



ANNUAL REPORT

Fiscal Year 2003

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



The Honorable Charles R. Hawkins
Chairman

The Honorable Terry G. Kilgore
Vice Chairman

Carthur F. Curin, III
Executive Director



804-225-2027
Phone

1-877-807-1086
Toll Free

804-786-3210
Fax

Virginia Tobacco Indemnification and Community Revitalization Commission

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

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

The Virginia Tobacco Indemnification and Community Revitalization Commission has been busy this year as we have continued to promote economic growth in Southside and Southwest Virginia. These tobacco-dependent communities are beginning to see relief as companies come to our area, provide jobs and stability, and give hope to the citizens who live here. We are proud to be an integral part of the economic revitalization of the tobacco region.

The money received from the Master Settlement Agreement enabled the Commission to award 128 grants totaling \$44.4 million for various community revitalization projects during FY2003. This money has positively impacted communities in the tobacco region. Stories about some of these successes can be found in this report.

The members of the Commission and I are pleased to announce that a total of \$18.7 million was paid to tobacco farmers in FY2003. This provides essential relief to families and businesses, enabling them to thrive in this changing economy.

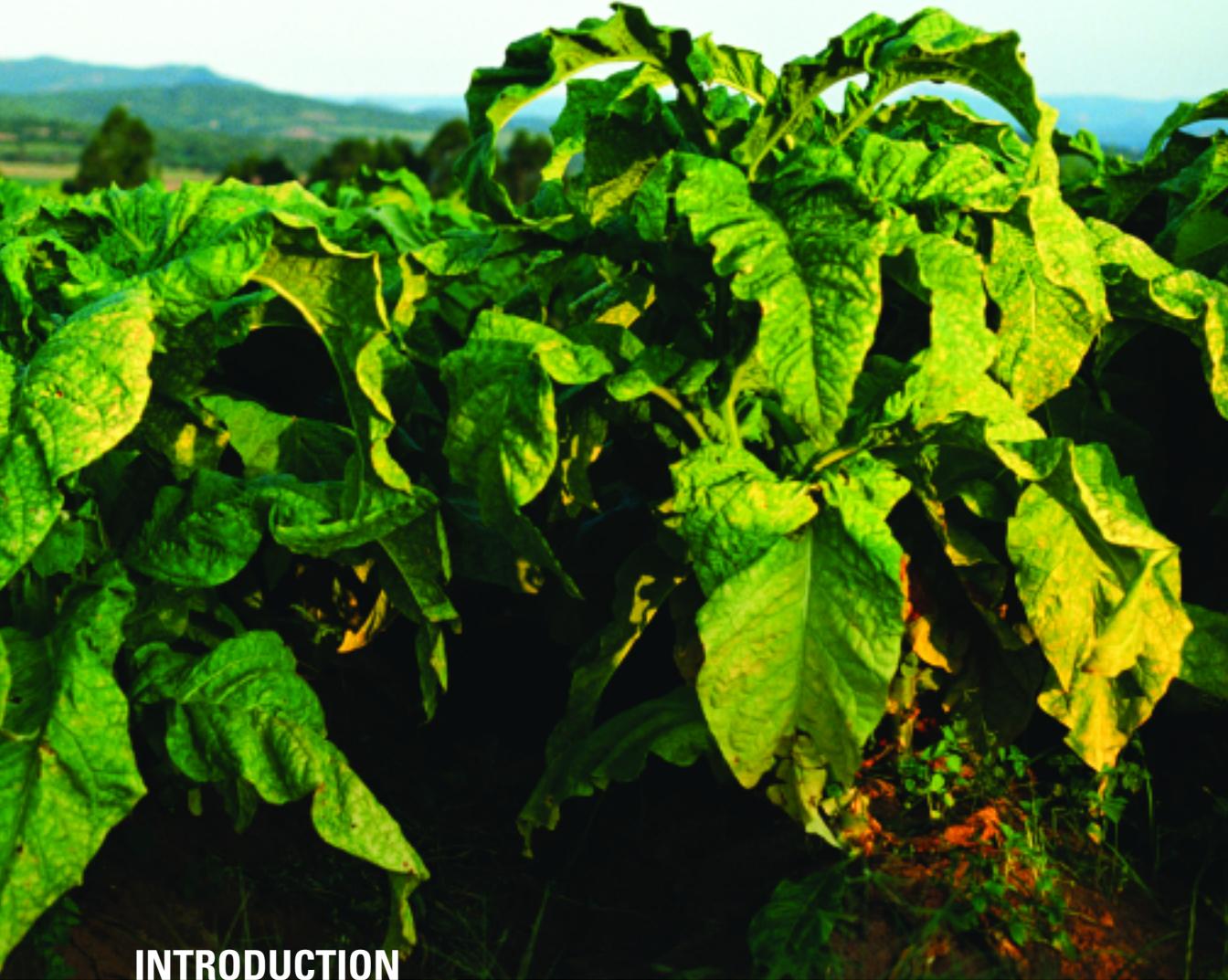
While we have had successes throughout the years, we believe that the continued revival of the tobacco region would be impossible without a long-range vision. Therefore, in February 2003, the Commission adopted a Long-Range Plan that encompasses the vision and primary strategies to accomplish its goal of revitalizing our region. We are pleased that our Long-Range Plan is beginning to be implemented and that we are already seeing positive results.

The Commission members and I thank you for your continued participation and support in helping Virginia's tobacco-dependent communities develop new economies so that new opportunities will abound for the area's residents. It is a privilege to present you with this Annual Report, and I look forward to continuing to work with you to bring economic prosperity to this important region of the Commonwealth.

Sincerely,



Charles R. Hawkins
Chairman



INTRODUCTION

Tobacco has been a part of Virginia's history since the settlers at Jamestown. The leafy crop is the primary reason the Jamestown settlement became beneficial to England. It is reported that John Rolfe began growing tobacco in 1612 and by 1619 Jamestown had exported ten tons of tobacco back to England. The settlement's export allowed the colonists to import commodities and gave them bargaining power with England. Soon, tobacco became the largest export for many of the king's colonies. And so, as the years have gone by, it has remained a major part of the economic development of our state and our country. Over time, however, declining demand for tobacco has made an impact on the economic growth of the tobacco-growing region. Though Virginia's economy was once dominated by this crop, it is no secret that tobacco is no longer king in the Commonwealth.

The Virginia Tobacco Indemnification and Community Revitalization Commission was created to address the problems incurred by the decline in the tobacco market. Since 1999, the Commission has continually looked for opportunities to help tobacco farmers in the short-term, while also looking ahead to help them in the future. In 2003, the Commission approved a Long-Range Plan, which has provided the structure necessary to build a firm foundation and prioritize investments in the region. This Long-Range Plan exemplifies the Commission's commitment to the tobacco farmers, families, and economic stability. The people of Southside and Southwest Virginia are receiving financial support while we work together to re-energize the regional economy.

The Commission receives 50 percent of the annual amount received by Virginia from the Master Settlement Agreement. This agreement, signed in 1998, is estimated to generate \$4 billion for the Commonwealth over the next 25 years. The 31 members of the Commission represent the tobacco communities of Southside and Southwest Virginia.



COMMITTEE ROLES AND RESPONSIBILITIES

Executive Committee

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

Agribusiness Committee

Formerly the Tobacco Committee, this group addresses projects that aim to strengthen and diversify agricultural opportunities within the tobacco region of the Commonwealth. The Agribusiness Committee also addresses the indemnification distributions to tobacco producers and quota owners.

Education Committee

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

Finance Committee

The Finance Committee develops the annual budget for presentation to the full Commission and handles the more technical aspects of the Commission's financial and securitization transactions.

Long Range Planning Committee

This Committee was created as a product of the Long Range Strategic Plan presented to the full Commission and the Governor by the Long Range Planning Task Force in February 2003. They are charged with continuing to review the long-term priorities of the Commission and update the Commission's strategic plan.

Personnel Committee

The Personnel Committee addresses the employee issues of the Commission, including making recommendations to the Executive Committee for approval of any staff hired for director-level positions. They make recommendations to the full Commission regarding particular personnel actions within the Executive Director's responsibility.

Procurement Committee

The Procurement Committee is responsible for issuing requests for proposals on behalf of the Commission for the purchase of goods or services, such as indemnification processing services.

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 will be allocated. These committees also review all economic development grant applications for their respective region and make recommendations for funding to the full Commission.

Special Projects/Innovation Committee

The Special Projects Committee reviews all funding applications that represent a broad regional project scope or have the potential to have a significant impact on the tobacco region as a whole. These projects are larger in scope or geographic impact than the economic development projects.

Technology Committee

This relatively new committee addresses all funding requests submitted to the Commission pertaining to technological and telecommunications advancement within the tobacco region of the Commonwealth.



FY2003 COMMISSION MEETINGS

October 30, 2002	Abingdon	Southwest Virginia Higher Education Center
February 6, 2003	Richmond	John Marshall Hotel
March 4, 2003	Richmond	State Capitol
April 24, 2003	South Boston	Berry Hill Conference Center

MAIN OFFICE AND STAFF

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

Carthan F. Currin, III

Executive Director
804-225-2027
ccurrin@tic.state.va.us

Michal N. Burton

Receptionist
804-225-2027
mburton@tic.state.va.us

Whitney A. Pack

Special Assistant to the Commission
804-225-2027
wpack@tic.state.va.us
(effective October 2003)

Crystal D. Perkins

Program Support Technician
804-225-3572
cperkins@tic.state.va.us

Timothy S. Pfohl

Grants Program Administration Manager
804-786-2403
tpfohl@tic.state.va.us

Mary Cabell Sherrod

*Manager of Communications
and Committee Operations*
804-225-3557
mcsherrod@tic.state.va.us

Ned Stephenson

Director of Strategic Investments
804-786-7690
nstephenson@tic.state.va.us
(effective January 2004)

Stephanie S. Wass

Director of Finance
804-786-2508
swass@tic.state.va.us

Patricia A. Wyatt

Financial Services Specialist
804-786-2308
pwyatt@tic.state.va.us

FIELD OFFICES AND STAFF

Jerry Fouse

Grants Program Administrator – Southwest
Southwest Virginia Higher Education Center
One Partnership Circle
P. O. Box 1987
Abingdon, VA 24212
Phone: 276-619-4325
Fax: 276-619-4332
jfouse@tic.state.va.us

Britt 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
bnelson@tic.state.va.us

COMMISSION MEMBERS as of June 30, 2003

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

J. Carlton Courter, III

Richmond, Virginia

Active Flue-Cured Tobacco Producers

Mr. Clarence D. Bryant, III
Mr. Buddy Mayhew
Mr. Thomas E. West

Blairs, Virginia
Blairs, Virginia
Nathalie, Virginia

Term Expires

6/30/05
6/30/06
6/30/03

Active Burley Tobacco Producers

Mr. Stephen S. Banner
Mr. Fred M. Fields
Mr. John M. Stallard

Castlewood, Virginia
Pennington Gap, Virginia
Nickelsville, Virginia

6/30/06
6/30/05
6/30/03

Virginia Farm Bureau Federation Representative

Mr. Joseph H. Williams

Chatham, Virginia

6/30/03

Citizens

Mr. Thomas W. Arthur
Mr. L. Jackson Hite
The Honorable Isiah G. Hopkins
Mr. Joe Leigh
Mr. H. Ronnie Montgomery
Mr. Claude B. Owen, Jr.
Mr. John Thomas Taylor
The Honorable Mary Sue Terry
Mr. James C. Thompson
The Honorable Gary D. Walker
Mr. Tucker C. Watkins

Blairs, Virginia
Clarkesville, Virginia
Lunenburg, Virginia
Halifax, Virginia
Jonesville, Virginia
Danville, Virginia
Clarksville, Virginia
Critz, Virginia
Tazewell, Virginia
Charlotte Court House, Virginia
Randolph, Virginia

6/30/03
6/30/06
6/30/05
6/30/05
6/30/03
6/30/06
6/30/05
6/30/06
6/30/06
6/30/05
6/30/03

COMMITTEES as of June 30, 2003

Executive Committee

Charles Hawkins, *Chairman*
Terry Kilgore, *Vice-Chairman*
C.D. Bryant
Kathy Byron
Allen Dudley
Joseph Johnson
Phillip Puckett
Frank Ruff
Michael Schewel
Gary Walker
William Wampler

Agribusiness Committee

Joseph Johnson, *Chairman*
C.D. Bryant, *Vice-Chairman*
Carlton Courter
Fred Fields
Buddy Mayhew
Claude Owen
John Stallard
Thomas West

Education Committee

Frank Ruff, *Chairman*
Phillip Puckett, *Vice-Chairman*
Steve Banner
Isiah Hopkins
Joseph Johnson
Fred Fields
Buddy Mayhew
John Stallard
J.T. Taylor
Tommy Wright

Finance Committee

William Wampler, *Chairman*
Allen Dudley, *Vice-Chairman*
John Bennett
Ronnie Montgomery
Claude Owen
Michael Schewel

Long Range Planning Committee

Kathy Byron, *Chairman*
Tom Arthur
John Bennett
Allen Dudley
Ronnie Montgomery
Phillip Puckett
Frank Ruff
Michael Schewel
William Wampler

Personnel Committee

Allen Dudley, *Chairman*
Jack Hite
Phillip Puckett
Jim Thompson
Gary Walker

Procurement Committee

Terry Kilgore, *Chairman*
C.D. Bryant
Allen Dudley
Fred Fields
Ronnie Montgomery

Southside Economic Development Committee

Thomas Arthur, *Chairman*
Frank Ruff, *Vice-Chairman*
C.D. Bryant
Kathy Byron
Jack Hite
Clarke Hogan
Michael Schewel
J.T. Taylor
Mary Sue Terry
Gary Walker
Tommy Wright

Southwest Economic Development Committee

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

Special Projects/Innovation Committee

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

Technology Committee

Clarke Hogan, *Chairman*
Jim Thompson,
SW Vice-Chairman
Kathy Byron, *SS Vice-Chairman*
Tom Arthur
Jack Hite
Ronnie Montgomery
Claude Owen
Mary Sue Terry
William Wampler
Tommy Wright



Appalachian Sustainable Development (ASD)

Shifting the mindset of this generation to sustainability is the main goal of Appalachian Sustainable Development (ASD). Sustainability, according to ASD's web site, "involves the challenge of integrating human activities into the ecosystem upon which we all depend." ASD trains farmers to use sustainable land use practices so that tobacco farmers and small family farmers will diversify into new crops in order to remain competitive in today's economy. This not-for-profit organization was formed in 1995 following a year-long community strategic planning process.

The Virginia Tobacco Commission has had a relationship with ASD since 2000. This long-term investment has resulted in many positive changes, which have significantly influenced the mission of this organization.

- In 2000, a \$90,000 grant from the Tobacco Commission allowed ASD to build a network of 28 certified organic producers, including 19 tobacco farmers.
- In 2001, a \$50,000 grant allocated to the Tobacco Farm Diversification Project allowed ASD to strengthen and expand their organic production and marketing projects.
- In 2002, \$162,000 was granted for the Tobacco Farmer Organic Transition Program, which resulted in improvements to a sustainable woods processing center and the expansion of a grading/packing facility.
- In 2003, ASD was awarded \$48,000 from the Tobacco Commission's Southwest Economic Development Fund for the Value Adding Rural Economy Initiative Project, including equipment to improve vegetable grading packing and delivery.

It has proved beneficial to train both small family farmers and tobacco farmers to diversify their crops. Since the tobacco quota has decreased, farmers in Southwest have been forced to change their way of life. One way ASD has helped smooth this process has been by developing the Appalachian Harvest brand of produce certified as organic and grown by farmers in southwest Virginia. This brand is now sold in grocery chains through marketing agreements negotiated by the organization. ASD and Appalachian Harvest provide these farmers a way to sell their goods and services.

ASD and the Tobacco Commission have played a pivotal role in providing the training and resources necessary to get these southwest Virginia farmers back on their feet again.



CREATING JOBS TODAY AND PLANNING FOR TOMORROW: The Commission's Success Continued in 2003

Administration

The mission of the Virginia Tobacco Indemnification and Community Revitalization Commission (TICRC) to provide economic support for tobacco farm families and communities in Virginia's Southside and Southwest areas continued with great success in 2003. Through a budget of \$76.6 million, the Commission distributed funds and awarded grants that assisted farmers and communities in Virginia's Tobacco Region. In order to dedicate as much of the funds to areas in need, the Commission's administrative costs were kept to a minimum (only 2 percent of funds were used for administrative costs), and grants management staff was added to ensure appropriate use of the grant funds. During FY2003, the members of the Commission voted to designate 35 percent of its FY2003 net revenues for various purposes across the region primarily as a way to include larger projects that promote economic growth and development in the entire tobacco region.

These region-wide allocations included:

- \$12.9 million for Special Projects
- \$2.0 million for deal closing incentive grants
- \$9.4 million for education projects, and
- \$2.0 million for small business financing

The remaining funds were distributed specifically to farmers to compensate for the decline of tobacco and to specified projects within the Southside and Southwest communities that promote economic development. The Southside region was allocated 73 percent of these funds and the

Southwest region received 27 percent. Within the **Southside** region, the Commission allocated \$9.8 million, or 28 percent, of *its* funds for indemnification payments to tobacco farmers. This amount completed the obligation of the Commission for indemnification in Southside at the time the budget was approved. The remaining 82 percent was allocated to economic development projects in Southside. Within the **Southside** region, the Commission 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 FY2003 funds.

Indemnification

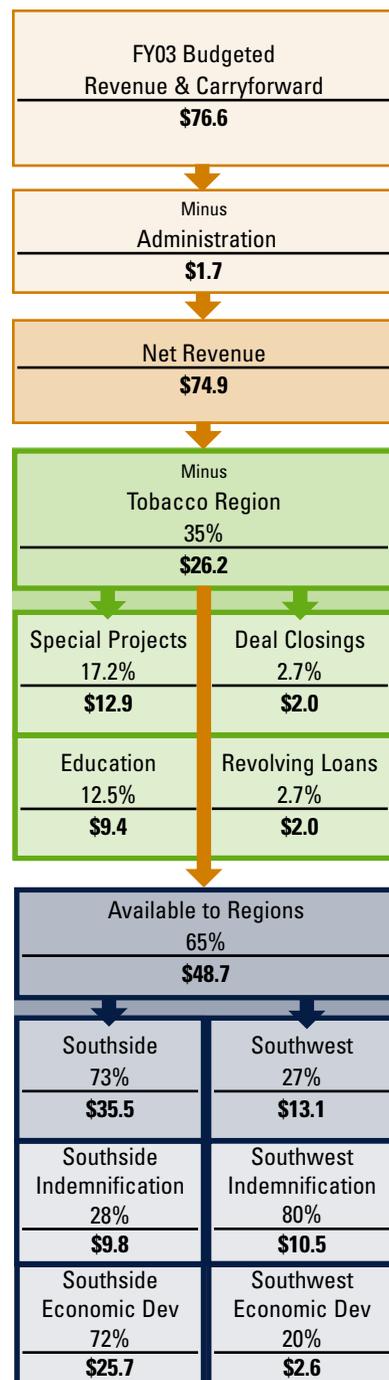
Indemnification payments are made to flue-cured and burley tobacco producers and quota owners to compensate them for their losses associated with the decline in federal tobacco quota levels. The 2002 indemnification distribution was completed in FY2003, with a total of \$35.1 million paid to tobacco farmers in this third year of Phase I payments.

For the 2003 indemnification distribution, the Commission contracted with Troutman Sanders, LLP, to send verification letters to flue-cured tobacco producers, flue-cured quota owners, burley tobacco producers and burley quota owners in mid-April of 2003. Tobacco farmers verified the preprinted forms and were required to return them for indemnification by the original deadline of May 19, 2003. In June 2003, the Treasurer of Virginia issued payments totaling \$18.8 million for the 2003 indemnification distribution. However, during the July 2003 meeting, the Commission approved extending the deadline to July 25, 2003 for those farmers who were unable to return the verification forms by the original deadline. The Commission anticipates that an additional \$545,000 will be paid to farmers in the region during 2004 to complete the 2003 distribution.

The Commission committed \$9.8 million for Southside to indemnify flue-cured tobacco farmers for 2003. This amount represented the remaining obligation of the Commission through 2002 quota losses after taking into consideration

Tobacco Indemnification and Community Revitalization Commission

FY2003 Budget Distribution
(in millions)



the remaining Phase II payments anticipated from the National Tobacco Growers Settlement Trust. However, in December 2002, a 9.6 percent reduction in 2003 flue-cured tobacco quota increased this remaining obligation by \$59.7 million. The Commission will pay this to flue-cured tobacco farmers over the next several years. The amount for flue-cured tobacco farmers for FY2003 was further split with 50 percent of the funds made available to growers and 50 percent of the funds made available to quota owners.

The Commission committed \$12.1 million for Southwest to compensate burley tobacco farmers for 2003. The funds for burley tobacco farmers was split, with 62 percent made available to growers and 38 percent made available to quota owners.

Community Revitalization

The communities within the Southside and Southwest region have experienced significant improvements due to revitalization efforts within their counties, however they recognize the continued need for more jobs, business growth and education. The Commission awarded 128 grants totaling \$44.4 million for various community revitalization projects in FY 2003. Community revitalization efforts range from business/industrial park expansions to initiating centers for advanced education. Appendix A lists the many grant recipients and the specified revitalization projects funded by the Commission.

Southside and Southwest Regional Economic Development Funds

The Southside and Southwest Regional Economic Development funds are designated for projects that will have a considerable, positive impact on the economy in the tobacco-dependent region. 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 39 regional grants totaling \$20.5 million, and Southwest received 19 regional grants totaling \$2.3 million.

Special Projects Fund

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. Through a rolling submission process, applications are reviewed by the Commission staff and approved by the Special Projects Committee and the Commission. Twelve grants totaling \$8.4 million were awarded for special projects in FY2003.



Tobacco Region Opportunity Fund

The Tobacco Region Opportunity Fund was created to revitalize the economies of the tobacco region through incentive grants to companies that will create at least 25 new jobs and bring new private capital investment of at least \$1 million to localities within the region. This fund specifically targets the Commission's goal to stimulate economic growth and development in tobacco-dependent localities and is successfully assisting these communities by reducing their dependency on tobacco and tobacco-related business. The Commission works closely with the Virginia Economic Development Partnership to leverage the Governor's Opportunity Fund. There is a rolling application process to receive money from this fund and grants are awarded throughout the year. In FY2003, the Commission made \$3.9 million in commitments to help attract 24 new companies, create 2,076 new jobs and provide \$175.2 million in capital investment to the tobacco region.

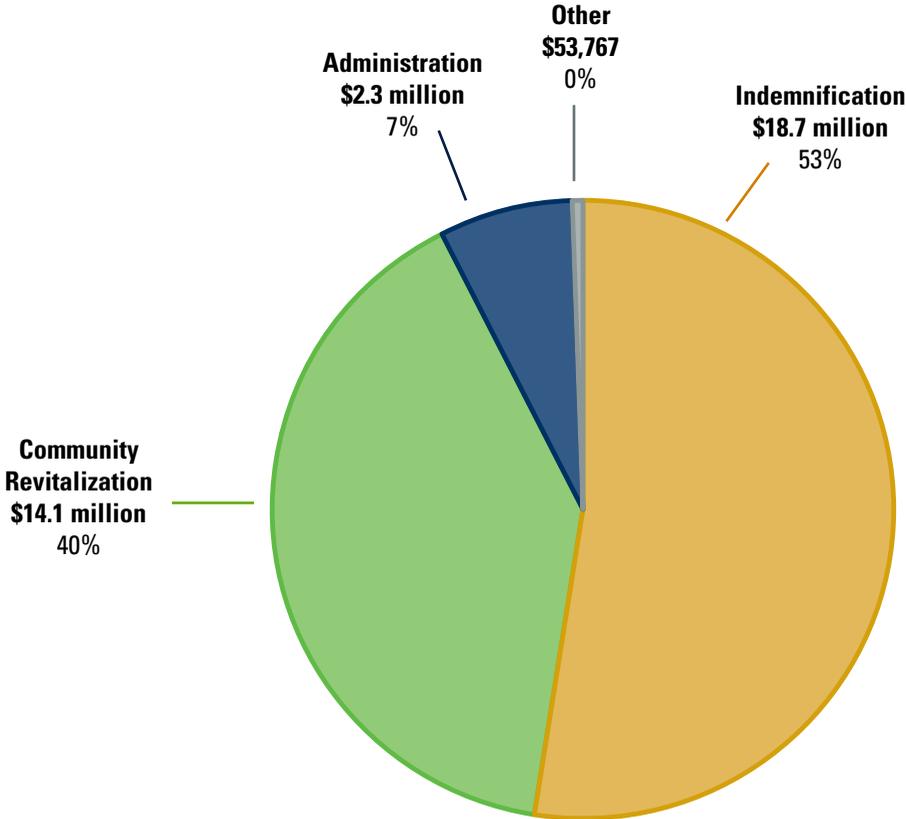
Education Fund

Understanding the important role of education in transforming and revitalizing a region's economy, the Commission decided in FY2003 to set aside funds specifically for the improvement of educational opportunities, thus providing resources that were previously not available for residents of the tobacco region. Funds were awarded for various projects including scholarships, community college programs, workforce training, and vocational and adult education programs. Thirty-four grants totaling \$9.4 million were awarded this fiscal year for these educational projects, including \$2.8 million to the tobacco region's seven community colleges for continuing programs. An additional \$3.8 million was allocated for scholarship programs available for 4-year higher education institutions.

Overview of Expenditures

To meet the two goals established by the Virginia Tobacco Indemnification and Community Revitalization Commission, i.e., compensation for Virginia tobacco farmers for the decline or elimination of tobacco quota and the stimulation of economic growth and development in tobacco-dependent communities, the Commission received a total of \$75.0 million in revenue from the Master Settlement Agreement for FY2003. In addition, \$1.2 million in interest was earned from deposits held in the Commonwealth's treasury. Total expenditures for FY2003, including indemnification payments and community revitalization grants, were \$35.2 million. This amount does not include \$49.4 million in grants that have been awarded but have not yet requested reimbursement. The following diagram illustrates how FY2003 funds were spent.

FY03 Expenditures \$35.2 million



The Commission ended FY2003 with a fund balance of \$75.4 million, and a cash and cash equivalents balance of \$75.9 million. Approximately \$65.3 million of the ending fund balance is for community revitalization grants that have been awarded but not yet paid since grant funds are distributed on a reimbursement basis. Approximately \$2.1 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 administration and other grant awards during the first nine months of FY2004 until MSA revenue is received in April.

Long Range Plan

In February 2003, the Commission adopted a Long-Range Plan that encompassed the vision and primary strategies to accomplish its goal of revitalizing the tobacco region. The plan focuses on five major priorities: Indemnification, Building Telecommunications Infrastructure, Building Human Infrastructure, Building Conditions for Innovation, and Building Regional Development Capacity.

Indemnification to tobacco farmers for the decline in tobacco quotas remains a priority within both the Southside and Southwest region. A significant percentage of Commission funds will continue to be used for this purpose while economic development strategies are implemented to provide alternative opportunities for income.

Build Telecommunications Infrastructure to enhance regional competitiveness through early access to advanced network technology. Recognizing the need for advanced communications and network services, advanced computer and information technology and the resources relevant to the network economy, the Commission will focus on the improvement of the region's telecommunications infrastructure. This will be accomplished through strategies such as the eCorridors Project, wireless deployment, public utility development.

Build Human Infrastructure to enhance regional competitiveness through the development of citizens with skills and knowledge for living and working productively in the economy of the future. While technology is important, perhaps more significant are the abilities of the region's citizens. Strategies to improve the skills of those that live in the region include a revised loan repayment program, strategically coordinated GED programs, teacher training and development programs and technology centers that focus on technology-assisted training, advanced learning, and research programs.

Build Conditions for Innovation to enhance regional competitiveness through the development of market-like structures and incentives that encourage entrepreneurship and link innovative people and their business initiatives. Some of the major strategies identified to meet this goal include the establishment of a Capital Access Fund for small business loan loss reserves, deal-closing funds to attract new business, community readiness assessments, replicable innovations across the region, and promotion of the region for business development and tourism.

Build Regional Development Capacity to provide for the rudimentary physical and human infrastructure development required for improvements in economic development specifically for Southside and Southwest Virginia. Because Southside and Southwest Virginia each have unique regional economic development needs, strategies to build each region are reviewed and funded through the Southside and Southwest Virginia Regional Economic Development Funds. These funds are utilized for primary needs such as the creation of water, sewer and other basic infrastructure, leadership development and recruitment, basic site development and other projects the affect the larger objectives of the region.

As the Commission moves forward, it will continue to expand its strategic plan and focus its efforts on these five major priorities. The decisions on how it allocates funds and strategically invests in these areas will be reflected in future funding and budget decisions.





Virginia Bioinformatics Institute – A Great Return on Investment

As the Virginia Tobacco Commission helps to diversify the economy of Southwest and Southside Virginia, one area that has received its attention is science. Through its funding of the Virginia Bioinformatics Institute (VBI), housed at Virginia Tech, the Commission is expanding educational and employment opportunities for area residents and is placing Virginia on the map for biotechnology research and development.

Simon Stevens, of Halifax County, seized the opportunity to become VBI's first intern. He utilized his recently earned associate's degree in science from Danville Community College to create a movie that shows how the flu virus hijacks a cell. Stevens' project, which he worked on during the summer of 2003, will serve as a basic research tool and may help determine the effectiveness of certain drugs.

"I'm loving [the internship]. I haven't had any prior experience in anything like this in microbiology and virology," said Stevens.

Virginia Bioinformatics Institute houses bioinformatics and life sciences research, which melds together a unique portfolio of systems biology research focusing on host, pathogen, and environment interactions. The Virginia Tobacco Commission has had a partnership with VBI since the year 2000, committing nearly \$13 million to the project. With state funding for the Institute diminishing over the past few years, the Tobacco Commission has been a key resource for funding for the VBI. Due to the Commission's generosity, Virginia has been able to engage in advanced global research in bioinformatics.

To date, VBI has acquired more than \$42 million in research contracts and grants for the Commonwealth. This success has resulted in a return on investment of over 300% for the contributions made by the Tobacco Commission.

One of these contracts was announced by the U.S. Department of Health and Human Services in September of 2003. A five-year, \$42 million grant was awarded to establish a mid-Atlantic Regional Center of Excellence for Biodefense and Emerging Infectious Diseases.

"Infectious diseases have become a harsh reality, and our ability to detect and counter this danger depends on having reliable, up-to-date knowledge," stated Virginia Tech President Charles Steger. "With the creation of this regional center, priority research will be expedited so that important discoveries in this area can advance as quickly as possible."

The Tobacco Commission is honored to be a partner with VBI. The development of bioinformatics is essential to the economic growth of southwest Virginia and the Tobacco Commission is excited to be investing in an industry that is pushing Virginia ahead of the curve in science.



The DRS Group

Mecklenburg County and the Town of Clarksville were dealt an economic blow when Russell Stover Candies and Burlington Industries pulled out of their area. Nearly 1,500 jobs were lost as a result of the two plant closings. The people of this region were left wondering how they would be able to continue living in the area with limited opportunities for employment.

The Tobacco Commission recognized the need for economic stabilization and worked with Governor Warner's Economic Strike Force to bring The DRS Group, one of the nation's leading document management services companies, to Clarksville. Knowing that a state-of-the-art facility would attract the DRS Group, the Tobacco Commission granted \$170,000 for site development. They chose to renovate a 31,500 square foot shell building in Lake Country Industrial Park, which had stood vacant for over seven years. The building had no floor and needed funding to expand parking, add a brick façade to the front of the building, and finish interior workrooms. The Tobacco Commission's funding allowed The DRS Group to have a building that would suit their needs.

The DRS Group's \$1 million investment in Virginia has resulted in the hiring of more than 100 of a projected 115 employees by the end of 2003. Though the facility opened in August of 2003, the grand opening ceremony will occur in the first quarter of 2004 as hiring comes to a close.

The DRS Group, established in 1964, provides document conversion and storage services (microfilm data recording and digital document scanning) for banks, hospitals, insurance companies and other clients, and processes over 100 million documents per year. The company draws work from a multi-state region with eight other company locations in New York, Florida and other East Coast sites.

"As The DRS Group continues to grow and expand their operations in the South, specifically the Virginia market, having a supercenter in a strategic location such as Clarksville, allows us to improve the service levels to existing accounts while opening up the opportunity to secure net new business," said Paul Solomon, DRS Group's Chief Operating Officer.

The Tobacco Commission is pleased to be able to assist in creating job opportunities for the citizens of Mecklenburg County and looks forward to the economic growth that will occur because The DRS Group has invested in the area.



Southside Virginia Community College's Occupational/Technical Center

In December 2003, Lee Johnson gave the keynote address to the first class graduating from Southside Virginia Community College's new Occupational/Technical Center. Johnson, a graduate of Southside Virginia Community College Truck Driver Training School, has logged almost 950,000 miles in his truck driving career.

He challenged the new graduates saying, "The career you are ready to embark upon can be the most rewarding time of your life—it all depends on attitude. This school has a great reputation in the trucking industry. Those who attend this school and get good grades can pretty much write their own ticket in the industry's job market."

Not even a year ago, Southside Community College's truck driver training, heavy equipment operators training, and diesel technology programs were taught in separate locations – three World War II era barracks buildings with no air conditioning and little heat, inadequate equipment and outdated technology. The Tobacco Commission recognized the need to combine these programs under one roof and approved \$300,000 for construction of a new facility and \$350,000 for equipping the facility

The 15,600 square foot state-of-the-art building, which opened its doors in October, has general-purpose classrooms and an 8,000 square foot bay for tractor trailer and heavy equipment repair that includes a five-ton overhead crane. The new equipment allows for enhanced teaching and more opportunities for students who graduate from these programs.

At the November 2003 dedication ceremony, Dr. John J. Cavan, Southside Virginia Community College President remarked, "We've got something to offer but we're sort of the forgotten region of Virginia. We can't sit back and let that happen any longer. We have excellent people here. We have people who will work hard and will work together."

The Tobacco Commission is pleased to assist Southside Virginia Community College in making a difference for these programs' graduates. The College has built strong, well-respected programs and turns out highly-skilled graduates for these in-demand professions.



AT&T Wireless

Russell County has in place many vocational training and higher education facilities and therefore, the citizens are well-trained and ready to work.

AT&T Wireless recognized the County's strong workforce, and in July 2002, demonstrated its commitment to Virginia and the people of Russell County by locating an inbound calling center in the area. The Virginia Tobacco Commission, understanding the need for an adequate facility, granted the County \$250,000 for necessary site development.

Governor Warner praised AT&T Wireless for its decision to locate its call center in Virginia. "The Commonwealth aggressively fought to bring this investment to the state. I know how important new jobs are to Southwest Virginia, and I applaud AT&T Wireless for keeping this commitment," said Governor Warner.

The new facility is located in the Lebanon Shell Building in the Cumberland Plateau Regional Industrial Park. AT&T Wireless has hired nearly all of the projected 450 employees. The need for quality jobs in Russell County is evidenced by the more than 800 job applications that were received prior to the opening of the call center. The \$5.4 million investment by AT&T Wireless will be crucial to boosting the economic development of Southwest Virginia.

AT&T Wireless offers high-quality mobile wireless communications services, voice or data, to businesses or consumers, in the U.S. and internationally. It is the largest independently traded wireless carrier in U.S. and operates one of the largest wireless networks in North America. Employees at the Russell County call center service AT&T customers by answering general questions about wireless service and assist with customer invoices.

"Southwest Virginia offers us a diligent and stable workforce, local expertise in the customer care industry, and committed and capable partners in local government," said Mohan Gyani, AT&T Wireless President of Mobility Services.



FY03 GRANT AWARDS

	Grant Recipient	Project	Grant Award
Southside Regional Economic Development Grants			
1	Amelia County	Amelia County Business Park Expansion	\$244,667
2	Boydton, Town of	Boydton Courthouse Square Water Project	\$83,745
3	Brunswick County IDA	Alberta Business Park	\$763,459
4	Brunswick County IDA	Brunswick County Industrial Park Sites Improvements	\$262,530
5	Buckingham County	Extension of Sewer Lines to Sprouse's Corner	\$26,278
6	Campbell County	Brookneal - Campbell County Airport Aircraft Hanger	\$75,000
7	Campbell County	Campbell County Commercial Center	\$312,427
8	Campbell County	Small Business Incubator Master Plan	\$6,000
9	Charlotte County	Virginia's Heartland Regional Industrial Park - Infrastructure Project	\$844,797
10	Chase City Community Services, Inc.	Estes Center Expansion Project	\$250,000
11	Chase City, Town of	Chase City Wastewater Pretreatment Facility	\$750,000
12	Clarksville IDA	Lake Country Multi-Tenant Building	\$550,000
13	Cumberland County	Cumberland Courthouse Area Water System	\$66,445
14	Danville, City of	Institute for Advanced Learning and Research	\$1,000,000
15	Danville, City of	City of Danville/Pittsylvania County Regional Industrial Park - Phase I including VIR Sanitary Sewer	\$450,263
16	Danville, City of	Institute for Advanced Learning and Research - Start-Up Operational Costs	\$500,000

17	Danville, City of	Institute for Advanced Learning and Research - Special Wiring and Equipment	\$500,000
18	Dinwiddie County	Dinwiddie County Industrial Park, Phase II	\$1,073,159
19	Ferrum Water & Sewage Authority	Ferrum Water System Improvements	\$250,000
20	Greensville County	Greensville County Industrial Park Water Tank	\$221,501
21	Henry County	Site Development at Patriot Centre at Beaver Creek	\$394,689
22	Industrial Development Authority of Halifax County Virginia	Building One in Riverstone Technology Park	\$2,000,000
23	Institute for Advanced Learning and Research	Institute for Advanced Learning and Research - Start-Up Operational Costs	\$1,000,000
24	Lawrenceville, Town of	Lawrenceville Water/Sewer Expansion Project	\$383,740
25	Lunenburg Co.	Victoria Water Treatment Plant Upgrade	\$1,005,000
26	Mecklenburg-Brunswick Airport Commission	Mecklenburg-Brunswick Regional Airport Improvements	\$354,600
27	Patrick County Economic Development Authority	Rich Creek Corporate Park Site Development	\$146,500
28	Pittsylvania County	Institute for Advanced Learning and Research - Start-Up Operational Costs	\$500,000
29	Pittsylvania County	Pittsylvania County - Gretna Industrial Park - Alternative Water Supply	\$1,500,000
30	Pittsylvania County	Pittsylvania County/ Town of Hurt - Key Industrial Park	\$100,000
31	Pittsylvania County	Pittsylvania County/City of Danville Regional Industrial Park - Phase I	\$750,000
32	Pittsylvania County	Route 58 West Industrial Park Improvements	\$500,000
33	Pittsylvania County	Institute for Advanced Learning and Research	\$1,000,000
34	Pittsylvania County	Virginia International Raceway (VIR) Regional Sanitary Sewer System	\$750,000
35	Pittsylvania County	Institute for Advanced Learning and Research - Special Wiring and Equipment	\$500,000
36	Prince Edward County	Prince Edward Industrial Park Site Development	\$221,067
37	South Hill Community Development Association	Lake Country Advance Knowledge Center	\$731,933
38	South Hill IDA	Northside Industrial Park Site Improvements	\$400,000
39	Sussex County	Sussex County - U.S. Route 460 Industrial Park	\$45,000
Total Southside Regional Economic Development Awards			\$20,512,800

Southwest Regional Economic Development Grants

1	Appalachian Sustainable Development	Value Adding Rural Economy Initiative	\$48,000
2	Appalachian Traditions, Inc.	Appalachian Traditions Village	\$50,000
3	Birthplace of Country Music Alliance	Birthplace of Country Music Alliance - Operating Support	\$25,000
4	Bristol Historical Association	Preservation of the Robert Preston House at Walnut Grove	\$25,000
5	Carter Family Memorial Music Center, Inc.	Carter Fold Additions	\$113,583
6	Daniel Boone Wilderness Trail Association	Interpretive Kiosk Near Wilderness Road State Park	\$10,000
7	Galax City and Grayson County	Galax/Grayson County Industrial Park	\$200,000

8	Historic Crab Orchard Museum and Pioneer Park, Inc.	Phase II-Expansion of the Museum Center Building	\$100,000
9	Lenowisco Planning District Commission	Preliminary engineering and design for deployment of dark fiber and related infrastructure to existing and new industrial parks in Planning Districts 1, 2, and 3	\$75,000
10	Mountain Empire Regional Business Incubator, Inc.	Pioneer Center - Duffield Expansion	\$30,000
11	Richlands Business Incubator Cumberland Plateau PDC	Richlands Business Incubator	\$30,000
12	Scott County Chamber of Commerce	Copper Creek Interpretive Center	\$20,000
13	Scott County Economic Development Authority	e-Corridor Regional Park/Southwest- Site Development	\$830,000
14	Scott County Hair Sheep Co-Op	Scott County Sheep Promotion Project	\$12,290
15	Southwest Virginia Higher Education Center	Southwest Virginia Export Initiative	\$154,075
16	Southwest Virginia Workforce Investment Board	Southwest Virginia Information Technology Advancement	\$125,000
17	Town of Pennington Gap	Pennington Gap Downtown Revitalization Project	\$200,000
18	Virginia Southwest Blue Ridge Highlands Tourism Association	Economic Growth through Tourism's Web Site and Guide Program to Increase Tourism Revenue	\$50,000
19	William King Regional Arts Center	Capital Improvements	\$175,000
Total Southwest Regional Economic Development Awards			\$2,272,948

Special Projects

1	Crossroads Rural Entrepreneurial Institute	Crossroads Rural Entrepreneurial Institute	\$400,000
2	Cumberland County	Cumberland County Reservoir	\$350,000
3	Danville, City of	Institute for Advanced Learning and Research R & D Annex	\$2,000,000
4	Danville, City of	Wastewater Project	\$1,000,000
5	Henry County IDA	Martinsville Speedway Seating Expansion and Infrastructure Improvements	\$500,000
6	Institute for Advanced Learning and Research	Institute for Advanced Learning and Research - Start-Up Operational Costs	\$500,000
7	Jacksonville State University's Center for Economic Development	Retiree attraction feasibility study by Dr. Mark Fagan	\$26,000
8	Scott County Economic Development Authority	E-Corridor Regional Industrial Park	\$840,000
9	Southwest Virginia Community Development Financing, Inc.	Small Business Revolving Loan Fund	\$1,000,000
10	Virginia Highlands Business Incubator Inc.	Virginia Highlands Business Incubator Inc.	\$500,000
11	Virginia Tech	Virginia Bioinformatics Institute	\$1,000,000
12	Washington County	Oak Park Fire Suppression System	\$291,490
Total Special Projects Awards			\$8,407,490

Education

1	Central Virginia Community College Education Foundation	Distance Learning	\$60,000
2	Community Memorial Foundation	Regional Registered Nurse Degree Program	\$248,120
3	Danville Community College	Workforce Services	\$185,000
4	Emory and Henry College	Working Together for Strong Communities	\$70,000
5	Franklin County	MW Manufacturing & Community College Partnership	\$35,500
6	Franklin County	Scholarships for 21st Century Careers	\$86,617
7	Halifax Education Foundation	Southern Virginia Higher Education Center Electronics Training Lab	\$85,000
8	Martinsville Industrial Development Authority	West Piedmont Business Development Center	\$20,000
9	Mentor/Role Model Program, Inc.	A Step Beyond	\$25,000
10	Mountain Empire Community College	Challenge Scholarships for the AIMS Program (Joint project with Southwest Virginia Community College)	\$250,000
11	Patrick County Education Foundation	Patrick County GED/adult learning initiative with the Patrick County Public Schools (Joint Project)	\$100,000
12	Patrick County Public Schools	Patrick County GED/adult learning initiative with the Patrick County Public Schools (Joint Project)	\$100,000
13	Patrick Henry Community College	Supplemental Funding (Community College Initiatives to Improve Economic competitiveness)	\$206,000
14	Prince Edward Public Schools	Southside Family Learning Center	\$69,356
15	South Central Area Health Education Center	South Central Area Certified Nursing Assistant Program	\$135,028
16	Southside Planning District Commission	Vocational Technical Outreach Program	\$90,000
17	Southside Virginia Community College	SVCC Occupational/Technical Center	\$350,000
18	Southwest Virginia Community College	Challenge Scholarships for the AIMS Program (Joint Project with Mountain Empire Community College)	\$50,000
19	Southwest Virginia Community College	Training Center	\$200,000
20	Virginia Highlands Community College	Greenhouse Project	\$300,000
21	Virginia Intermont	Adult Degree Studies Facility	\$50,000
22	Patrick Henry Community College	Community College Allocation for various programs	\$400,000
23	Danville Community College	Community College Allocation for various programs	\$400,000
24	Mountain Empire Community College	Community College Allocation for various programs	\$400,000
25	Central Virginia Community College	Community College Allocation for various programs	\$400,000
26	Southside Virginia Community College	Community College Allocation for various programs	\$400,000
27	Southwest Virginia Community College	Community College Allocation for various programs	\$400,000

28	Virginia Highlands Community College	Community College Allocation for various programs	\$400,000
29	Southwest Virginia Higher Education Center	Southwest Burley Tobacco Scholarship Program	\$1,000,000
30	Southwest Virginia Higher Education Center	Southside Teacher Scholarship/Loan Program	\$2,800,000
31	Patrick Henry Community College	Southside Teacher Scholarship Program	\$10,000
32	Central Virginia Community College	Southside Teacher Scholarship Program	\$10,000
33	Southside Community College	Southside Teacher Scholarship Program	\$10,000
34	Danville Community College	Southside Teacher Scholarship Program	\$10,000
Total Education Awards			\$9,355,621

Tobacco Region Opportunity Fund (TROF)

1	Altavista/Campbell	Schrader-Bridgeport	\$75,000
2	Campbell County	Framatome	\$150,000
3	Charlotte County	Appomattox River Mfg	\$200,000
4	Charlotte County	Care Rehab	\$250,000
5	Emporia City	Creative Playthings	\$60,000
6	Franklin County	MW Manufacturing	\$150,000
7	Henry County	Activewear	\$200,000
8	Lunenburg County	J&E Finishing	\$75,000
9	Mecklenburg County	DRS	\$170,000
10	Pittsylvania County	Intertape Polymers	\$100,000
11	Prince Edward	Carbone Kirkwood	\$250,000
12	Scott County	Tempur Productions	\$300,000
13	Smyth County	General Dynamics	\$300,000
14	Washington County	AFG Glass	\$350,000
15	Wise County	Verizon Call Center	\$100,000
16	Brunswick County*		\$100,000
17	Danville, City of*		\$75,000
18	Lunenburg County*		\$200,000
19	Mecklenburg County*		\$25,000
20	Nottoway County*		\$75,000
21	Russell County*		\$200,000
22	Scott County*		\$250,000
23	Smyth-Washington*		\$150,000
24	Wythe County*		\$75,000
Total TROF Commitments			\$3,880,000

TOTAL TOBACCO COMMISSION FY03 GRANT AWARDS **\$44,428,859**

* Committed funds for projects not yet announced.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

October 20, 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, 2003, 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, 2003, 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.

In accordance with Government Auditing Standards, we have also issued our report, dated October 20, 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



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, 2003.

Financial Highlights

- The assets of the Commission exceeded its liabilities at the close of FY03 by \$75.4 million (net assets).
- The Commission's total net assets increased by \$41.1 million over the prior year. Most of this increase is attributable to a change in disbursement policy to a reimbursement basis for community revitalization grant awards.
- At the end of the fiscal year, the Commission's unreserved fund balance for the special revenue fund was \$75.4 million.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements 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 a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Commission adopts an annual budget within the appropriation set forth in the Appropriation Act. A budgetary comparison statement has been provided to demonstrate compliance with this budget. The Commission approved several transfers and redistributions of funds from prior year balances between designated purposes during the year. This statement does not reflect all of the grant award commitments made by the Commission in FY03 since grants are paid on a reimbursement basis and eligibility requirements may not have been met as of June 30, 2003. The Commission adopted a change to grant reimbursement in April 2002.

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 \$75.4 million, an increase of \$41.1 million 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 \$75.4 million.

Almost all of the Commission’s net assets are unrestricted and may be used to meet the Commission’s ongoing obligations to citizens and creditors. A small portion of the Commission’s net assets reflects 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		
	FY03	FY02
Current and other assets	\$ 83,412,562	\$ 37,744,714
Capital assets	9,766	11,842
Total assets	\$ 83,422,328	\$ 37,756,556
Long-term liabilities	28,993	17,491
Other liabilities	7,978,327	3,406,418
Total liabilities	\$ 8,007,320	\$ 3,423,909
Net assets:		
Invested in capital assets, net of related debt	9,766	11,842
Unrestricted	75,405,242	34,320,805
Total net assets	\$ 75,415,008	\$ 34,332,647

The Commission’s net assets increased by \$41.1 million. Most of this increase is attributable to a change in disbursement policy to a reimbursement basis for community revitalization grant awards.

Commission’s Revenue and Expenditures

	FY03	FY02
REVENUES:		
Master settlement agreement payments	\$ 75,014,948	\$ 74,806,946
Interest, dividends, and other investment income (Note 2)	1,266,086	584,392
Total revenues	\$ 76,281,034	\$ 75,391,338

EXPENDITURES: Tobacco Settlement Expense

Administration (Note 7)	\$ 2,319,760	\$ 1,274,790
Indemnification payments (Note 5)	18,686,739	35,065,487
Community Revitalization (Note 4)	14,138,407	19,202,459
Payments for securities lending transactions (Note 2)	51,691	35,493
Depreciation (Note 1-D)	2,076	4,485
Total expenditures	\$ 35,198,673	\$ 55,582,714
Excess of revenue over expenditures	\$ 41,082,361	\$ 19,808,624

Next Year's Budget

During the current fiscal year, unreserved fund balance in the special revenue fund increased to \$75.4 million. Of this amount, \$65.8 million has been previously designated by the Commission for indemnification payments and community revitalization projects for which grant awards have already been made, including \$15.8 million awarded or obligated in July 2003.

The following table shows the unpaid commitments on the unreserved fund balance as of June 30, 2003, plus additional awards made in early FY04. These unpaid commitments are not necessarily reflected in the financial statements since eligibility requirements may not have been met as of June 30, 2003.

	Unreserved Fund Balance	Unpaid Commitments	Reserve for FY04
Indemnification	\$ 2,633,847	\$ 537,147	\$ 2,096,700
Community Revitalization	71,561,643	65,290,689	6,270,954
Undesignated	1,238,745	0	1,238,745
TOTAL	\$ 75,434,235	\$ 65,827,836	\$ 9,606,399

The Commission has allocated \$3,000,000 of the remaining reserve balance to be distributed in the FY04 budget and anticipates additional grant awards in the first half of FY04 that will obligate the remaining reserve balance.

The Commission has approved a budget of \$67,978,078 for FY04, a 14.8 percent decrease from the final FY03 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, 2003

	Special Revenue Fund	Adjustments (Note F)	Statement of Net Assets
ASSETS:			
Cash and cash equivalents held by the Treasurer of Virginia (Note 2)	\$ 75,857,507	\$ -	\$ 75,857,507
Investments held by the Treasurer of Virginia (Note 2)	6,273,509	-	6,273,509
Accounts and Loans Receivable	528,904	-	528,904
Prepaid Items	3,369	-	3,369
Grant Advances (Note 4)	749,273	-	749,273
Capital Assets (Note 1-D)	-	9,766	9,766
Total assets	\$ 83,412,562	9,766	83,422,328
LIABILITIES:			
Accounts payable	\$ 757,997	\$ -	\$ 757,997
Accrued payroll	32,271	-	32,271
Grants payable (Note 4)	914,550	-	914,550
Obligations under securities lending (Note 2)	6,273,509	-	6,273,509
Compensated absences (Note 1-E)	-	28,993	28,993
Total liabilities	7,978,327	28,993	8,007,320
FUND BALANCES/NET ASSETS:			
Fund Balances:			
Unreserved	75,434,235	(75,434,235)	-
Total liabilities and fund balances	\$ 83,412,562		
Net Assets:			
Invested in capital assets, net of related debt		9,766	9,766
Unrestricted		75,405,242	75,405,242
Total Net Assets		\$ 75,415,008	\$ 75,415,008

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, 2003

	Special Revenue Fund	Adjustments (Note F)	Statement of Activities
REVENUES:			
Master settlement agreement payments	\$ 75,014,948	\$ -	\$ 75,014,948
Interest, dividends, and other investment income (Note 2)	1,266,086	-	1,266,086
Total revenues	76,281,034	-	76,281,034
EXPENDITURES:			
Tobacco Settlement Expense:			
Administration (Note 7)	2,308,258	11,502	2,319,760
Indemnification payments (Note 5)	18,686,739	-	18,686,739
Community Revitalization (Note 4)	14,138,407	-	14,138,407
Payments for securities lending transactions (Note 2)	51,691	-	51,691
Depreciation (Note 1-D)	-	2,076	2,076
Total expenditures	35,185,095	13,578	35,198,673
Excess (deficiency) of revenue over expenditures	41,095,939	(41,095,939)	-
Change in Net Assets	-	41,082,361	41,082,361
Fund Balance/ Net Assets, July 1, 2002	34,338,296	(5,649)	34,332,647
Fund Balance/ Net Assets, June 30, 2003	\$ 75,434,235	\$ (19,227)	\$ 75,415,008

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

TOBACCO INDEMNIFICATION AND COMMUNITY REVITALIZATION COMMISSION
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON - CASH BASIS
SPECIAL REVENUE FUND

For the Fiscal Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
Master settlement agreement payments	\$ 73,827,527	\$ 73,827,527	\$ 75,014,948	\$ 1,187,421
Interest, dividends, rents and other investment income	500,000	500,000	1,214,395	714,395
Proceeds from securities lending transactions (Note 2)	-	-	51,691	51,691
Total revenues	74,327,527	74,327,527	76,281,034	1,953,507
EXPENDITURES:				
Administration	1,702,974	1,702,974	1,582,075	120,899
Indemnification payments (Note 5)	20,314,770	20,314,770	18,758,322	1,556,448
Community revitalization (Note 4)	54,576,752	57,811,683	14,423,172	43,388,511
Payments for securities lending transactions (Note 2)	-	-	51,691	(51,691)
Total expenditures	76,594,496	79,829,427	34,815,260	45,014,167
Revenues over (under) expenditures	(2,266,969)	(5,501,900)	41,465,774	46,967,674
Fund balance, July 1, 2002	34,391,733	34,391,733	34,391,733	-
Fund balance, June 30, 2003	\$ 32,124,764	\$ 28,889,833	\$ 75,857,507	\$ 46,967,674

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, 2003

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 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, 2003, is summarized as follows:

Equipment Beginning Balance	\$	16,327
Increases		579
Ending Balance	\$	16,906
Less Accumulated Depreciation		- 7,140
Net Capital Assets	\$	9,766

The fiscal year 2003 increase in equipment is an adjustment from the prior year to reflect actual purchase price of capitalized assets.

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, 2003. 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. Budgets and Budgetary Accounting

The Commission’s budget was established by the Commission within the appropriation set forth in the 2002 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

Cash, Cash Equivalents and Investments

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.

Cash with the Treasurer of Virginia	\$ 75,857,507
<u>Investments held by the Treasurer of Virginia</u>	<u>6,273,509</u>
Total cash, cash equivalents and investments	\$ 82,131,016

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 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, 2003	\$ 75,857,507
Deduct: Accrued expenses	(1,704,818)
<u>Add: Accounts Receivable and Prepaid Items</u>	<u>1,281,546</u>
Fund balance, <i>GAAP basis</i>, June 30, 2003	\$ 75,434,235

4. COMMUNITY REVITALIZATION EXPENDITURES

The Commission awarded grants totaling \$44,428,859 in fiscal year 2003 to various localities and other entities for community revitalization projects, including regional economic development projects, educational programs, and other special projects in Southside and Southwest Virginia. Of the total amount awarded to date, \$49,443,887 is not reflected in these statements since eligibility requirements were not met as of June 30, 2003, in accordance with Governmental Accounting Standards Board Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions." This amount includes grants awarded in prior years that have not yet been paid. The Commission awarded an additional \$15,846,802 in grants in July 2003 that are not reflected in these statements. In April 2002, the Commission adopted new grant disbursement guidelines changing to a reimbursement policy. Grants payable includes amounts awarded to grantees with all contingencies met but unpaid as of June 30, 2003. Grant advances include amounts disbursed to grant recipients who have not incurred expenses as of June 30, 2003.

5. INDEMNIFICATION PAYMENTS

Indemnification payments represent amounts paid to tobacco producers 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. It includes all payments made prior to June 30, 2003, to recipients who met the eligibility requirement of submitting the appropriate verification form by the May 19, 2003, original deadline set by the Commission. At its July 10, 2003, meeting, the Commission approved extending the deadline to accept additional verification forms through July 25, 2003. Indemnification payments for these additional claims will be reflected in next year's financial statements.

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

Agency Service Costs

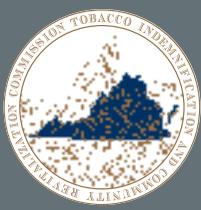
Administration expenditures include \$38,333 of Agency Service Costs paid to the Virginia Department of Agriculture and Consumer Services. The Department of Agriculture and Consumer Services (DACS) serves as the fiscal agent for the Commission. Agency Service Costs consist of the amount DACS charges the Commission for the personal services costs DACS incurs to provide fiscal and administrative services to the Commission.

Indemnification Costs

Administration expenditures include \$355,000 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.

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 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

