SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2015

Dave Yost • Auditor of State

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

Basic Financial Statements

For the Year Ended June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

Southern Ohio Agricultural and Community Development Foundation
100 South High Street, P.O. Box 47
Hillsboro, Ohio 45133

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and Special Revenue Fund of the Southern Ohio Agricultural and Community Development Foundation (Foundation), a department of the State of Ohio, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Foundation's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and Special Revenue Fund of the Southern Ohio Agricultural and Community Development Foundation, State of Ohio, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of the Foundation present the financial position and changes in financial position thereof for the governmental activities and Special Revenue Fund of only the transactions of the Southern Ohio Agricultural and Community Development Foundation. They do not purport to, and do not, present fairly the financial position of the State of Ohio as of June 30, 2015, or the changes to its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. We did not modify our opinion regarding this matter.

As discussed in Notes 7 and 8 to the financial statements, during the year ended June 30, 2015, the Foundation adopted the provisions of Governmental Accounting Standards No. 68, Accounting and Financial Reporting for Pensions, and No. 71, Pension Transitions for Contributions Made Subsequent to the Measurement Date. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis, Required Supplementary Schedule of Proportionate Share of Net Pension Liability and Schedule of Pension Contributions* listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2015, on our consideration of the Foundation'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

September 30, 2015

As management of the Southern Ohio Agricultural & Community Development Foundation (the Foundation), we are providing this overview of the Foundation's financial activities for the fiscal year ended June 30, 2015. Please read the overview in conjunction with the Foundation's basic financial statements, which follow.

The Foundation is included within the State of Ohio's Comprehensive Annual Financial Report as part of the primary government. The Foundation uses a governmental fund to report its financial position and results of operations. We believe these financial statements present all activities for which the Foundation is financially responsible.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2015 are as follows:

- The assets of the Foundation exceeded its liabilities at the close of the most recent fiscal year by approximately $12.4 million (net position). Of this amount, approximately $12.2 million may be used in the Foundation's programs to voluntarily diversify from tobacco production.
- The Foundation's total net position decreased by approximately $2.2 million during the fiscal year.
- The Foundation continued its grant programs and disbursed approximately $1.9 million in grants to Southern Ohio farmers and businesses. Grants were awarded for: Agricultural Development; Educational Assistance; Economic Development; Young Farmer; and Educational Excellence.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Foundation's basic financial statements. These basic financial statements are comprised of two components: 1) combined government-wide and fund financial statements, and 2) notes to the financial statements. For most governmental entities, the government-wide and fund financial statements are presented separately; however, since the Foundation is comprised of only one governmental fund, we are presenting both types of financial statements on one combined set of financial statements, as described below:

- ***Governmental Fund Balance Sheet/Statement of Net Position***

  The column labeled "Special Revenue Fund" presents information on the Foundation's assets, liabilities, and fund balance using the modified-accrual basis of accounting. The fund is an accounting device that the State of Ohio uses to keep track of specific sources of funding and spending for particular purposes. The fund balance may serve as a useful measure of the Foundation's net resources available for spending at the end of the fiscal year.

  The column labeled "Statement of Net Position" presents information on the Foundation's assets and liabilities, with the difference between the two reported as *net position*. Such information is presented on the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Foundation is improving or deteriorating.

- ***Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities***

  The column labeled "Special Revenue Fund" presents information on near-term inflows, outflows, and balances of expendable resources. Such information is presented on the modified-accrual basis of accounting.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The column labeled "Statement of Activities" presents information showing how the Foundation's net position changed during the most recent fiscal year. Such information is presented on the accrual basis of accounting. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

Because the focus of fund financial statements is narrower than that of government-wide financial statements, it is useful to compare the information presented on a fund basis with similar information presented on a government-wide basis. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The combined government-wide and fund financial statements include a reconciliation to facilitate this comparison (see column labeled "Adjustments").

FINANCIAL ANALYSIS OF THE FOUNDATION

The following is a summary of the Foundation's net position as of June 30, 2015 compared to June 30, 2014.

Net Position at June 30

	2015	2014	% Change
Assets			
Current Assets	$ 12,593,666	$ 14,861,838	-15.26%
Capital Assets	34,387	21,698	58.48%
Total Assets	12,628,053	14,883,536	
Deferred Outflow of Resources			
Pension	25,931	13,753	88.55%
Total Liabilities	25,931	13,753	
Liabilities			
Other Liabilities	29,139	43,754	-33.40%
Long-Term Liabilities	260,795	251,150	3.84%
Total Liabilities	289,934	294,904	
Deferred Inflow of Resources			
Pension	3,740	-	100.00%
Total Liabilities	3,740	-	
Net Position			
Net Investment in Capital Assets	34,387	21,698	58.48%
Restricted for Indemnification Program	163,312	163,312	0.00%
Unrestricted Net Position	12,162,611	14,417,375	-15.64%
	$ 12,360,310	$ 14,602,385	

The Foundation received no funding during the fiscal year. The significant decrease in Current Assets represents the amount by which current year administrative and grant expenses exceeded investment income.

The increase in Capital Assets and Net Investment in Capital Assets represents the Foundation's purchase of a new vehicle, offset by current year depreciation of capital assets.

The following is a summary of the Foundation's Statement of Activities for the year ending June 30, 2015 compared to the year ending June 30, 2014.

Statement of Activity for the year ending June 30

	2015	2014	% Change
Revenues			
Investment Income	$ 131,666	$ 297,995	-55.82%
Other Income	23,578	16,791	40.42%
Total Revenues	155,244	314,786	
Expenses			
Salaries and Benefits	342,554	307,400	11.44%
Purchased Services	108,779	122,101	-10.91%
Materials, Supplies and Other	50,425	47,042	7.19%
Depreciation	6,294	6,294	0.00%
Grants	1,889,267	2,111,123	-10.51%
Total Expenses	2,397,319	2,593,960	
Change in Net Position	(2,242,075)	(2,279,174)	1.63%
Net Position, Beginning of Year	14,602,385	16,881,559	
Net Position, End of Year	$ 12,360,310	$ 14,602,385	

Revenues
Investment Income decreased significantly in comparison with the prior fiscal year. This decrease is the result of recessed market conditions for fixed income securities coupled with a decrease in amounts available for investment.

Expenses
The decreases in program and operating expenses are the result of the Foundation's conscious effort to reduce spending in light of the State of Ohio budgetary constraints, coupled with the uncertainty of future funding sources.

BUDGET VARIANCES

The majority of the Foundation's assets are maintained in unappropriated accounts requiring no budgetary monitoring or reporting. The remaining assets of the Foundation are maintained in a governmental fund within the Ohio Administrative Knowledge System (OAKS), OAKS Fund 5M90. Although appropriated, OAKS Fund 5M90 is not a major fund, and therefore, budgetary reporting is not required.

CAPITAL ASSETS

The following is a summary of the Foundation's net capital assets at the end of fiscal year 2015, compared to the end of fiscal year 2014:

	2015	2014
Vehicles	$ 29,765	$ 14,376
Equipment	4,622	7,322
Total Capital Assets, net	$ 34,387	$ 21,698

The Foundation's Total Capital Assets (net) increased by $12,689 during the fiscal year. This increase represents the amount in which capital asset additions, totaling $18,983, exceeded current year depreciation expense, totaling $6,294, during the fiscal year.

ECONOMIC FACTORS

The Foundation continues to believe in its mission: "To help create and enhance economic opportunities for Ohio's burley tobacco farm families and their rural communities. Monies not used for administrative expenses and programs will be available for new programs as they are developed and are approved by the Board, or for investment."

For fiscal year 2015 the Foundation's Board approved the following grant programs for farmers and rural communities in 22 southern counties of Ohio:

- **Educational Assistance:** The Foundation's Educational Assistance Program assists farmers who have suffered the economic impact of reductions in quota. The funds are intended to help put their dependents through college with financial support that cannot be solely derived from the growing of tobacco. The Educational Assistance program is an investment in Appalachian Ohio that will pay dividends well into the future. Award recipients are to apply their assistance toward tuition, on campus room and board, lab fees and books for in-state or out-of-state accredited institutions of higher education. For the 2014-2015 academic year, the Foundation Educational Assistance Program provides up to $2,000 for undergraduate or graduate degree programs. The actual amount awarded to an individual may not exceed the calculated need determined by the educational institution. The total assistance provided to any family may not exceed $10,000 per academic year. In addition, a $12,000 lifetime maximum per individual was put into effect in fiscal year 2013. The Foundation budgeted $650,000 for Educational Assistance in fiscal year 2015.

- **Educational Excellence Competitive Grant:** The Educational Excellence Competitive program was offered to eligible recipients, in fiscal 2015, for the purpose of making strategic investments in communities that will be affected by the reduction in the demand for tobacco and providing education and training to burley tobacco growers to help them make the transition out of tobacco production. These grants are to be awarded on a competitive basis based on essay questions, interview, community and school activities and a 2.8 cumulative college g.p.a. Applicants must be enrolled as a full time sophomore, junior or senior in the 2014-15 school year to be eligible. Applicants may only receive the Foundation's Educational Excellence Competitive Grant one time. The Foundation budgeted $100,000 for Educational Excellence Competitive Grant in fiscal year 2015.

- **Agricultural Development:** The Agricultural Development program is offered to eligible applicants for the purpose of assisting farmers in diversifying from tobacco into non-tobacco areas, including; expansion of an existing agricultural enterprise, diversification into a new agricultural enterprise, commercial agribusiness, and marketing/processing of value needed agriculture. Applicants who received grant awards for Agriculture Development in fiscal year 2013 or 2014 are ineligible. Approved applicants are eligible for up to $25,000. 1st time recipients are eligible for up to 50% reimbursement, 2nd time up to 40% and 3rd time up to 30%. The Foundation will require a minimum ownership retention period of two years from date of purchase for all goods, products, or equipment obtained with grant funds. The Foundation budgeted program allocation up to $800,000.

- **Young Farmer Program:** The Young Farmer Program is offered to eligible producers in the 22 counties that the Foundation serves. Applicants must be 20-38 years of age as of August 1, 2014. Applicants must reside and project must be located within the 22 counties that the Foundation serves. Copy of Ohio Driver's license is required to confirm age and residency. Approved applicants are eligible for up to 50% reimbursement with a $25,000 maximum grant payment. Awards are based on the highest scoring business plans and personal interviews. Project criteria for Young Farmer Program are similar to the Agricultural Development Program. The Foundation budgeted program allocation for the Young Farmer Program $350,000.

- **Economic Development Program:** The Economic Development Program is offered to eligible recipients for the purpose of making strategic investments in communities that were affected by the reduction in the demand for tobacco. A total of $600,000 was allocated by the Foundation for these projects during Fiscal Year 2015. Each of the nine major tobacco producing counties receives an equitable share of the funds based upon the number of tobacco producing farms in each county. The nine major tobacco producing counties are Adams, Brown, Gallia, Clermont, Highland, Lawrence, Scioto, Pike and Jackson. Any county-budgeted funds not awarded after the January Board meeting are put into a pool for a competitive round open to these nine counties. The requirements for this grant are as follows: Eligible applicants are political sub-divisions; public non-profits including Port Authorities and Community Improvement Corporations; private sector businesses/industries with job creation/retention as a component of the project; and colleges and universities when projects are private sector driven. Eligibility guidelines are as follows: To be eligible for the grant an applicant must meet the Board approved PROJECT GRANT GUIDELINES. The Foundation will provide grants for up to a maximum of 35% of a total project cost for projects based upon job creation or retention for residents in the traditional tobacco producing counties of Southern Ohio not to exceed the availability of remaining funds. Private sector applicants may only receive the Economic Development Grant twice. A maximum of up to $10,000 will be awarded for each year round full time job created, defined as a minimum of 32 hours per week. No credit will be given for part time (less than 32 hours per week), seasonal, or indirect job creation. A maximum of up to $10,000 for each full time job truly retained and it is the applicant's responsibility to prove true job retention. It is the goal of the Foundation to improve the economic base of communities and families by attracting companies with higher paying jobs. Foundation funds may be used for capital improvements, fixed assets or land acquisitions where the end purpose is for manufacturing, distribution, warehousing or health care.

Investments – The Board's investment policy was last updated in May, 2012. The Board, in concert with recommendations from its investment manager Hartland & Company, has concentrated on more conservative, lower risk fixed income investments. In total, approximately $12.0 million is in the investment portfolio.

Future Funding – Over seven years ago the State of Ohio securitized its future income stream from the Tobacco Master Settlement Agreement for one time monies. This prematurely ended funding to the Foundation and created critical sustainability issues. The Board has begun a strategic planning process to identify future sources of funding to sustain its efforts.

CONTACTING THE FOUNDATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide an overview of the Foundation's finances and its accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kristy Watters, Fiscal Officer, Southern Ohio Agricultural & Community Development Foundation, 100 South High St., PO Box 47, Hillsboro, Ohio 45133.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

GOVERNMENTAL FUND BALANCE SHEET / STATEMENT OF NET POSITION

As of June 30, 2015

	Special Revenue Fund	Adjustments (See Note 12)	Statement of Net Position
Assets:			
Cash	$ 482,018	$ —	$ 482,018
Investments	12,025,085	—	12,025,085
Interest Receivable	65,808	—	65,808
Collateral on Lent Securities	17,201	—	17,201
Capital Assets, net of accumulated depreciation	—	34,387	34,387
Amount on Deposit for Compensated Absences	3,554	—	3,554
Total Assets	12,593,666	34,387	12,628,053
Deferred Outflows of Resources:			
Pension	—	25,931	25,931
Total Deferred Outflows of Resources	—	25,931	25,931
Liabilities:			
Accounts Payable	1,693	—	1,693
Wages Payable	10,245	—	10,245
Obligations under Lent Securities	17,201	—	17,201
Long-Term Liabilities:			
Due in one year:			
Compensated Absences	—	12,612	12,612
Due in more than one year:			
Net Pension Liability	—	212,879	212,879
Compensated Absences	—	35,304	35,304
Total Liabilities	29,139	260,795	289,934
Deferred Inflows of Resources:			
Unavailable Revenue	37,981	(37,981)	—
Pension	—	3,740	3,740
Total Deferred Inflows of Resources	37,981	(34,241)	3,740
Fund Balance/Net Position:			
Restricted - Community and Economic Development	163,312	(163,312)	—
Committed - Community and Economic Development	12,363,234	(12,363,234)	—
Total Fund Balance	12,526,546	(12,526,546)	—
Total Liabilities and Fund Balance	$ 12,593,666		
Net Position:			
Net Investment in Capital Assets		34,387	34,387
Restricted - Community and Economic Development		163,312	163,312
Unrestricted		12,162,611	12,162,611
Total Net Position		$ 12,360,310	$ 12,360,310

The notes to the financial statements are an integral part of this statement.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE / STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2015

	Special Revenue Fund	Adjustments (See Note 12)	Statement of Activities
Revenues:			
Investment Income	$ 138,613	$ (6,947)	$ 131,666
Other	23,578	—	23,578
Total Revenues	162,191	(6,947)	155,244
Expenditures/Expenses:			
Current:			
Salaries and Benefits	341,347	1,207	342,554
Purchased Services	108,779	—	108,779
Materials, Supplies, and Other	50,425	—	50,425
Depreciation	—	6,294	6,294
Grants	1,889,267	—	1,889,267
Capital Outlay	18,983	(18,983)	—
Total Expenditures/Expenses	2,408,801	(11,482)	2,397,319
Excess of Revenues Under Expenditures	(2,246,610)	2,246,610	—
Change in Net Position	—	(2,242,075)	(2,242,075)
Fund Balance/Net Position:			
Beginning of the year	14,773,156	(170,771)	14,602,385
End of the year	$ 12,526,546	$ (166,236)	$ 12,360,310

The notes to the financial statements are an integral part of this statement.

1. DESCRIPTION OF THE REPORTING ENTITY

Introduction

The Southern Ohio Agricultural and Community Development Foundation (the Foundation) was created by amended Senate Bill No. 192, effective June 2000, to "...endeavor to replace the production of tobacco in southern Ohio with the production of other agricultural products and to mitigate the adverse economic impact of reduced tobacco production in the region by preparing, implementing, and keeping current a plan to develop means for tobacco growers to grow other agricultural products voluntarily..." The Bill further describes a variety of means by which the Foundation is to develop its plan and carry out its charge.

Pursuant to its legislative mandate, the Foundation's Board is created in Ohio Rev. Code Section 183.12 and is enabled through Ohio Rev. Code Sections 183.11 to 183.17, inclusive. The Foundation's Board is composed of twelve voting members and four nonvoting members as set forth in Section 183.12 of the Ohio Rev. Code. Voting members include six active farmers and two persons with community development experience, all from Ohio's major tobacco growing counties, and four state officials sitting ex officio.

Method of Operation

The Foundation shall make grants or loans to individuals, public agencies, or privately owned companies to carry out the plan. The Foundation shall also adopt rules under Chapter 119 of the Ohio Rev. Code regarding conflicts of interest in the making of grants or loans.

Upon inception of the Foundation, a separate endowment fund was created in the custody of the Treasurer of State, but not part of the State Treasury, to carry out the duties of the Foundation. The Foundation was the trustee of the endowment fund. Disbursements from the fund were paid by the Treasurer of State only upon instruments duly authorized by the Board of Trustees of the Foundation or its designee.

The endowment fund was responsible for covering administrative expenditures such as staff salaries, equipment purchases, rental payments and program expenses. As a result of the legislation defining the Foundation's employees as state employees, the State established an appropriation to provide payroll for the Foundation, which is reimbursed by the Foundation's endowment fund.

At the request of the Foundation, the Treasurer of State shall select and contract with one or more investment managers to invest all money credited to the fund that is not currently needed for carrying out the functions of the Foundation. The eligible list of investments, as well as limitations and other requirements shall be the same as for the Public Employees Retirement System under Section 145.11 of the Revised Code.

Reporting Entity

Within the State of Ohio's Comprehensive Annual Financial Report, the Southern Ohio Agricultural and Community Development Foundation is included as part of the primary government. The Foundation's management believes these financial statements present all activities for which the Foundation is financially responsible.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Southern Ohio Agricultural and Community Development Foundation present the financial position and results of operations of the Foundation. The financial statements conform with accounting principles generally accepted in the United States of America as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification) documents these principles.

The Foundation follows GASB Statement No. 34 "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*." Under GASB Statement No. 34 the financial statements include separate Statement of Net Position and Statement of Activities columns reporting the financial activities using the accrual basis of accounting, in addition to the Governmental Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance columns reporting the financial activities using the modified accrual basis of accounting. The Foundation's other significant accounting policies are as follows.

A. Fund Accounting

The Foundation uses a governmental fund to report its financial position and results of operations. The fund is an independent fiscal and accounting entity with a self-balancing set of accounts. The fund is established to account for all activity of the Foundation.

B. Measurement Focus and Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (e.g., revenues) and decreases (e.g., expenditures) in net current assets, and unreserved fund balance is a measure of available expendable resources. This measurement focus has been applied to the Governmental Fund Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance columns on the accompanying financial statements.

The "Statement of Net Position" and "Statement of Activities" columns on the accompanying financial statements have been prepared using the economic resources measurement focus. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. The financial statements therefore present an adjustment column to identify reconciling items to arrive at the "Statement of Net Position" and the "Statement of Activities" columns.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The Governmental Fund Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance columns on the accompanying financial statements were prepared using the modified accrual basis of accounting. Under the modified accrual basis of accounting, the Foundation recognizes revenues when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction is determinable, and "available" means the amount is collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Foundation considers revenues as available when collected within 60 days after year-end.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Foundation reports deferred inflows or resources on the governmental fund balance sheet. Deferred inflows of resources arise when assets are recognized before the revenue recognition criteria have been satisfied. On the governmental fund financial statements receivables not collected in the available period are recognized as deferred inflows of resources. In subsequent periods, when both revenue recognition criteria are met, the deferred inflow of resources is removed from the governmental fund balance sheet and revenue is recognized.

Under the modified accrual basis, expenditures are recorded when related fund liabilities are incurred, which are recognized as expenditures when due. Significant revenue sources susceptible to accrual under the modified accrual basis of accounting may include interest income.

The “Statement of Net Position” and the “Statement of Activities” columns on the accompanying financial statements were prepared using the accrual basis of accounting. Under the accrual basis of accounting, expenses are recorded at the time they are incurred and revenues are recognized when measurable.

D. Budgetary Data

The majority of the Foundation’s assets are maintained in unappropriated accounts requiring no budgetary monitoring or reporting. The remaining assets of the Foundation are maintained in a governmental fund within the Ohio Administrative Knowledge System (OAKS), OAKS Funds 5M90. Although appropriated, OAKS Fund 5M90 is not a major fund, and therefore, budgetary reporting is not required.

E. Cash

Cash of the Foundation includes amounts held in a custodial account with the Treasurer of State, OAKS Fund 5M90 and petty cash.

F. Investments

Investments of the Foundation are reported at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. If quoted market price is available for an investment, the fair value to be used is the total number of trading units of the instrument times the market price per unit.

Ohio Revised Code Section 183.16 restricts the types of investments the Foundation may purchase to those types of investments permitted for the public employees retirement system under section 145.11 of the Ohio Revised Code. All investments shall be subject to the same limitations and requirements as the retirement system under that section and Sections 145.112 and 145.113 of the Ohio Revised Code.

The Foundation invests in the State Treasury Asset Reserve of Ohio (STAR Ohio), whereby the deposits are pooled with other deposits and reinvested daily. STAR Ohio investments are considered short-term and are reported at cost, which approximates market values. The pooled deposits at STAR Ohio have the general characteristics of a demand deposit account whereby additional cash can be deposited at any time and can also be effectively withdrawn at any time, without prior notice or penalty. The Treasurer of State is the investment advisor and administrator of STAR Ohio, a statewide external investment pool authorized under Section 135.45, Ohio Revised Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Securities Lending Transactions

GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transaction*s, requires disclosure of assets and liabilities arising from securities lending transactions. The Foundation's investments with the State's cash and investment pool are subject to lending transactions by the Treasurer of State. In accordance with paragraph 9 of GASB Statement No. 28, the Foundation's recording of assets and liabilities for securities lending transactions is based on their share of the cash and investment pool, as of the balance sheet date, as calculated by the Office of Budget and Management.

H. Capital Assets and Depreciation

It is the Foundation's policy to capitalize all assets with an initial cost of $1,000 or more. Capital assets are reported in the "Statement of Net Position" column, but are not reported in the "Balance Sheet" column on the accompanying Governmental Fund Balance Sheet/Statement of Net Position. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year.

All reported capital assets of the Foundation are depreciated. Depreciation is computed using the straight-line method of depreciation over the applicable useful life of the asset and commences the year after the asset is purchased. The useful life for each asset category noted in Note 5 is 5 years.

I. Revenues and Receivables

The Foundation recognizes realized and unrealized gains and losses, as well as interest and dividend income, from investments with STAR Ohio and Boyd Watterson. The net of these gains and losses and interest and dividend income is reported as investment income on the Foundation's Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities. In fiscal year 2015, the Foundation's investment income was $131,666.

The Foundation records Interest Receivable on fixed income securities.

J. Expenditures and Accounts Payable

Administrative expenditures

Administrative expenditures include operating and overhead items such as salaries and benefits, equipment purchases, and other miscellaneous expenditures.

K. Self-Insurance and Accrued Liabilities

The State of Ohio serves as the Foundation's primary government and is self-insured for claims covered under its traditional healthcare, vehicle liability, public fidelity blanket bonds, property losses, and tort liability insurance plans. Additionally, the State of Ohio participates in a public entity risk pool that covers liabilities associated with claims submitted to the Bureau of Workers' Compensation.

The Foundation's share of the self-insurance plans' net surplus is reported as Cash.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Compensated Absences

The State of Ohio, which governs employee leave benefits and policies, pays compensation to separated employees for sick, vacation, and personal leave balances accumulated during the employee's term of service. The Foundation's compensated absences liability is calculated and reported in accordance with the guidance set forth in GASB Statement No. 16, *Accounting for Compensated Absences*.

M. Fund Balance/Net Position

In accordance with GASB Statement No. 54, *Fund Balance Reporting*, the Foundation classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The Foundation may use the following categories:

Nonspendable – resources that cannot be spent because they are either (a) not in spendable form; or (b) legally or contractually required to be maintained intact.

Restricted – resources with constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – resources with constraints imposed by formal action (House or Senate Bill) of the Foundation's highest level of decision making authority (State Legislature/Controlling Board).

Assigned – resources that are constrained by the Foundation's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the Foundation Board itself; or (b) a body or official to which the Board has delegated the authority to assign amounts to be used for specific purposes. The Foundation has not adopted a policy delegating the authority to assign amounts to be used for specific purposes.

In accordance with GASB Statements No. 34 and No. 46, net position will be reported as unrestricted, except for the amount restricted for indemnification payments.

The Foundation applies restricted resources first when an expense is incurred for purposes which both restricted and unrestricted net position is available. The Foundation considers committed and assigned balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

N. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Ohio Public Employees Retirement System (OPERS) and additions to/deductions from the OPERS fiduciary net position have been determined on the same basis as they are reported by the OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

3. DEPOSITS AND INVESTMENTS

Deposits - At fiscal year end, the carrying amount of the Foundation's deposits was $485,401 and the bank balance was the same. Of the bank balance, $70,561 was held on deposit by the State of Ohio and $414,840 was maintained in a custodial account held by the Treasurer of State. In addition to these deposits, the Foundation maintained a petty cash account totaling $171.

Investments **-** At fiscal year end, the fair values of investments were as follows:

Investment Type	Total Fair Value
U.S. Government Obligations	$ 540,007
U.S. Government Agency Obligations	4,611,815
Corporate Bonds and Notes	6,224,282
Money Market Funds	488,139
STAR Ohio	160,842
Total Investments	$ 12,025,085

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a failure of a depository institution or counterparty to a transaction, the Foundation will be unable to recover the value of deposits, investments, or collateral securities in the possession of an outside party. At June 30, 2015, the Foundation's deposits and investments, including the collateral on lent securities, had no exposure to custodial credit risk. The Foundation does not have a policy to limit custodial credit risk.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates between the U.S. Dollar and foreign currencies could adversely affect an investment's fair value. Pursuant to the Foundation's investment policy, investment managers are prohibited from purchasing foreign securities, with the exception of American Depository Receipts. The Foundation had no exposure to foreign currency risk at fiscal year-end.

Credit Risk – Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. Pursuant to the Foundation's investment policy, domestic fixed income investment managers must adhere to the following guidelines: (1) mortgage-backed and asset-backed securities not issued by an agency of the Federal Government must be rated A or better by a Nationally Recognized Statistical Rating Organization (NRSRO); (2) the average quality rating of the fixed income portfolio shall be AA or better by a NRSRO; and (3) only corporate debt issues that hold a rating in one of the four highest classifications by a NRSRO may be purchased.

3. DEPOSITS AND INVESTMENTS (Continued)

At fiscal year-end, the Foundation's exposure to credit risk was as follows:

Quality Rating	STAR Ohio	U.S. Government Agency Obligations	Corporate Bonds and Notes	Total
AAA	$ 160,842	$ -	$ -	$ 160,842
AA	-	4,597,646	456,652	5,054,298
A	-	-	3,261,604	3,261,604
BBB	-	-	2,506,026	2,506,026
Total	$ 160,842	$ 4,597,646	$ 6,224,282	$ 10,982,770
		U.S. Govt Obligations - Guaranteed Securities		540,007
		U.S. Government Agency Obligation Pools - No Rating Available		14,169
		Money Market Funds - No Rating Available		488,139
				$ 12,025,085

Interest Rate Risk – Interest rate risk is the risk that an interest rate change could adversely affect an investment's fair value. The Foundation does not have a policy to limit interest rate risk.

The reporting of effective duration in the table below quantifies, to the fullest extent possible, the interest rate risk of the Foundation's fixed income assets at fiscal year-end.

	Investment Maturities (in years)				Total
Investment Type	Less than 1	1-5	6-10	More than 10	Fair Value
U.S. Government Obligations	$ 85,120	$ 454,887	$ -	$ -	$ 540,007
U.S Government Agency Obligations	1,592,025	3,005,621	-	14,169	4,611,815
Corporate Bonds and Notes	1,246,952	4,977,330	-	-	6,224,282
STAR Ohio	160,842				160,842
Money Market Funds	488,139				488,139
Total Investments	$ 3,573,078	$ 8,437,838	$ -	$ 14,169	$ 12,025,085

Concentration of Credit Risk – Concentration of credit risk is the risk of inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification. Investment managers are expected to maintain diversified portfolios by sector and issuer. Pursuant to the Foundation's investment policy, investment managers can invest no more than five percent of the total market value of the domestic equity portfolio in any single company and no more than five percent of the total market value of the fixed income portfolio in the securities of any one issuer, other than direct issues of the U.S. Treasury, U.S. Government Agencies or Instrumentalities including Mortgage Backed Securities and their derivative products.

3. DEPOSITS AND INVESTMENTS (Continued)

At fiscal year-end, the Foundation's exposure to concentration of credit risk was as follows:

Investment Type/Issuer	Fair Value	Concentration Percentage
U.S Government Agency Obligations - Fannie Mae	2,809,030	23%
U.S Government Agency Obligations - Freddie Mac	1,350,432	11%
U.S Government Agency Obligations - Federal Home Loan Bank	452,353	4%
Money Market Funds	488,139	4%
STAR Ohio	160,842	1%

4. SECURITIES LENDING TRANSACTIONS

The Foundation, through the Treasurer of State's Investment Department participates in a securities lending program for securities included in the "Equity in State of Ohio common cash and investments" and STAR Ohio accounts. These lending programs, authorized under Sections 135.143, 135.45 and 135.47, Ohio Revised Code, are administered by custodial agent banks, whereby certain securities are transferred to independent broker-dealers (borrowers) in exchange for collateral. The State has minimized its exposure to credit risk due to borrower default by requiring the custodial agent to ensure that the lent securities are collateralized at no less than 102 percent of the market value at the time of the loan. Furthermore, at no point in time can the value of the collateral be less than 100 percent of the value of the underlying securities on loan. The market value of the loaned securities shall not represent more than fifty percent of the Total Average Portfolio (TAP). The TAP is equal to the average month-end market value of all marketable securities in the portfolio for the prior twelve month period.

During the fiscal year, the State funds lending program lent Corporate Bonds and Notes, U.S. government obligations (excluding strips) and U.S. government agency obligations (excluding strips) in exchange for collateral consisting of cash. The State cannot sell securities received as collateral unless the borrower defaults. At fiscal year-end, the collateral the State had received for securities lent consisted entirely of cash. For State funds, the weighted average maturity of all loans was 11.78 while the weighted average maturity of all collateral was 35.53 days. The STAR Ohio lending program had no lent securities at fiscal year-end.

For State funds, the securities lending agent shall indemnify the Treasurer of State for any losses resulting from either the default of the borrower or any violations of the securities lending policy. For the STAR Ohio program, the agent agrees to indemnify the Treasurer for losses resulting from the failure of the borrower to return the loaned securities in accordance with the terms of the loan agreement, provided, however, that the agent's obligation to indemnify the Treasurer shall be limited to an indemnification amount equal to the difference between the market value of the loaned securities on the date that such loaned securities should have been returned to the agent and the greater of (1) the cash collateral received from the borrower or (2) the value of investments of collateral. There were no recoveries during the fiscal year due to prior-period losses.

For the State funds lending program, since the lender owes the borrower more than the borrower owes the lender, there is no credit risk to the lender as of fiscal year-end. The State's Office of Budget and Management allocates the State's pooled cash collateral to various funds within the State's Accounting System (OAKS) based on cash balances at fiscal year-end. The Foundation's Allocated Collateral on Lent Securities and related Allocated Obligations Under Securities Lending as of fiscal year-end was $17,201.

5. CAPITAL ASSETS

A summary of capital asset activity during the fiscal year follows:

Asset Category	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 25,983	$ -	$ -	$ 25,983
Vehicles	38,212	18,983	(20,242)	36,953
Subtotal	64,195	18,983	(20,242)	62,936
Accumulated Depreciation:				
Equipment	(18,661)	(2,700)	-	(21,361)
Vehicles	(23,836)	(3,594)	20,242	(7,188)
Subtotal	(42,497)	(6,294)	20,242	(28,549)
Net Capital Assets	$ 21,698	$ 12,689	$ -	$ 34,387

6. LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2015, are as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Amount Due in One Year
Compensated Absences	$ 43,079	$ 28,189	$ (23,352)	$ 47,916	$ 12,612
Net Pension Liability	208,071	4,808	-	212,879	-
Total	$ 251,150	$ 32,997	$ (23,352)	$ 260,795	$ 12,612

For the purpose of calculating the compensated absences liability, vacation, personal, sick, and compensatory leaves only are considered. The current portion of the liability consists of the amount of compensated absences that is due to be paid within one year of the balance sheet date, as estimated by analyzing data from the previous fiscal year.

7. DEFINED BENEFIT PENSION PLANS

For fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68" were effective. These GASB pronouncements had a significant impact on beginning net position as reported June 30, 2014 (see Note 11).

Pensions are a component of exchange transactions-–between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the Foundation's proportionate share of the Ohio Public Employee Retirement System (OPERS) Pension Plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of its fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Foundation's obligation for this liability to annually required payments. The Foundation cannot control benefit terms or the manner in which pensions are financed; however, the Foundation does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the OPERS to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, the OPERS Board of Trustees must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Plan Description

Organization - OPERS is a cost-sharing, multiple-employer public employee retirement system comprised of three separate pension plans: The Traditional Plan, a defined benefit plan; the Combined Plan, a combination defined benefit/contribution plan; and the Member-Directed Plan, a defined contribution plan. All public employees in Ohio, except those covered by one of the other state or local retirement systems in Ohio, are members of OPERS. New public employees (those who establish membership in OPERS on or after January 1, 2003) have 180 days from the commencement of employment to select membership in one of the three pension plans. Contributions to OPERS are effective with the first day of the employee's employment. Contributions made prior to the employee's plan selection are maintained in the Traditional Pension Plan and later transferred to the plan elected by the member, as appropriate.

All public employees, except those covered by another state retirement system in Ohio or the Cincinnati Retirement System, are required to become contributing members of OPERS when they begin public employment unless they are exempted or excluded as defined by the Ohio Revised Code. For actuarial purposes, employees who have earned sufficient service credit (60 contributing months) are entitled to a future benefit from OPERS. Employer, employee and retiree data as of December 31, 2014 can be found in the OPERS 2014 Comprehensive Annual Financial Report.

7. DEFINED BENEFIT PENSION PLANS (Continued)

Pension Benefits – All benefits of the OPERS, and any benefit increases, are established by the legislature pursuant to Ohio Revised Code Chapter 145.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. Members who were eligible to retire under law in effect prior to SB 343 or will be eligible to retire no later than five years after January 7, 2013, comprise transition Group A. Members who have 20 years of service credit prior to January 7, 2013, or will be eligible to retire no later than 10 years after January 7, 2013, are included in transition Group B. Group C includes those members who are not in either of the other groups and members who were hired on or after January 7, 2013.

Age-and-Service Defined Benefits – Benefits in the Traditional Pension Plan are calculated on the basis of age, final average salary (FAS), and service credit. Members in transition Groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 35 or more years of service credit. Group C is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For Groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For Group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. FAS represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. Refer to the age-and-service tables located in the OPERS 2014 CAFR Plan Statement for additional information regarding the requirements for reduced and unreduced benefits. Members who retire before meeting the age and years of service credit requirement for unreduced benefit receive a percentage reduction in the benefit amount. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for calculation of annual cost-of-living adjustment.

Prior to 2000, payments to OPERS benefit recipients were limited under Section 415(b) of the Internal Revenue Code (IRC). OPERS entered into a Qualified Excess Benefit Arrangement (QEBA) with the Internal Revenue Service (IRS) to all OPERS benefit recipients to receive their full statutory benefit even when the benefit exceeds IRC 415(b) limitations. Monthly QEBA payments start when the total amount of benefits received by the recipients exceeds the IRC limit each year. The portion of the benefit in excess of the IRC 415(b) limit is paid out of the QEBA and taxed as employee payroll in accordance with IRS regulations.

Benefits in the Combined Plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, FAS, and years of service. Eligibility regarding age and years of service in the Combined Plan is the same as the Traditional Pension Plan. The benefit formula for the defined benefit component of the plan for members in transition Groups A and B applies a factor of 1.0% to the member's FAS for the first 30 years of service. A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1.0% to the members' FAS for the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions plus or minus any investment gains or losses on those contributions.

Defined Contribution Benefits – Defined contribution plan benefits are stablished in the plan documents, which may be amended by the Board of Trustees. Member-Directed Plan and Combined Plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined Plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. Combined Plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans. Member-Directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits.

7. DEFINED BENEFIT PENSION PLANS (Continued)

The amount available for defined contribution benefits in the Member-Directed Plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employee contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year. At retirement, members may select one of several distribution options for payment of the vested balance of their individual OPERS accounts. Options include the purchase of a monthly annuity from OPERS (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vest account balance to another financial institution, receipt of entire account balance, net of taxes withheld, or a combination of these options.

Disability Benefits – OPERS administers two disability plans for participants in the Traditional Pension and Combined plans. Members in the plan as of July 29, 1992, could elect, by April 7, 1993, coverage under either the original plan or the revised plan. All members who entered OPERS after July 29, 1992, are automatically covered under the revised plan. Under the original plan, a member who becomes disabled before age 60 and has completed 60 contributing months is eligible for a disability benefit. Benefits are funded by the employee and employer contributions and terminate if the member is able to return to work. The revised plan differs in that a member who becomes disabled at any age with 60 contributing months will be eligible for disability benefits until a determined age. The benefit is funded by reserves accumulated from employer contributions. After the disability benefit ends, the member may apply for a service retirement benefit or a refund of contributions, which are not reduced by the amount of disability benefits received. Members participating in the Member-Directed Plan are not eligible for disability benefits.

Survivor Benefits – Dependents of deceased members who participated in either the Traditional Pension Plan or the Combined Plan may quality for survivor benefits if the deceased employee had at least one and a half years of service credit with the plan, and at least one quarter year of credit within the two and one-half years prior to the date of death. Ohio Revised Code Chapter 145 specifies the dependents and the conditions under which they quality for survivor benefits.

Other Benefits – Once a benefit recipient retiring under the Traditional Pension Plan has received benefits for 12 months, an annual 3% cost-of-living adjustment is provided on the member's base benefit. Members retiring under the Combined Plan receive a 3% cost-of-living adjustment on the defined benefit portion of their benefit. A death benefit of $500-$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Traditional Pension Plan and Combed Plan. Death benefits are not available to beneficiaries of Member-Direct Plan participants.

Money Purchase Annuity - Age-and-service retirees who become re-employed in an OPERS-covered position must contribute the regular contribution rates, which are applied towards a money purchase annuity. The money purchase annuity calculation is based on the accumulated contributions of the retiree for the period of re-employment, and an amount of the employer contributions determined by the Board of Trustees. Upon termination of service, members over the age of 65 can elect to receive a lump-sum payout or a monthly annuity. Members under age 65 may leave the funds on deposit with OPERS to receive an annuity benefit at age 65, or may elect to receive a refund of their employee contributions made during the period of re-employment, plus interest.

Refunds – Members who have terminated service in OPERS-covered employment may file an application for refund of their account. The Ohio Revised Code requires a three-month waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's rights and benefits in OPERS.

7. DEFINED BENEFIT PENSION PLANS (Continued)

Refunds processed for the Traditional Pension Plan members include the member's accumulated contributions, interest and any qualifying employer funds. A Combined Plan member's refund may consist of member contributions for the purchase of service plus interest, qualifying employer funds, and the value of their account in the defined contribution plan consisting of member contributions adjusted by the gains or losses incurred based on their investment selections. Refunds paid to members in the Member-Direct Plan include member contributions and vested employer contributions adjusted by the gains or losses incurred based on their investment selections.

Contributions – The OPERS funding policy provides for periodic employee and employer contributions to all three plans (Traditional Pension, Combined and Member-Directed) at rates established by the Board of Trustees, subject to limits set in statute. The rates established for member and employer contributions were approved based upon the recommendations of the OPERS external actuary. All contribution rates were within the limits authorized by the Ohio Revised Code.

Member and employer contribution rates, as a percent of covered payroll, were the same for each covered group across all three plans for the year ended December 31, 2014. Within the Traditional Pension Plan and Combined Plan, member and employer contributions (employer contributions only for the Combined Plan) and an actuarially determined rate of return are adequate to accumulate sufficient assets to pay defined benefits when due. Employee contributions within the Combined Plan are not used to fund the defined benefit retirement allowance. Employer contribution rates as a level percent of payroll dollars are determined using the entry age actuarial funding method. This formula determines the amount of contributions necessary to fund: (1) the current service cost, representing the estimated amount necessary to pay for defined benefits earned by the employees during the current service year; and (2) the prior service cost for service earned prior to the current year and subsequent benefit increases. These contributions represent the amount necessary to fund accrued liabilities for retirement allowances and survivor benefits over a period of time.

The employee and employer contribution rates are currently set at the maximums authorized by Ohio Revised Code of 10% and 14%, respectively. Based upon the recommendation of the OPERS external actuary, a portion of each employer's contributions to OPERS is set aside for the funding of post-employment health care coverage. The portion of Traditional Pension Plan and Combined Plan employer contributions allocated to health care was 2.0% for fiscal year 2015. The employer contribution as a percent of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for fiscal year 2015 was 4.5%. The amount of contributions recognized by the OPERS from the Foundation during calendar year 2014 was $26,053, which represented 100% of the Foundation's required contribution, and the Foundation's proportionate share of pension expense during the same period was $23,242. The Foundation did not make any contributions to the Combined Plan during calendar year 2014.

Ohio Revised Code Chapter 145 assigned authority to the Board of Trustees to amend the funding policy. As of December 31, 2014, the Board of Trustees adopted the contribution rates that were recommended by the external actuary. The contribution rates were included in a new funding policy adopted by the Board of Trustees in October 2013, and are certified biennially by the Board of Trustees as required by the Ohio Revised Code.

As of December 31, 2014, the date of the last actuarial study, the funding period for all defined benefits of the OPERS was 21 years.

7. DEFINED BENEFIT PENSION PLANS (Continued)

Net Pension Liability

The net pension liability was measured as of December 31, 2014, and the total pension liabilities were determined by an actuarial valuation as of that date. The Foundation's proportion of the net pension liability was based on both member and employer contributions to OPERS relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

Proportionate Share of the Net Pension Liability	$ 212,879
Proportion of the Net Pension Liability	0.001765%

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2014, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requires of GASB 67. Key methods and assumptions used in the latest actuarial valuations are presented below:

Actuarial Information	Traditional Pension Plan	Combined Plan Plan
Valuation Date	December 31, 2014	December 31, 2014
Experience Study	5 Year Period Ending December 31, 2010	5 Year Period Ending December 31, 2010
Actuarial Cost Method	Individual entry age	Individual entry age
Actuarial Assumptions:		
Investment Rate of Return	8.00%	8.00%
Wage Inflation	3.75%	3.75%
Projected Salary Increases	4.25 - 10.05% (includes wage inflation at 3.75%)	4.25 - 8.05% (includes wage inflation at 3.75%)
Cost-of-living Adjustments	3.00% Simple	3.00% Simple

7. DEFINED BENEFIT PENSION PLANS (Continued)

Mortality rates are the RP-2000 mortality table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males, 120% of the disabled female mortality rates were used, set forward two years. For females, 100% of the disabled female mortality rates were used.

The discount rate, used to measure the total pension liability was 8.0% for both the Traditional pension Plan and the Combined Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net positon was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for both the Traditional Pension Plan and the Combined Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Net Pension Liability to Changes in the Discount Rate - The following table presents the net pension liability calculated using the discount rate of 8.0% and the expected net pension liability if it were calculated using a discount rate that is 1.0% lower or higher than the current rate.

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Foundation's proportionate share of the net pension liability	$ 391,636	$ 212,879	$ 62,322

The allocation of investment assets within the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The following table displays the Board of Trustees approved asset allocation policy for 2014 and the long-term expected real rates of return.

Asset Class	Allocation	Real Rate of Return
Fixed Income	23.00%	2.31%
Domestic Equities	19.90%	5.84%
Real Estate	10.00%	4.25%
Private Equity	10.00%	9.25%
International Equities	19.10%	7.40%
Other Investments	18.00%	4.59%
Total	100%	5.28%

The long-term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

7. DEFINED BENEFIT PENSION PLANS (Continued)

OPERS manages investments in four investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan, and the VEBA Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money-weighted rate of return, net of investment expense, for the Defined Benefit portfolio was 6.95% for 2014.

Average Remaining Service Life

GASB 68 requires that changes arising from differences between expected and actual experience or from changes in actuarial assumptions be recognized in pension expense over the average remaining service life of all employees provided with benefits through the pension plan (active and inactive). This is to consider these differences on a pooled basis, rather than an individual basis, to reflect the expected remaining service life of the entire pool of employees with the understanding that inactive employees have no remaining service period. As of December 31, 2014, the average of the expected remaining service lives of all employees calculated by our external actuaries for the Traditional Pension Plan was 3.1673 years and for the Combined Plan was 9.4080 years.

Deferred Inflows and Deferred Outflows

The deferred inflows and outflows reported in the Statement of Net Position do not include the layer of amortization that is recognized in current year pension expense and represents the balances of deferred amounts as of December 31, 2014. The table below discloses the original amounts of the deferred inflows and outflows, calculated by OPERS external actuaries, and the current year amortization on those amounts included in pension expense as of and for the year ended December 31, 2014.

Deferred Inflows/(Outflows)	Total Deferred Inflows/(Outflows) Arising in Current Reporting Period	2014 Amortization Period	First Year of Amortization Recognized in Pension Expense	Balance of Deferred Inflows/(Outflows) in Current Reporting Period
Traditional Pension Plan				
Difference between Expected and Actual Experience	$ 5,465	3.1673 years	$ 1,726	$ 3,740
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	$ (14,198)	5 years	$ (2,840)	$ (11,359)

7. DEFINED BENEFIT PENSION PLANS (Continued)

Amounts reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date is recognized as a reduction of the net pension liability in the Foundation's financial statements. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as disclosed in the table below:

Calendar Year Ending December 31	Traditional Pension Plan Net Deferred Outflows of Resources
2015	$ (1,114)
2016	(1,114)
2017	(2,551)
2018	(2,840)
2019	-
Thereafter	-
Total	$ (7,619)

8. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Plan (TP) – a cost-sharing multiple-employer defined benefit plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying benefit recipients of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45. OPERS' eligibility requirements for post-employment health care coverage changed for those retiring on and after January 1, 2015. Please see the Plan Statement in the OPERS 2014 CAFR for details.

8. OTHER POST-EMPLOYMENT BENEFITS (Continued)

The Ohio Revised Code permits, but does not require, OPERS to provide OPEB benefits to its eligible benefit recipients. Authority to establish and amend health care coverage is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-PERS(7377).

Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In fiscal year 2015, the Foundation contributed at a rate of 14 percent of earnable salary. The Ohio Revised Code currently limits the employer contribution rate not to exceed 14 percent of covered payroll. Active member contributions do not fund the OPEB Plan.

OPERS' Post-employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2014. Effective January 1, 2015, the portion of employer contributions allocated to healthcare remains at 2.0% for both plans, as recommended by OPERS' actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

In fiscal year 2015, the Foundation's contributions to OPERS totaled $31,035. Of this amount, $4,434 was allocated to the health care plan. The portion of the Foundation's fiscal year 2014 and 2013 contributions that were allocated to the health care plan were $3,038 and $6,862, respectively.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

9. LEASES

The Foundation has entered into an operating lease for office space. The current lease agreement commenced on July 1, 2013 and ends on June 30, 2015 at an annual rate of $20,067. According to the Foundation's lease agreement for office space, provided the Foundation is in compliance with the existing terms of the contract, the Foundation has the option to renew the lease for up to three successive and continuous terms of two years each upon the same terms and conditions except that the base rent during said renewal terms will be negotiated in good faith by both parties. On April 15, 2015, the Foundation exercised the option to renew for an additional term beginning July 1, 2015 and ending June 30, 2017, at an annual rate of $21,747. Leased properties not having elements of ownership are classified as operating leases and likewise are recorded as expenditures when payable.

For fiscal year 2015, total operating lease expenses for the office space was $20,067. The following schedule details future lease payments of the Foundation.

Term	Office Space
Fiscal year 2016	21,747
Fiscal year 2017	21,747

10. CONTINGENCIES

As of June 30, 2015, the Foundation is currently involved in a lawsuit with Spine Center Chiropractic, an Economic Development recipient that was not in compliance with the grant agreement and repayment terms were not reached. The results of the lawsuit cannot be determined at this time, however, the Foundation expects a favorable outcome.

11. CHANGE IN ACCOUNTING PRINCIPLES/ACCOUNTABILITY

For fiscal year 2015, the Foundation has implemented the following:

GASB Statement No. 68 "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27" improves the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and enhances its value for assessing accountability and interperiod equity by requiring recognition of the entire pension liability and a more comprehensive measure of pension expense. This statement also replaces GASB Statement No. 27 as it relates to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The implementation of this statement had a significant effect on the financial statements of the Foundation.

GASB Statement No. 69 "Government Combinations and Disposals of Government Operations" provides specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The implementation of this statement did not have an effect on the financial statements of the Foundation.

GASB Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68" eliminates the source of potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. The implementation of this statement had a significant effect on the financial statements of the Foundation.

12. EXPLANATION OF ADJUSTMENTS

The following is a detailed description of the amounts included in the "Adjustments" column of the accompanying financial statements:

Governmental Fund Balance Sheet/Statement of Net Position

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the Special Revenue Fund column; however, capital assets are reported in the Statement of Net Position column	$34,387
Interest receivables that are not available to pay for current period expenditures are unavailable in the Special Revenue Fund column	($37,981)
Long-term liabilities, such as net pension liability and compensated absences, are not due and payable in the current period and, therefore, are not reported in the Special Revenue Fund column. However, long-term liabilities are reported in the Statement of Net Position column.	
Compensated Absences	$47,916
Net Pension Liability	$212,879
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	
Deferred Outflow of Resources – Pension Plan Investments	$11,359
Deferred Outflow of Resources – Employer Contributions	$14,572
Deferred Inflow of Resources – Pension Plan Experience	$3,740

Statement of Revenues, Expenditures, and Change in Fund Balance/Statement of Activities

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the Special Revenue Fund column.	($6,947)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. No depreciation expense is recorded in the Special Revenue Fund column.	
Capital Outlay	($18,983)
Depreciation	$6,294
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the Special Revenue Fund column.	
Compensated Absences	$4,837
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	
Pension Expense	$23,242
Pension Contributions	($26,872)

13. RESTATEMENT OF BEGINNING NET POSITION

For the fiscal year ended June 30, 2015, the Foundation implemented *GASB Statement No. 68 "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27"* and *GASB Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68".* The implementation of these standards had the following impact on beginning Net Position:

Net Position, June 30, 2014	$	14,796,703
Net Pension Liability		(208,071)
Deferred Outflow of Resources - Pension Contributions		13,753
Net Position, July 1, 2014, Restated		14,602,385

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SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

LAST 10 CALENDAR YEARS
UNAUDITED

	2014
Proportion of the net pension liability	0.001765%
Proportionate share of the net pension liability	$ 212,879
Covered-employee payroll	$ 216,349
Proportionate share of the net pension liability as a percentage of covered-employee payroll	98.40%
Plan fiduciary net position as a percentage of the total pension liability	86.45%

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION
SCHEDULE OF CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

LAST 10 CALENDAR YEARS
UNAUDITED

	2014
Contractually required contribution	$ 26,053
Contributions in relation to the contractually required contribution	$ 26,053
Contribution deficiency (excess)	$ -
Covered-employee payroll	$ 216,349
Contributions as a percentage of covered-employee payroll	12.04%

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Southern Ohio Agricultural and Community Development Foundation
100 South High Street, P.O. Box 47
Hillsboro, Ohio 45133

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities and Special Revenue Fund of the Southern Ohio Agricultural and Community Development Foundation (Foundation), a department of the State of Ohio, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements and have issued our report thereon dated September 30, 2015. We noted the Foundation adopted new accounting guidance in Governmental Accounting Standards Board Statements 68, *Accounting and Financial Reporting for Pensions*, and 71, *Pension Transitions for Contributions Made Subsequent to the Measurement Date*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Foundation's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Foundation's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Foundation'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, opining 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 did note certain matters not requiring inclusion in this report that we reported to the Foundation's management in a separate management letter dated September 30, 2015.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

September 30, 2015

Dave Yost • Auditor of State

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

HIGHLAND 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
OCTOBER 20, 2015