

Southern Ohio Diversification Initiative

Pike County, Ohio

Regular Audit

October 1, 2009 through September 30, 2010



Balestra, Harr & Scherer, CPAs, Inc.

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Dave Yost • Auditor of State

Board of Trustees
Southern Ohio Diversification Initiative
1862 Shyville Road
Piketon, Ohio 45661

We have reviewed the *Independent Auditors' Report* of the Southern Ohio Diversification Initiative, Pike County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period October 1, 2009 through September 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Southern Ohio Diversification Initiative is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 19, 2011

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**Southern Ohio Diversification Initiative
Pike County**

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Independent Auditors' Report

Board of Directors
Southern Ohio Diversification Initiative
1864 Shyville Road
Piketon, Ohio 45661

We have audited the accompanying statement of financial position of Southern Ohio Diversification Initiative, Pike County, Ohio, (the Initiative) as of September 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Initiative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Initiative as of September 30, 2010, and the changes in financial position and cash flows 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 March 4, 2011, on our consideration of the Initiative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

A handwritten signature in black ink that reads "Balestra, Harr & Scherer". The signature is written in a cursive style and is positioned above the printed name of the firm.

Balestra, Harr & Scherer, CPAs, Inc.
March 4, 2011

Southern Ohio Diversification Initiative
Pike County, Ohio
Statement of Financial Position
September 30, 2010

Assets

Current Assets:

Cash and Investments	\$	2,590,427
Prepaid Expenses		4,705
Deposits		36
TOTAL CURRENT ASSETS		2,595,168

Property and Equipment:

Land		2,016,600
Infrastructure		2,900,880
Vehicles		19,391
Furniture and Fixtures		3,074
Less: Accumulated Depreciation		(512,997)
NET PROPERTY AND EQUIPMENT		4,426,948

TOTAL ASSETS		\$ 7,022,116
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Liabilities and Net Assets

Current Liabilities:

Accounts Payable	\$	886
Accrued Expenses		4,860
Notes Payable		198,015
TOTAL CURRENT LIABILITIES		203,761

Net Assets:

Unrestricted		6,818,355
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TOTAL LIABILITIES AND NET ASSETS		\$ 7,022,116
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The accompanying notes are an integral part of these financial statements.

Southern Ohio Diversification Initiative
Pike County, Ohio
Statement of Activities
For the Fiscal Year Ended September 30, 2010

Changes in Unrestricted Net Assets

Revenues, Gains, and Other Support:

Department of Energy	\$	74,912
Rent Income		48,350
Other		4,538
Contributions & Donations		636,344
Interest Income		40,554
TOTAL REVENUES, GAINS, AND OTHER SUPPORT		804,698

Expenses:

Program Expenses		59,390
Fringe Benefits		26,416
Indirect Costs		464,047
Depreciation		74,404
TOTAL EXPENSES		624,257

INCREASE IN NET ASSETS 180,441

Net assets, beginning of year 6,637,914

Net assets, end of year \$ 6,818,355

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

Southern Ohio Diversification Initiative
Pike County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended September 30, 2010

Cash Flows From Operating Activities:	
Cash Received from Customers	\$ 55,287
Cash Received from Other Sources	711,257
Cash Paid to Suppliers	(456,016)
Cash Paid to Employees for Services and Benefits	(88,930)
Net Cash Provided By Operating Activities	<u>221,598</u>
Cash Flows From Capital and Related Financing Activities:	
Interest Payments	(10,152)
Net Cash Used By Capital and Related Financing Activities	<u>(10,152)</u>
Cash Flows From Investing Activities:	
Interest Income	40,554
Net Cash Provided By Investing Activities	<u>40,554</u>
Net Increase in Cash and Investments	252,000
Cash and Investments Beginning of Year	<u>2,338,427</u>
Cash and Investments End of Year	<u><u>\$ 2,590,427</u></u>
Reconciliation of Change in Net Assets to Net Cash Provided By Operating Activities:	
Net Income	\$ 180,441
Depreciation	74,404
Interest Income Not Included in Operating Activities	(40,554)
Interest Payment Not Included in Operating Activities	10,152
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Decrease in Accounts Receivable	2,400
Increase in Prepaid Expenses	(2,637)
Increase in Accounts Payable	516
Decrease in Accrued Expenses	(3,124)
Total Adjustments	<u>(2,845)</u>
Net Cash Provided By Operating Activities	<u><u>\$ 221,598</u></u>
Non-Cash Transactions:	
Issuance of Note	\$ 198,015
Repayment of Note	<u>\$ (198,015)</u>
Net Non-Cash Transactions	<u><u>\$0</u></u>

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

Southern Ohio Diversification Initiative
Pike County
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Southern Ohio Diversification Initiative (the Initiative) was chartered in July of 1997 as a non-profit Ohio corporation organized under Title XVII, Chapters 1724 and 1702, Ohio Revised Code, the Not for Profit Corporation Law of Ohio filed with the Secretary of State. The sole purpose for which the Initiative was formed is to advance, encourage, and promote the industrial, economic, commercial and civic development of Pike, Scioto, Jackson and Ross Counties, in the State of Ohio. The Initiative acts as a Community Reuse Organization (CRO) to deal with the impact of the planned closing of the Portsmouth Gaseous Diffusion Plant located in Pike County, Ohio. The Initiative has been officially recognized by the U.S. Department of Energy as a CRO. The Initiative operates under the direction of a fifteen member board of trustees. An appointed staff consisting of an executive director and a financial manager are responsible for fiscal control of the resources of the Initiative. The Initiative serves Jackson, Pike, Ross and Scioto Counties.

B. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

For financial statement presentation purposes, the Initiative utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned. The Initiative reports gifts of cash, grants and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Expenses are recognized under the accrual basis of accounting when the liability is incurred.

C. FINANCIAL STATEMENT PRESENTATION

SFAS No. 117, *Financial Statements of Not-For-Profit Organizations*, requires that the amounts for each of three classes of net assets: unrestricted, temporarily restricted and permanently restricted, be presented in an aggregated statement of financial position and that the amounts of changes in each of those classes of net assets be presented in a statement of activities. This statement requires that resources be classified into three net asset categories according to donor-imposed restriction. A description of each of the categories is as follows:

Unrestricted Net Assets

Assets which are free of donor-imposed restrictions; all revenues, expenses, gains and losses that are not changes in temporarily or permanently restricted net assets.

Temporarily Restricted Net Assets

Assets which include gifts and pledges receivable for which donor-imposed restrictions have not been met and for which the ultimate purpose of the proceeds are not permanently restricted.

Permanently Restricted Net Assets

Assets that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity. The income from these assets is included in the investment income of unrestricted and restricted funds, as appropriate, in the accompanying statement of activities.

Southern Ohio Diversification Initiative
Pike County
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. FINANCIAL STATEMENT PRESENTATION (continued)

When a donor restriction expires, that is, when a stipulated time restriction expires or purpose restriction is accomplished, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There were no restrictions on the Initiative's net assets as of September 30, 2010.

D. COMPENSATED ABSENCES

Accumulated vacation leave and accumulated compensatory time are recorded as an expense and liability of the Initiative as the benefits accrue to the employees. Sick leave is accrued at 3.7 hours of sick leave per pay period to a maximum accrual of 960 hours. Vacation leave is accrued according to years of service with a maximum accrual of 160 hours.

E. CASH AND INVESTMENTS

The Initiative's cash and investments consist of cash on hand, deposits and certificates of deposit.

For purposes of the statement of cash flows and for presentation on the statement of financial position, investments with a maturity of three months or less at the time of purchase are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. PROPERTY AND EQUIPMENT

The property and equipment values were determined based on original acquisition costs at the time of purchase. Donated property and equipment are capitalized at estimated fair market value on the date donated. The Initiative has established \$500 as the threshold for which property and equipment are to be reported. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements that extend the useful life or increase the capacity of operating efficiency of the asset are capitalized at cost. Depreciation has been provided based on the MACRS method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Infrastructure	40 years
Vehicles	5 years
Furniture and Fixtures	7 years

G. INCOME TAXES

The Initiative is a not for profit corporation and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Initiative is also exempt from Ohio income tax.

H. ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Southern Ohio Diversification Initiative
Pike County
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2010

NOTE 2 - CASH AND INVESTMENTS

Protection of part of the Initiative's deposits is provided by the Federal Deposit Insurance Corporation (FDIC).

Deposits At quarter end, the carrying amount of the Initiative's deposits was \$2,590,427 and the bank balance was \$2,593,057. Of the bank balance:

1. \$500,000 was covered by federal depository insurance.
2. \$2,093,057 was collateralized by specific investments held in the name of the Initiative by a third party trustee.

NOTE 3 – NOTES PAYABLE

During fiscal year 2010, the Initiative issued a note maturing March 25, 2011, for the purpose of construction of a building. This note is backed by the full faith and credit of the Initiative.

	Balance 9/30/09	Additions	Deletions	Balance 09/30/10
5.8 % Note	\$198,015	\$198,015	\$198,015	\$198,015

NOTE 4 - RISK MANAGEMENT

The Initiative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2010, the Initiative contracted with Zurich America for real property, building contents, and vehicle insurance coverage.

Coverages provided by the program are as follows:

General Liability	\$2 million Annual Aggregate Limit
Automobile	\$1 million
Property	\$12.4 thousand
Inland Marine	\$10 thousand
Crime	\$500 thousand
Directors & Officers Liability	\$1 million
Umbrella	\$2 million

Health insurance was provided by a private carrier, United Healthcare, for the year. Workers' compensation benefits are provided through the State Bureau of Workers' Compensation. The Initiative has not incurred significant reductions in insurance coverage from coverage in the prior year by major category of risk. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 5 - PENSION PLAN

All employees of the Initiative contribute into a simple IRA, a privately defined benefit pension plan. The Initiative contributes 3% of an employee's gross wages into the plan. An hourly employee must work six months prior to becoming eligible for the plan. A member is fully vested immediately and can retire at the age of 62. No employees were eligible to participate in 2010.

Southern Ohio Diversification Initiative
Pike County
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2010

NOTE 6 - CONTINGENCIES

Grants

The Initiative received financial assistance from federal agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Initiative. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Initiative at September 30, 2010.



Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Board of Directors
Southern Ohio Diversification Initiative
1864 Shyville Road
Piketon, Ohio 45661

We have audited the financial statements of Southern Ohio Diversification Initiative, Pike County, Ohio, (the Initiative) as of and for the year ended September 30, 2010, and have issued our report thereon dated March 4, 2011. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Initiative's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Initiative's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Initiative's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Initiative's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the Initiative's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the Board of Directors, audit committee, management, and others within the Initiative. We intend it for no one other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.
March 4, 2011

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Dave Yost • Auditor of State

SOUTHERN OHIO DIVERSIFICATION INITIATIVE

PIKE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 5, 2011