieving its goal of improving the economic and social conditions of citizens of the Commonwealth.*



## MEETING THE CHALLENGES OF THE FUTURE

The economic future of any region is dependent on the resources and knowledge base available to both businesses in the area and the community as a whole. In these uncertain economic times, it is imperative that we continue to push forward with the indemnification process to assist our tobacco farmers while pursuing a forward-looking strategy by implementing economic development, infrastructure, educational and vocational programs made possible through Commission grant money. With development of a long-range plan, the Commission will move deliberately toward a new and diverse economy, making the best use of resources at hand.

From each year's net revenues, the Commission will set aside a portion of its funds for Special Projects to fund tobacco region-wide projects, deal closings, education, and other special economic development and research projects. For FY2003, the Commission has designated 35 percent of its net revenues for special projects, deal closings, education, and a revolving capital access loan fund. The remaining funds will be distributed by region with each region determining the percentage to be used to compensate tobacco growers and quota owners until they are fully indemnified for their losses, as provided in §3.1-1112 of the *Code of Virginia*.

Potential future projects for the Commission include partnering with private and public entities to leverage Commission funds to enhance educational opportunities and tourism. Future commitments have also been made in order to help build the Institute for Advanced Learning and Research in Danville and to assist the Halifax County Service Authority with infrastructure improvements at the Virginia International Raceway to increase tourism.

To build a firm foundation for the tobacco region's future and to help the Commission plan its long-term investments in the tobacco region, the Commission plans to securitize its revenues and deposit the net proceeds into the Tobacco Indemnification and Community Revitalization Endowment. Chapters 482 and 488 of the 2002 Acts of Assembly authorized the sale of the Tobacco Commission's share of MSA revenue to establish an endowment. This securitization of future revenues will help ensure the long-term availability of funding, as well as open the possibility of leveraging funds for major projects such as eCorridors. The Commission's Long-Range Planning Task Force is developing a plan that will help guide the Commission in determining which long-term uses of securitization proceeds will have the greatest and most positive impact on the region.

### Rocky Mount Attracts Trinity Packaging

*Franklin County has had its share of economic disappointments over the past few years. Existing businesses have closed creating massive job loss in the area, and other companies have planned investment and jobs only to have those plans fall through, disappointing a hopeful community.*

*In May of 2002, Trinity Packaging Corporation announced that it would bring 300 new jobs to the Town of Rocky Mount. The Company detailed a plan that called for 150 workers to be hired by the end of 2002 and 150 additional workers to be hired by fall of 2003. The Company has moved into a 105,000-square-foot building in the Franklin County/Rocky Mount Industrial Park and is adding 145,000-square-feet to that building.*

*The Virginia Tobacco Indemnification and Community Revitalization Commission approved \$500,000 to assist with the facility. This money, coupled with \$450,000 from the Governor's Opportunity Fund, is making it possible for Trinity Packaging to expand in Franklin County.*



*"I am proud of the role that the Tobacco Commission has been able to play in assisting our economic development efforts," said Delegate Allen Dudley. "Senator Charles Hawkins, Chairman of the Commission, and Carthan Currin, its Executive Director, are both familiar with Franklin County and the needs of the community. I would also like to thank the Governor and the Virginia Economic Development Partnership for helping to bring new business and jobs to our area."*

*"We appreciate the support of Virginia's Tobacco Commission and we are pleased to partner with Virginia," said Dave Williams, President of Trinity Packaging. "The incentives offered by the state and the lower price of electricity will allow us to produce our product cost-efficiently. I am also pleased that we will meet our goal of employing 300 people from Franklin County by the end of 2003."*

*Trinity is a privately owned company that supplies packaging material to customers throughout the United States. Though the company is over 80 years old, Trinity prides itself with keeping up with the newest technology to serve the ever-evolving needs of their customers.*

## CURRENT STAFF

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*Receptionist*  
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*Program Support Technician*  
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Timothy Pfohl  
*Grants Program Administration Manager*  
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Stephanie S. Wass  
*Director of Finance*  
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Patty A. Wyatt  
*Fiscal Technician Senior*  
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(effective September 2002)

### **Tobacco Indemnification and Community Revitalization Commission**

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Richmond, Virginia 23219  
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Toll-Free: 877-807-1086  
Fax: 804-786-3210

### **A Southside Success Story**

*It is not everyday that good news comes out in the press about the economies of the rural communities in the Commonwealth. These communities have seen an exodus in manufacturing, textile, and agricultural jobs. Many communities that depended on tobacco for a thriving economy now have a bumper crop of closed businesses and empty tobacco warehouses. For the City of Danville, however, the Virginia Tobacco Commission brought some good news.*

*Continuing its mission to help tobacco-dependent and impacted counties and towns deal with the decline of the tobacco industry, the Virginia Tobacco Commission helped in securing the deal to lure Essel Propack's first facility in the United States to Danville. The city obtained a \$200,000 grant from the Virginia Tobacco Commission's Tobacco Region Opportunity Fund to assist with the project. Essel Propack is also eligible to receive further tax credits because it is located in an enterprise zone.*

*Founded in 1984 and headquartered in India, Essel Propack is the world's largest laminated and plastic tube manufacturer. These laminated and plastic tubes are used by dental, pharmaceutical, cosmetic, food and household products industries. Essel Propack has manufacturing operations in 10 countries and nearly 1,000 employees.*

*Essel Propack made a capital investment of \$21 million in a new facility located in the Airside Industrial Park. In addition to the \$21 million capital investment, Essel Propack promised to create 81 full-time jobs with an annual payroll of more than \$2 million.*



*"We selected Danville, Virginia for many reasons. The area offers adequate industrial infrastructure, a skilled workforce, a quality education system to train our employees, excellent transportation access and significant cost benefits. In addition, we were truly impressed by the professionalism of the city and state representatives that worked on our project," said Manuel Diez, Manager of Essel Propack America LLC.*

*The Danville facility manufactures and supplies Procter & Gamble's Greensboro plant in North Carolina with toothpaste tubes. In fact, the Danville facility will manufacture all of Procter & Gamble's toothpaste tubes sold in North America.*

*Ronald Bunch, Danville's economic development director, said, "We're very excited about their presence here." Bunch said he knew the city was making a good decision by working with Essel Propack to open a new American plant in the area.*

*Governor Mark Warner said, "This represents the first new business announcement for Danville since 1996, and I am sure this international company will be a tremendous addition to the Southside economy."*

# APPENDIX A

## Tobacco Indemnification and Community Revitalization Commission FY02 Economic Development Grant Awards

<i>Grant Recipient</i>	<i>Project Title/Description</i>	<i>Grant Amount</i>
<b>Southside</b>		
1 Appomattox County Board of Supervisors	To develop and install signage as a marketing initiative for the county's tourism industry and industrial park	\$ 45,000
2 Bedford County Industrial Development Authority	To complete construction of roads, waterlines, storm drainage, and grading of a 45-acre business park and a 19-acre rural shopping complex	\$ 46,732
3 Campbell County	To contract services to identify engineering requirements, service providers, and investment needs to provide broad band Internet access	\$ 50,000
4 Campbell County	To perform engineering assessment of design and construction needs to extend water and sewer lines in existing industrial park and to study the feasibility of purchasing and developing adjacent property	\$ 65,000
5 Campbell County	To purchase and renovate an existing 2,500 sq ft building in the Town of Brookneal to provide a workforce training facility and satellite campus for Central Virginia Community College	\$ 200,000
6 Greensville County	To build a 300,000 gallon elevated water storage tank to improve existing industrial park's infrastructure	\$ 166,723
7 Henry County	To build a shell office building to house an economic development marketing agency and 4-5 new businesses	\$ 214,923
8 Patrick County Board of Supervisors	To construct a Sonet Ring (lay fiber optic cable) within the Park to attract technology businesses	\$ 30,000
9 Patrick County Board of Supervisors	To assist with site preparation of the Business Park expansion on land purchased by the County-funding for erosion & sediment control, soil testing, engineering, equipment rental, and topographic survey	\$ 50,000
10 Patrick County Board of Supervisors	To design an interactive tourism web site and maintain for 10 years (\$23,000); and to provide interior display fixtures for a Tourist Visitor Center (\$15,350)	\$ 38,350
11 Patrick County Board of Supervisors	To purchase equipment (relay circuit service, server memory, video conferencing system) to implement a distance learning program through Patrick Henry Community College	\$ 50,000
12 Pittsylvania County	To provide engineering study with documentation and drawings on construction of utility services, including sanitary sewer and conduits for fiber optic communication transmission to Pittsylvania County Industrial Park and along Rte. 58 West Corridor	\$ 31,449
13 Town of Hurt	To clear, grade, and grub remaining 3 parcels in the 70-acre Key Industrial Park	\$ 75,000
14 Virginia's Heartland Regional Industrial Facilities Authority	To develop property, providing direct access to Rte. 360, for industrial park previously purchased using TICRC funds, and to grade 15-acre parcel	\$ 960,181
15 Virginia's Region 2000	To provide a grant to Central Virginia Community College to purchase new high performance manufacturing training equipment	\$ 56,450
16 Amelia County, Virginia	Amelia County Business Park Expansion	\$ 167,174
17 Appomattox County	Appomattox Workforce Training Center Study	\$ 32,467
18 Bedford County IDA	New London Business and Technology Center	\$ 34,836
19 Alberta, Town of/Lake Country	Alberta SONET Ring	\$ 41,500
20 Lawrenceville, Town of	Lawrenceville Water Expansion Project	\$ 748,160
21 Brunswick County IDA	Brunswick County Economic Development Plan	\$ 103,500
22 Brunswick County IDA	Alberta Business Park	\$ 90,000
23 Buckingham, County of	Buckingham County Sewer Line Extension	\$ 17,955
24 Campbell County	Campbell County Comprehensive Economic Development Strategy Project	\$ 35,000
25 Campbell County	Campbell County Brookneal Industrial Park Water Line Project	\$ 267,981
26 Virginia's Heartland Regional Industrial Facilities Authority	Keysville Wastewater Upgrade and Expansion	\$ 728,276
27 Cumberland County	Riverside Industrial Park Infrastructure Improvements	\$ 45,400
28 City of Danville	The Institute for Advanced Learning and Research	\$ 1,000,000

29	City of Danville	Land purchase for Danville-Pittsylvania Industrial Park	\$ 674,199
30	Dinwiddie, County of	Dinwiddie County Industrial Park Phase 1	\$ 1,569,907
31	Crater Regional Partnership	Skill Streams for Success - A workforce development program	\$ 97,000
32	Franklin, County of	Basic Adult Education Services/ Literacy and GED Training	\$ 97,137
33	Franklin, County of	Ferrum Industrial Park study	\$ 92,688
34	Franklin, County of	HVAC Career and Technical Course	\$ 27,000
35	Greensville County	Greensville County Shell Building Incentive Fund	\$ 100,000
36	William E. Tuck Airport Commission/Lake Country	Tuck Airport Corporate Terminal & Offices	\$ 210,748
37	Halifax County	Halifax County Agricultural Center	\$ 200,000
38	Halifax County IDA	Riverstone Technology Business Park	\$ 2,252,764
39	South Boston - Halifax County Museum of Fine Arts History	Completion of Shell Addition to Expand Services	\$ 50,000
40	Lunenburg County	Town of Kenbridge Sewage Plant Upgrade	\$ 799,883
41	Mecklenburg Co. IDA	Virginia's Lakeside Commerce Park	\$ 500,000
42	Chase City, Town of	Main Street Market	\$ 175,000
43	South Hill IDA	Interstate Industrial Park - Site Preparation	\$ 400,000
44	South Hill Community Development Assoc.	Lake Country Advanced Knowledge Center	\$ 888,673
45	Burkeville Virginia, Town of	Town of Burkeville Depot Rehabilitation	\$ 80,000
46	Nottoway County	Nottoway County Community Resource Project Phase II	\$ 118,235
47	Patrick County Education Foundation	Increased Education and Employment Opportunity for All Patrick County Residents	\$ 81,800
48	Patrick County IDA	Rich Creek Corporate Park Shell Buildings	\$ 200,000
49	R.J. Reynolds - Patrick County Memorial Hospital	Hospital Sprinkler System for Fire Protection and Safety	\$ 161,287
50	Pittsylvania County	Route 58 West Commercial & Industrial Parks	\$ 2,000,000
51	Pittsylvania County	Cyber Park Phase I	\$ 300,000
52	Pittsylvania County/ City of Danville	The Institute for Advanced Learning and Research	\$ 1,000,000
53	Gretna, Town of	Gretna Industrial Park	\$ 400,000
54	Hurt, Town of	Key Industrial Park	\$ 138,000
<b>TOTAL SOUTHSIDE REGION ECONOMIC DEVELOPMENT GRANTS</b>			<b>\$ 18,006,378</b>

### Southwest

1	Appalachian Sustainable Development	To expand current organic production and marketing efforts by assisting farmers in transitioning to producing high value organic produce, providing education, training, and technical assistance, helping sell crops through a cooperative marketing system, and expanding facilities	\$ 50,000
2	Barter Theatre	To expand existing educational programs	\$ 90,000
3	Clinch Mountain Farmers Inc.	To construct a 15,000 sq ft metal building for a permanent market facility, to relocate equipment from current leased facility to new facility, and to fund start-up expenses	\$ 100,000
4	Lee County Industrial Development Authority	To help provide new public water service to serve the county's new airport and industrial/commercial property; includes development of a water treatment plant, construction of water lines and water storage tank	\$ 200,000
5	Mount Rogers Planning District Commission	To contract with ERISS Corporation to implement a system to collect, analyze, and distribute workforce/labor market information	\$ 50,000
6	Mountain Empire Regional Business Incubator	To provide program support funds for the third year of operations at its primary incubator site at the Pioneer Center for Business Opportunity in Duffield and at its first network satellite site under development in Norton	\$ 30,000
7	People, Incorporated of Southwest Virginia	To provide capital and operating funds to Cardinal Ventures to provide access to capital for new and expanding businesses	\$ 75,000
8	Scott County Public Service Authority	To reduce debt load of a regional expansion and consolidation of the Holston Regional Sewage System	\$ 175,000



9	Scott Farmers Cooperative, Inc.	To conduct a feasibility study for a community cannery serving Scott County	\$	15,000
10	Smyth County Board of Supervisors	To provide engineering study to extend public sewer to eight existing businesses and other potential businesses	\$	125,000
11	Tazewell County Industrial Development Authority	To complete the purchase of land for the Tazewell County Idea Park to attract hi-tech industries	\$	125,000
12	Town of Clintwood	To provide annual operating support for a regional training and education center targeting telecommunications industries	\$	25,000
13	Town of Saltville	To provide remaining capital needed to expand the Southwest Virginia Aquaculture Center for an aquaculture/floriculture program offering tobacco farmers an alternative source of income	\$	58,000
14	Virginia Highlands Small Business Incubator, Inc.	To provide site improvement costs for the 6.1-acre incubator site and inspection, permitting, bond counsel, and legal costs	\$	400,000
15	Wise County and Norton City Circuit Court	To enhance existing GIS by adding economic development layers from Census data, and additional telecommunications, environmental, and utilities mapping	\$	20,000
16	Abingdon Feeder Cattle Association, Inc.	Southwest VA Feeder Cattle Improvement Project - Analysis of Present Production	\$	78,800
17	Abingdon, Town of	Initial Development of and Provision of Infrastructure for the Stone Mill Business and Technology Park	\$	110,000
18	Appalachian Sustainable Development	Tobacco Farmer Organic Transition Program	\$	162,250
19	Appalachian Traditions, Inc.	Appalachian Traditions Village	\$	15,000
20	Black Diamond Resource Conservation & Development	Marketing & Business Development Study - Wines & Grapes	\$	21,615
21	Bristol Train Station Foundation	Bristol Train Station Economic Revitalization Project	\$	50,000
22	Burley Tobacco Festival & Farm Show	Washington County Agricultural Training Center	\$	200,000
23	Clinch Mountain Farmers' Inc.	Wholesale Marketer for Commercial Vegetable Producers	\$	100,000
24	Clintwood, Town of	Jettie Baker Center	\$	25,000
25	Cove Ridge Center Foundation & Advisory Board	Cove Ridge Center Economic Improvement Project	\$	25,000
26	Heart of Appalachia Tourism Authority	Farmers Growing Tourism	\$	25,000
27	Lee County IDA	Lee County Industrial Property Redevelopment	\$	225,000
28	Lee County IDA	Lee County Aquaculture Feasibility Analysis	\$	9,000
29	Lenowisco Planning District Commission	Lenowisco Broadband Last Mile Demonstration Project	\$	200,000
30	Lenowisco Planning District Commission	Southwest VA's Infrastructure Initiative	\$	200,000
31	Nickelsville Community Improvement & Dev. Co., Inc.	Upgrade of Medical Facility in Nickelsville	\$	50,000
32	Old High School Renovation, Inc	Old Chilhowie High School Electrical Renovation - Construction Phase #3	\$	31,250
33	Russell County Board of Supervisors/Bristol Virginia Utilities	Russell County Broadband	\$	450,000
34	Saltville Foundation Board of Trustees	Museum of the Middle Appalachians detailed A&E plans and project sitework	\$	15,000
35	Scott County Economic Development Authority	New Industrial Site Analysis	\$	115,000
36	Smyth-Washington Regional Industrial Facilities Authority	Glade Highlands Regional Industrial Park - Entrance Improvements	\$	239,000
37	Southwest Virginia 4-H Educational Center	Educationally Based Infrastructure Improvement Plan	\$	25,000
38	Tannersville Community Association	Preparing the Tannersville Community for training and education	\$	44,925
39	Tazewell County Farm Bureau	Tazewell Farmer's Market	\$	2,500

40	Virginia Cattlemen's Association	Virginia Cattle Marketing Tel-O Conferencing Center	\$	31,150
41	Virginia SW Blue Ridge Highlands, Inc	Entrepreneurial and New Business Growth through Tourism in Southwest VA	\$	25,000
42	Washington County Public Library	Computer Training for the Community	\$	15,000
43	William King Regional Arts Center	General Operating Support	\$	50,000
<b>TOTAL SOUTHWEST REGION ECONOMIC DEVELOPMENT GRANTS</b>			<b>\$</b>	<b>4,078,490</b>

### Special Projects

1	Virginia Community College System	Central Virginia, Danville, Mountain Empire, Patrick Henry, Southside Virginia, Southwest Virginia, Virginia Highlands	\$	6,000,000
2	Literary Foundation of Virginia	Scholarships for GED, literacy, technical, and vocational training	\$	5,000,000
3	City of Martinsville	West Piedmont Development Center-to fund startup costs and first-year operating costs for a 23,500-square-foot mixed-use incubator	\$	150,000
4	Southwest Virginia Higher Education Center	Southwest scholarship program	\$	250,000
5	Virginia International Raceway	Water and sewer project	\$	1,458,336
6	Bristol, City of	Magic Wand Car Wash Systems	\$	25,000
7	Bristol, City of	U.S. Solutions Group	\$	25,000
<b>TOTAL SPECIAL PROJECTS</b>			<b>\$</b>	<b>12,908,336</b>

### TROF Deal Closing Commitments

1	Pittsylvania County	KB Toys	\$	250,000
2	Chase City/Mecklenburg County	Sherwood Brands	\$	40,000
3	Washington County	Bristol Compressors	\$	500,000
4	Carroll County	Magnolia Manufacturing	\$	150,000
5	Mecklenburg County	Basalt Fiber	\$	50,000
6	Bedford County	Barr Labs	\$	100,000
7	Campbell County/Altavista	Ross Products/Abbott Labs	\$	200,000
8	Brunswick County	Atlanta Pulp and Paper	\$	225,000
9	Franklin County	Trinity Packaging	\$	500,000
10	Russell County	AT&T Wireless	\$	250,000
11	Danville	Essel Propack	\$	200,000
12	Campbell County/Altavista	Owens-Brockway	\$	100,000
13	Henry County	Knauss Foods	\$	180,000
14	Henry County	Cerxon Microtechnologies	\$	100,000
15	Mecklenburg County	Sherwood Brands #2	\$	125,000
16	Patrick County	Narroflex	\$	200,000
17	Brookneal/Campbell County		\$	175,000
18	Franklin County		\$	500,000
19	Patrick County		\$	300,000
20	Wythe County		\$	300,000
21	Wise County		\$	100,000
22	Lunenburg County		\$	30,000
23	Bristol		\$	150,000
24	Mecklenburg County		\$	150,000
<b>TOTAL TROF COMMITMENTS</b>			<b>\$</b>	<b>4,875,000</b>

**Audited Financial Statements of The Virginia Tobacco Indemnification and  
Community Revitalization Commission  
For the Year Ended June 30, 2002**



**Commonwealth of Virginia**

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

**Walter J. Kucharski, Auditor**

January 8, 2003

The Honorable Mark R. Warner  
Governor of Virginia

The Honorable Kevin G. Miller  
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 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 ended June 30, 2002, which collectively comprise the Commission's basic financial statements as listed in the table of contents. The 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 the Special Revenue Fund of the Tobacco Indemnification and Community Revitalization Commission as of June 30, 2002, and the respective changes in 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.

The Honorable Mark R. Warner  
The Honorable Kevin G. Miller  
Commission Members  
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As described in Note 1G, the Commission has implemented a new financial reporting model as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, for the year ended June 30, 2002.

In accordance with Government Auditing Standards, we have also issued our report, dated January 8, 2003, 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

CAL:whb

## 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, 2002.

### Financial Highlights

- The assets of the Commission exceeded its liabilities at the close of fiscal year 2002 by \$34,332,647 (net assets).
- The Commission's total net assets increased by \$19,808,624. Most of this increase results from a change in economic development grant awards payment policies that now reimburse grantees for costs incurred.
- At the end of the fiscal year, the Commission's unreserved fund balance for the special revenue fund was \$34,338,296.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements comprise 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 adjustments 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. The variance between the final budget and actual expenditures is primarily due to a change in grant disbursement policy to a reimbursement basis.

**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 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 future fiscal periods.

**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, 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.

As of the end of the current fiscal year, the Commission's governmental fund reported ending fund balances of \$34,338,296, an increase of \$19,814,729 in comparison with 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 next fiscal year.

### 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 \$34,332,647.

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 its 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	
	FY2002	FY2001
Current and other assets	\$37,744,714	\$25,278,416
Capital assets	11,842	12,937
<b>Total Assets</b>	<b>37,756,556</b>	<b>25,291,353</b>
Long-term liabilities	17,491	12,481
Other liabilities	3,406,418	10,754,849
<b>Total liabilities</b>	<b>3,423,909</b>	<b>10,767,330</b>
Net assets:		
Invested in capital assets, net of related debt	11,842	12,937
Unrestricted	34,320,805	14,511,086
<b>Total net assets</b>	<b>\$34,332,647</b>	<b>\$14,524,023</b>

The Commission's net assets increased by \$19,808,624. Most of this increase is attributable to a change in the payment policy of the economic development grant awards to a reimbursement basis.

### Next Year's Budget

During the current fiscal year, the unreserved fund balance in the special revenue fund increased to \$34,338,296. The Commission has allocated \$2,266,969 of this amount to be distributed in the fiscal year 2003 budget. The remaining balance has been previously designated by the Commission for indemnification payments and economic development projects for which grant awards have already been made.

The Commission has approved a budget of \$76,594,496 for fiscal year 2003, an eight percent decrease over the final fiscal year 2002 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, 2002

	Special Revenue Fund	Adjustments (Note F)	Statement of Net Assets
<b>ASSETS:</b>			
Cash and cash equivalents held by the Treasurer of Virginia (Note 2)	\$ 34,676,818	\$	\$ 34,676,818
Investments held by the Treasurer of Virginia (Note 2)	2,882,518		2,882,518
Accounts Receivable	22		22
Prepaid Items	3,125		3,125
Grant Advances (Note 4)	182,231		182,231
Capital Assets (Note 1-D)		11,842	11,842
	<u>\$ 37,744,714</u>	<u>11,842</u>	<u>37,756,556</u>
<b>Total assets</b>	<b>\$ 37,744,714</b>	<b>11,842</b>	<b>37,756,556</b>
<b>LIABILITIES:</b>			
Accounts payable	\$ 39,152		39,152
Accrued payroll	21,782		21,782
Grants payable (Note 4)	106,299		106,299
Indemnification payments payable (Note 5)	71,583		71,583
Obligations under securities lending (Note 2)	3,167,602		3,167,602
Compensated absences (Note 1-E)	-	17,491	17,491
	<u>3,406,418</u>	<u>17,491</u>	<u>3,423,909</u>
<b>Total liabilities</b>	<b>3,406,418</b>	<b>17,491</b>	<b>3,423,909</b>
<b>FUND BALANCES/NET ASSETS:</b>			
<b>Fund Balances:</b>			
Unreserved	34,338,296	(34,338,296)	-
	<u>34,338,296</u>	<u>(34,338,296)</u>	<u>-</u>
<b>Total liabilities and fund balances</b>	<b>\$ 37,744,714</b>		
<b>Net Assets:</b>			
Invested in capital assets, net of related debt		11,842	11,842
Unrestricted		34,320,805	34,320,805
<b>Total Net Assets</b>		<u>\$ 34,332,647</u>	<u>\$ 34,332,647</u>

*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, 2002

	Special Revenue Fund	Adjustments (Note F)	Statement of Activities
<b>REVENUES:</b>			
Master settlement agreement payments	\$ 74,806,946	\$	\$ 74,806,946
Interest, dividends, and other investment income (Note 2)	584,392		584,392
Total revenues	75,391,338	-	75,391,338
<b>EXPENDITURES:</b>			
<b>Tobacco Settlement Expense:</b>			
Administration (Note 7)	1,273,170	1,620	1,274,790
Indemnification payments (Note 5)	35,065,487		35,065,487
Economic development (Note 4)	19,202,459		19,202,459
Payments for securities lending transactions (Note 2)	35,493		35,493
Depreciation (Note 1-D)		4,485	4,485
Total expenditures	55,576,609	6,105	55,582,714
Excess (deficiency) of revenue over expenditures	19,814,729	(19,814,729)	-
Change in Net Assets	-	19,808,624	19,808,624
Fund Balance/Net Assets, July 1, 2001	14,523,567	456	14,524,023
Fund Balance/Net Assets, June 30, 2002	\$ 34,338,296	\$ (5,649)	\$ 34,332,647

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

## Statement of Revenues, Expenditures, and Changes in Fund Balance Budgetary Comparison – Cash Basis Special Revenue Fund For the Fiscal Year Ended June 30, 2002

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>				
Master settlement agreement payments	\$ 72,588,876	\$ 72,588,876	\$ 74,806,946	\$ 2,218,070
Interest, dividends, rents and other investment income	500,000	500,000	548,899	48,899
Proceeds from securities lending transactions (Note 2)	-	-	35,493	35,493
Total revenues	73,088,876	73,088,876	75,391,338	2,302,462
<b>Expenditures:</b>				
Administration	1,495,041	1,495,041	1,256,947	238,094
Indemnification payments (Note 5)	36,546,881	36,546,881	36,084,471	462,410
Economic development (Note 4)	37,962,559	45,179,337	25,892,641	19,286,696
Payments for securities lending transactions (Note 2)	-	-	35,493	(35,493)
Total expenditures	76,004,481	83,221,259	63,269,552	19,951,707
Revenues over (under) expenditures	(2,915,605)	(10,132,383)	12,121,786	22,254,169
Fund balance, July 1, 2001	22,269,948	22,269,948	22,269,948	-
Fund balance, June 30, 2002	\$ 19,354,343	\$ 12,137,565	\$ 34,391,734	\$ 22,254,169

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

**Notes to Financial Statements  
As of June 30, 2002****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****A. Reporting Entity**

The Tobacco Indemnification and Community Revitalization 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 and to promote economic growth and development in tobacco-dependent communities 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**

The 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 considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. 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, is depreciated using the straight-line method over the estimated useful life of five years. Capital asset activity for the year ended June 30, 2002, is summarized as follows:

Equipment Beginning Balance	\$12,937
Increases	3,390
Ending Balance	<u>\$16,327</u>
Less Accumulated Depreciation	<u>- 4,485</u>
Net Capital Assets	<u>\$11,842</u>

The fiscal year 2002 increase in equipment is an adjustment from the prior year to reflect actual purchase price of capitalized assets. Accumulated Depreciation is the net depreciation in fiscal year 2002 to reflect the correct total accumulated depreciation with revised costs.

#### **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, 2002. 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: Sick leave earned by employees who, while not currently vested for payment, will probably attain the years of service required to vest for payment and Social Security and Medicare taxes to be paid by the Commission on all accrued compensated absences.

#### **F. Adjustments**

The adjustments column represents the recording on 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. GASB Statement No. 34 Implementation**

The Commission has implemented GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The primary impact of the implementation of this statement is a change in the presentation format of the financial statements; the addition of government-wide financial statements using the economic resources measurement focus and accrual basis of accounting; the presentation of Management's Discussion and Analysis as required supplementary information; the presentation of the Commission's original budget as well as the final budget and actual results in the budgetary basis financial statement; and certain note disclosures.

#### **H. Budgets and Budgetary Accounting**

The Commission's budget was established by the Commission within the appropriation set forth in the 2000 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 as stated in those provisions.

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

## 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

### A. Cash and Cash Equivalents

Cash and cash equivalents represent cash 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.

### B. 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.

Cash with the Treasurer of Virginia	\$34,676,818
Investments held by the Treasurer of Virginia	<u>2,882,518</u>
Total cash, cash equivalents and investments	<u>\$37,559,336</u>

## 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 the cash basis with actual data prepared on the cash basis. To enhance this comparison, actual data on the cash basis is reconciled to actual data on the GAAP basis as follows:

Fund balance, <i>Budgetary basis</i> , June 30, 2002	\$34,391,734
Deduct: Accrued expenses	(238,816)
Add: Accounts Receivable and Prepaid Items	<u>185,378</u>
Fund balance, <i>GAAP basis</i> , June 30, 2002	<u>\$34,338,296</u>

## 4. ECONOMIC DEVELOPMENT EXPENDITURES

The Commission awarded grants totaling \$39,868,204 in fiscal year 2002 to various localities and other entities for regional economic development projects and other special projects in Southside and Southwest Virginia. Of the total amount awarded, \$20,665,745 is not reflected in these statements since eligibility requirements were not met as of June 30, 2002, in accordance with Governmental Accounting Standards Board Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions." In addition, these statements do not reflect \$194,038 from fiscal year 2001 grants that have also not met eligibility requirements. 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, 2002. Grant advances include amounts disbursed to grant recipients who have not incurred expenses as of June 30, 2002.

## 5. INDEMNIFICATION PAYMENTS

Indemnification payments represent amounts paid to tobacco growers and quota holders 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 14, 2002.

## 6. PENSION PLAN AND OTHER RETIREMENT BENEFITS

Employees of the Tobacco Indemnification and Community Revitalization Commission are treated as state employees of the Commonwealth 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.

## 7. ADMINISTRATION

### A. Agency Service Costs

Administration expenditures include \$19,445 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 personal services costs DACS incurs to provide fiscal and administrative services to the Commission.

### B. Indemnification Costs

Administration expenditures include \$370,996 of Indemnification Costs paid to Troutman Sanders, L.L.P., and DACS. The majority of Indemnification Costs represent the cost to contract with Troutman Sanders to validate payees and update the database for calculating payment amounts related to the indemnification payments. A portion of the Indemnification Costs consist of the amount DACS charges the Commission for personal services costs DACS incurs to process indemnification payments in the Commonwealth Accounting and Reporting System (CARS).

## 8. 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.



**The Virginia Tobacco Indemnification and  
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