



**SOUTHERN OHIO AGRICULTURAL AND  
COMMUNITY DEVELOPMENT FOUNDATION  
FRANKLIN COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2002**



**JIM PETRO**  
**AUDITOR OF STATE**  

---

**STATE OF OHIO**



SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Report of Independent Accountants .....	1
Management's Discussion and Analysis .....	3
Basic Financial Statements	
Governmental Fund Balance Sheet / Statement of Net Assets.....	7
Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance / Statement of Activities .....	8
Notes to the Financial Statements.....	9
Report on Compliance and on Internal Control required by <i>Government Auditing Standards</i> .....	21

**This page intentionally left blank.**



STATE OF OHIO  
OFFICE OF THE AUDITOR  
JIM PETRO, AUDITOR OF STATE

35 North Fourth Street  
Columbus, Ohio 43215  
Telephone 614-466-3402  
800-443-9275  
Facsimile 614-728-7199  
www.auditor.state.oh.us

## REPORT OF INDEPENDENT ACCOUNTANTS

Southern Ohio Agricultural and Community Development Foundation  
100 South High Street  
Hillsboro, Ohio 45133

We have audited the accompanying financial statements of the Southern Ohio Agricultural and Community Development Foundation (the Foundation), State of Ohio, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the Foundation'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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the activity of the Foundation, a portion of the State of Ohio, and are not intended to present fairly the financial position of the State of Ohio and the results of its operations and cash flows of its enterprise funds in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southern Ohio Agricultural and Community Development Foundation, State of Ohio, as of June 30, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, during the year ended June 30, 2002, the Foundation adopted the Governmental Accounting Standards Board Statements No. 34.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2002 on our consideration of the Southern Ohio Agricultural and Community Development Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Southern Ohio Agricultural and Community Development Foundation  
Report of Independent Accountants  
October 18, 2002

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long horizontal stroke extending to the right.

JIM PETRO  
Auditor of State

October 18, 2002

**SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2002**  
**Unaudited**

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, 2002. 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 special revenue 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 2002 are as follows:

- The Foundation began two grant programs and disbursed more than \$4,000,000 in grants to Southern Ohio farmers
- Administrative expenditures totaled \$425,731
- The Foundation received \$122,744 in new master settlement agreement funds from the State of Ohio
- Interest earned on invested master settlement agreement funds was \$806,005.

### **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 special revenue 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 Assets***

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 Assets" presents information on the Foundation's assets and liabilities, with the difference between the two reported as *net assets*. 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 assets 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.

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

**SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2002**  
**Unaudited**

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

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 assets as of June 30, 2002 compared to June 30, 2001.

***Net Assets at June 30***

	<u>2002</u>	<u>2001</u>	<u>% Change</u>
<b>Assets</b>			
Cash & Investments	\$33,118,957	\$ 21,220,892	56.21%
Master Settlement Agreement & Other Receivables	1,222	15,618,275	-99.99%
Collateral on Lent Securities	2,366,948	0	-
Capital Assets	131,309	38,250	243.29%
Amount on Deposit for Compensated Absences	1,349	0	-
Total Assets	35,619,785	36,877,417	-3.41%
<b>Liabilities</b>			
Obligations Under Lent Securities	2,366,948	0	-
Accounts Payable	2,270	80,311	-97.17%
Wages Payable	11,960	2,743	336.02%
Compensated Absences	14,390	0	-
Total Liabilities	2,395,568	83,054	2,784.35%
<b>Net Assets</b>			
Invested in Capital Assets, net of related debt	131,309	38,250	243.29%
Restricted	33,090,337	36,756,113	-9.97%
Total Net Assets	\$33,224,217	\$36,794,363	-9.70%

Total net assets of the Foundation decreased by \$3,570,146 during fiscal year 2002. This decrease is mainly the result of two factors: 1) In fiscal year 2002, the Foundation only received \$122,744 in new State assistance funded by the tobacco master settlement agreement and 2) new grant programs were established in fiscal year 2002, with grants paid in the amount of \$4,039,464. The two new programs implemented by the Foundation were the Livestock Genetics Grant Program, and Livestock Systems Projects. Also for fiscal year 2002, administrative expenditures for the Foundation totaled \$453,003 and interest earned on invested tobacco settlement funds totaled \$806,005. All of the Foundation's net assets are restricted for the use of grants and loans, and administrative expenditures.

Since this is the first year the Foundation has prepared financial statements in accordance with GASB Statement No. 34, revenue and expense comparisons to the fiscal year ended June 30, 2001 are not available. In future years, a comparative analysis of government-wide revenue and expense data will be presented. In addition, since the Foundation operates as a single Special Revenue Fund, an analysis of variations between original and final budget amounts for the General Fund has not been presented.



**SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2002  
Unaudited**

**CAPITAL ASSETS**

At the end of fiscal year 2002, the Foundation had \$131,309 invested in capital assets, as detailed below:

***Capital Assets at June 30***

	<u>2002</u>	<u>2001</u>	<u>% Change</u>
Vehicles	\$ 61,088	\$24,390	150.46%
Equipment	31,698	13,860	128.70%
Computer Software	38,523	-	-
Total Capital Assets	\$131,309	\$38,250	243.29%

Total capital assets for the Foundation increased by \$93,059 during fiscal year 2002. The large increase can be attributed to continuing administrative start-up costs as the Foundation began programmatic activities and completed its first full year of operations. The most significant additions to our capital assets during fiscal year 2002 were from the purchase of two vehicles and an accounting software package.

Prior to fiscal year 2002, the State of Ohio, which is the primary government, had responsibility for reporting the Foundation's capital assets in the State's general fixed asset account group. For fiscal year 2002 and forward, the Foundation is reporting its capital assets on its Governmental Fund Balance Sheet/Statement of Net Assets, net of accumulated depreciation.

**ECONOMIC FACTORS**

The Foundation plans to continue to move forward with its mission "To help create and enhance economic opportunities for Ohio's tobacco farm families and their rural communities. Monies not used for administrative expenses and programs will be available for new programs as they evolve and are approved, or for investment." Section 183.15 of the Ohio Rev. Code requires the Foundation to keep a current plan to develop the means for tobacco growers to grow other agricultural products voluntarily.

For fiscal year 2003, the Foundation Board has approved the following grant programs to tobacco farmers in the 22 southern counties of Ohio serviced by the Foundation:

- An Educational Assistance Award for Burley tobacco growers up to \$5,000 per year, for immediate family dependents up to \$2,500 per year and for Quota owners up to \$1,000 per year. This award has a \$10,000 per family cap per year. The Foundation Board approved \$2 million for this program. The Ohio Appalachian Center for Higher Education will be the administrator of this program.
- A Farmland Preservation Program for tobacco farmers for agricultural easement with a commitment of \$1 million from the Foundation Board, plus a commitment of \$500,000 toward a cash match to tobacco farmers who wish to apply for funding under the "Clean Ohio Fund Agricultural Easement Purchase Program." The Ohio Department of Agriculture holds the easement and will be the administrator of this program.
- A Grain Handling/Livestock Systems Project for tobacco farmers that have production livestock that includes fencing, corrals, chutes, and grain handling. The Foundation Board has approved \$2.5 million for this project.
- A Lime Application Project with Foundation Board approval of \$1.5 million.

**SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2002  
Unaudited**

**ECONOMIC FACTORS (Continued)**

- \$4 million is planned for Economic Development projects and an additional \$2 million for Agricultural Diversification Projects.

In addition, Amended Senate Bill No. 242 has provided the Foundation \$15.8 million, less administrative expenses, for an Indemnification Payment Project to tobacco growers that are active quota owners, quota owners/producers, or grower/tenants as of July 2, 2002, and are located in the 22 southern Ohio Counties.

For fiscal year 2002, the anticipated transfer to the Foundation of master settlement agreement funds, was not received. The same situation will occur for fiscal year 2003. Instead, in accordance with amended Senate Bill 242, other tobacco settlement monies, which are designated specifically for the Indemnification Payment Program, described above, are to be transferred to the Foundation in 2003 and 2004. Ohio Rev. Code Section 183.02 (C)(2), as amended, provides that amounts due under the above payment schedule for 2002 and 2003, shall be transferred to the Foundation in fiscal years 2013 and 2014, respectively.

**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 Soundra Weaver, 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 ASSETS  
AS OF JUNE 30, 2002**

	<b>Special Revenue Fund</b>	<b>Adjustments (See Note 10)</b>	<b>Statement of Net Assets</b>
<b>Assets:</b>			
Cash .....	\$ 374,017	\$ —	\$ 374,017
Investments .....	32,744,940	—	32,744,940
Interest Receivable.....	—	1,222	1,222
Collateral on Lent Securities .....	2,366,948	—	2,366,948
Capital Assets, net of accumulated depreciation .....	—	131,309	131,309
Amount on Deposit for Compensated Absences .....	1,349	—	1,349
<b>Total Assets</b> .....	<b>35,487,254</b>	<b>132,531</b>	<b>35,619,785</b>
 <b>Liabilities:</b>			
Accounts Payable.....	2,270	—	2,270
Wages Payable .....	11,960	—	11,960
Obligations under Lent Securities .....	2,366,948	—	2,366,948
Compensated Absences: .....			
Due in one year .....	—	1,032	1,032
Due in more than one year.....	—	13,358	13,358
<b>Total Liabilities</b> .....	<b>2,381,178</b>	<b>14,390</b>	<b>2,395,568</b>
 <b>Fund Balance/Net Assets:</b>			
Reserved for Compensated Absences.....	1,349	(1,349)	—
Fund Balance Reserved.....	33,104,727	(33,104,727)	—
<b>Total Fund Balance</b> .....	<b>33,106,076</b>	<b>(33,106,076)</b>	<b>—</b>
<b>Total Liabilities and Fund Balance</b> .....	<b>\$ 35,487,254</b>		
 <b>Net Assets:</b>			
Invested in capital assets, net of related debt .....		131,309	131,309
Restricted for Programs to Reduce Tobacco Production .....		33,092,908	33,092,908
<b>Total Net Assets</b> .....		<b>\$ 33,224,217</b>	<b>\$ 33,224,217</b>

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

**SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

	<b>Special Revenue Fund</b>	<b>Adjustments (See Note 10)</b>	<b>Statement of Activities</b>
<b>Revenues:</b>			
Master Settlement Agreement Income			
from the State of Ohio.....	\$ 122,744	\$ —	\$ 122,744
Interest Income .....	806,005	1,222	807,227
<b>Total Revenues</b> .....	<b>928,749</b>	<b>1,222</b>	<b>929,971</b>
 <b>Expenditures/Expenses:</b>			
Current:			
Salaries and Benefits .....	235,000	14,390	249,390
Purchased Services .....	114,745	—	114,745
Materials, Supplies, and Other .....	88,868	—	88,868
Depreciation .....	—	7,650	7,650
Grants.....	4,039,464	—	4,039,464
Capital Outlay .....	100,709	(100,709)	—
<b>Total Expenditures/Expenses</b> .....	<b>4,578,786</b>	<b>(78,669)</b>	<b>4,500,117</b>
 <b>Excess of Revenues Over Expenditures</b>	 (3,650,037)	 3,650,037	 —
 Change in Net Assets .....	 —	 (3,570,146)	 (3,570,146)
 <b>Fund Balance/Net Assets:</b>			
Beginning of the year .....	36,756,113	38,250	36,794,363
End of the year.....	<b>\$ 33,106,076</b>	<b>\$ 118,141</b>	<b>\$ 33,224,217</b>

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

**SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**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 as set forth in Section 183.12 of the Ohio Rev. Code. 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.

To carry out the duties of the Foundation, a separate endowment fund was created in the custody of the Treasurer of State, but not part of the State Treasury. The endowment fund consists of amounts appropriated from the Foundation's trust fund, grants and donations, and investment earnings of the fund. The Foundation is the trustee of the endowment fund. Disbursements from the fund shall be paid by the Treasurer of State only upon instruments duly authorized by the board of trustees of the Foundation or its designee. No disbursements shall be used for the direct production costs of growing tobacco.

The endowment fund is 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.

**SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

**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, as of June 30, 2002, and for the year then ended, 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.

In fiscal year 2002, the Foundation implemented GASB Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." GASB Statement No. 34 creates new basic financial statements for reporting on the Foundation's financial activities. The financial statements now include separate Statement of Net Assets and Statement of Activities columns reporting the financial activities using the accrual basis of accounting, in addition to the Special Revenue Fund column 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 special revenue fund to report its financial position and results of operations. The special revenue fund is an independent fiscal and accounting entity with a self-balancing set of accounts. The special revenue fund is established to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

**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 and expendable trust 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 "Special Revenue Fund" columns on the accompanying financial statements.

The "Statement of Net Assets" 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 Assets" 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 "Special Revenue Fund" 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.

**SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 master settlement agreement revenues received from the State of Ohio and interest income.

The "Statement of Net Assets" 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 special revenue fund within the Central Accounting System (CAS), CAS Fund 5M9. Although appropriated, CAS Fund 5M9 is not a major special revenue 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, as well as amounts not yet disbursed from the Foundation's payroll account, CAS Fund 5M9. At June 30, 2002, the Foundation's custodial account balance totaled \$261,149, and the CAS Fund 5M9 ending fund balance was \$112,868.

**F. Investments**

Investments of the Foundation consist of amounts maintained within the State Treasury Asset Reserve of Ohio (STAR Ohio), whereby the deposits are pooled with other deposits and reinvested daily. The investments are considered short-term and are reported at cost, which approximates market values. At June 30, 2002, the Foundation reported \$32,744,940 in investments. 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 Rev. Code.

GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, requires disclosure of assets and liabilities arising from securities lending transactions. The Foundation's investments with the State's cash and investment pool and STAR Ohio are both 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.

**G. 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 Assets" column, but are not reported in the "Special Revenue Fund" column on the accompanying Governmental Fund Balance Sheet/Statement of Net Assets. 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.

**SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. Revenues and Receivables**

***Master Settlement Agreement Income***

Master settlement agreement income received from the State of Ohio comprises the Foundation's primary source of revenue. These revenues are derived from the 1998 Tobacco Master Settlement Agreement (the Agreement) that was entered into by the State of Ohio, along with numerous other states, against major tobacco product manufacturers. The Agreement stipulates the conditions and calculations to be applied in order for each state to receive its annual allotments. Ohio Rev. Code Section 183.02 requires all payments received by the State to be deposited into the Treasurer of State's Tobacco Master Settlement Agreement Fund (Fund O87) and the payments and related interest are to be distributed by the Office of Budget and Management in accordance with the distribution schedule.

Payments are credited to the Tobacco Master Settlement Agreement Fund in accordance with the following schedule stipulated by Ohio Rev. Code Section 183.02 (C), and subsequently transferred, though not necessarily in the same fiscal year, to the Southern Ohio Agricultural and Community Development Fund (Fund K87). Amounts reported as Master Settlement Agreement Income from the State of Ohio, totaling \$122,744 in fiscal year 2002, include Tobacco Master Settlement Agreement scheduled payments as well as interest earned on said payments. Although Fund K87 was held by the Department of Agriculture in fiscal year 2002, ownership was transferred to the Foundation in fiscal year 2003.

<u>Year</u>	<u>Percentage</u>
2000 (First Payment Credited)	5.00%
2000 (Net Amount Credited)	8.73
2001	8.12
2002	9.18
2003	8.91
2004	7.84
2005	7.79
2006	7.76
2007	17.39
2008 through 2011	17.25

For fiscal year 2002, the anticipated transfer to the Foundation, pursuant to the above schedule, was not received. The same situation will occur for fiscal year 2003. Instead, in accordance with amended Senate Bill 242, other tobacco settlement monies, which are designated specifically for an Indemnification Payment Program, are to be transferred to the Foundation in 2003 and 2004. Ohio Rev. Code Section 183.02 (C)(2), as amended, provides that amounts due under the above payment schedule for 2002 and 2003, shall be transferred to the Foundation in fiscal years 2013 and 2014, respectively.

Before fiscal year 2011 begins, the Foundation must report to the Governor and Legislature the progress the Foundation has made towards its goals and whether a need for additional funding still exists. At this point, the Governor and Legislature will decide whether funding to the Foundation will be continued. Funding estimates for receiving monies under the Master Tobacco Settlement Agreement were only projected through the year 2025; however, under the terms of the Agreement payments from the tobacco product manufacturers are to continue into perpetuity. Ohio Rev. Code Section 183.02 (K) further states that future year revenues from the Agreement are contingent upon sufficient proceeds being received to cover designated revenue set asides for the Education Facilities Trust and Endowment Funds.



**SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. Revenues and Receivables (Continued)**

***Interest Income***

The Foundation receives interest income from investments with STAR Ohio as well as from amounts on deposit in CAS Fund 5M9. In fiscal year 2002, the Foundation earned \$806,005 of interest income on STAR Ohio investments and \$1,222 on deposits in CAS Fund 5M9.

**I. Expenditures and Accounts Payable**

***Administrative expenditures***

Administrative expenditures include operating and overhead items such as salaries, equipment purchases, start-up costs incurred by Department of Agriculture personnel, and other miscellaneous expenditures. Ohio Rev. Code Section 183.30 (B) requires no more than five percent of total expenditures within a fiscal year shall be for administrative purposes, however; H.B. 94 eliminated the requirement in fiscal years 2001 and 2002, provided the Foundation has submitted a spending plan to the Controlling Board and the Controlling Board has approved the plan.

**J. 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 the Governmental Accounting Standards Board (GASB) Statement No. 16, "Accounting for Compensated Absences."

**K. Fund Balance/Net Assets**

In accordance with the reporting requirements associated with GASB Statement No. 33's purpose restrictions, fund balance/net assets will be reported as reserved/restricted for making grants or loans to qualifying individuals, public agencies, or privately owned companies and covering administrative expenditures of the Foundation.

**L. Self-Insurance**

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.

**SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**3. DEPOSITS AND INVESTMENTS**

**A. Legal Requirements**

State statutes require the classification of monies held by the Foundation into three categories.

Active deposits - are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Foundation's treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits - are public deposits the Foundation has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits - Those moneys not required for immediate use, but needed before the end of the current period of designation of depositories. Interim deposits may be deposited or invested in the following instruments:

1. Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency, or the Export-Import Bank of Washington;
3. Repurchase agreements in the securities enumerated above;
4. Interim deposits in the eligible institutions applying for interim monies;
5. Bonds and other obligations of the State of Ohio;
6. The Treasurer of State's investment pool;
7. Linked deposits, reduced-rate deposits at financial institutions that provide reduced-rate loans to small businesses, as authorized under Section 135.63, Ohio Rev. Code;
8. Agricultural linked deposits, reduced-rate deposits at financial institutions that provide reduced-rate loans to agricultural businesses, as authorized under Section 135.74, Ohio Rev. Code;
9. Reverse repurchase agreements with any eligible financial institution that is a member of the federal reserve system or federal home loan bank, or any recognized U.S. government securities dealer;
10. Commercial paper, rated in one of the two highest rating categories by two nationally recognized rating agencies and not exceeding five percent of the investment portfolio;
11. Bankers' acceptances maturing in 270 days or less and not exceeding 10 percent of the investment portfolio;
12. Debt of domestic corporations and foreign nations diplomatically recognized by the United States, rated investment grade by nationally recognized rating agencies and, in the aggregate, not exceeding five percent of the investment portfolio; and
13. No-load money market funds consisting of U.S. government and agency obligations and repurchase agreements secured by such obligations.

**SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**3. DEPOSITS AND INVESTMENTS (Continued)**

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*:

**Deposits**

At fiscal year end, the Foundation's book and bank balance was \$374,017. Of the balance, \$112,868 was held on deposit by the State of Ohio, and \$261,149 was maintained in a custodial account held by the Treasurer of State. The State of Ohio's deposits span all three categories of investment risk, all of which meet applicable collateralization requirements. Custodial balances are collateralized with securities held by the pledging financial institution's trust department or an agent in the State's name.

**Investments**

GASB Statement No. 3 requires that governments disclose the carrying amounts and market value of investments, classified by risk. Investments are to be categorized as either (1) insured or registered, or securities held by the Foundation or its agent in the Foundation's name, (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Foundation's name or (3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Foundation's name.

The Foundation's only investment at June 30, 2002 was STAR Ohio, which totaled \$32,744,940. STAR Ohio is an investment pool operated by the Treasurer of State and is unclassified since it is not evidenced by securities that exist in physical or book entry form.

**4. FIXED/CAPITAL ASSETS**

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

<b>Asset Category</b>	<b>Balance at 6/30/01</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at 6/30/02</b>
Equipment	\$ 13,860	\$ 20,610	\$ 0	\$ 34,470
Vehicles	24,390	41,576	0	65,966
Computer Software	0	38,523	0	38,523
Subtotal	38,250	100,709	0	138,959
Accumulated Depreciation	0	(7,650)	0	(7,650)
Net Capital Assets	<u>\$ 38,250</u>	<u>\$ 93,059</u>	<u>\$ 0</u>	<u>\$ 131,309</u>

Depreciation is provided using the straight-line basis over the estimated useful lives of the assets. The useful life for each asset category noted above is 5 years.

**SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**5. COMPENSATED ABSENCES**

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 the State of Ohio's Office of Budget and Management by analyzing trend data from the previous three fiscal years.

Changes in compensated absences for the year ended June 30, 2002, are as follows:

<u>Balance at 6/30/01</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at 6/30/02</u>	<u>Amounts Due In One Year</u>
\$ 0	\$ 14,390	\$ 0	\$ 14,390	\$ 1,032

**6. PENSION PLAN**

All full-time employees participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code establishes benefits. PERS issues a stand-alone financial report that may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Employee and employer contributions to PERS are established under the Ohio Revised Code and are based on percentages of covered employees' gross salaries, with the contribution rate percentages being calculated annually by the Retirement Board's actuaries. Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. For calendar year 2000, PERS instituted a temporary employer rate rollback for state and local governments. The 2001 employer pension contribution rate was 13.31 percent. The Foundation's required contributions to PERS for the years ended June 30, 2002 and 2001 were \$24,318 and \$3,046, respectively. The full amount has been contributed for both years.

**7. OTHER POST-EMPLOYMENT BENEFITS**

The Public Employees Retirement System of Ohio (PERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post-retirement health care based on authority granted by State statute. The 2001 employer contribution rate was 13.31 percent, of which 4.3 percent was the portion that was used to fund health care for 2001.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 1999, include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.75 percent annually.

**SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

**7. OTHER POST-EMPLOYMENT BENEFITS (Continued)**

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

The number of active contributing participants was 411,076 as of December 31, 2000, the date the latest actuarial review was performed. The actual contribution and the actuarially required contribution amounts are the same. PERS' net assets available for payment of benefits at December 31, 2000, (the latest information available) were \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$14,364.6 million and \$2,628.7 million, respectively.

For 2001, PERS elected to return to an actuarially pre-funded type of disclosure because it is a better presentation of PERS' actual funding methodology. Since 1997, disclosures had been based on a pay-as-you-go funding basis.

**8. LEASES**

The Foundation entered into a lease agreement for office space. Leased properties not having elements of ownership are classified as operating leases and likewise are recorded as expenditures when payable. Total operating lease expense for fiscal year 2002 was \$16,295. At June 30, 2002, the Foundation had future minimum lease payments under operating leases totaling \$16,516 for fiscal year 2003.

According to the Foundation's lease agreement, the Foundation has the option to renew the lease for the same terms and conditions during fiscal years 2004 and 2005, except that the base rent during said renewal terms would be negotiated, provided the Foundation is in compliance with the existing terms of the contract.

**9. CONTINGENCIES**

As of June 30, 2002, the Foundation's management, in consultation with the Ohio Attorney General's Office, was unaware of any pending litigation which could result in a material unfavorable outcome requiring amounts to be reported or disclosed in the Foundation's financial statements.

**SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**10. 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 Assets**

Interest Receivable

Earned interest revenues received beyond the Foundation's availability period are not reported in the special revenue fund, however, are reported in the Statement of Net Assets..... \$1,222

Capital Assets

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the special revenue fund; however, capital assets are reported in the Statement of Net Assets column..... \$131,309

Compensated Absences

Long-term liabilities, such as for compensated absences are not due and payable in the current period and, therefore, are not reported in the special revenue fund. However, long-term liabilities are reported in the Statement of Net Assets column..... \$14,390

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

Interest Income

Earned interest revenues received beyond the Foundation's availability period are not reported in the special revenue fund, however, are reported in the Statement of Activities ..... \$1,222

Capital Outlay

The special revenue fund reports capital outlays as expenditures. However, for the Statement of Activities column, the cost of those assets is allocated over their estimated useful lives as depreciation expense ..... (\$100,709)

Depreciation

For the Statement of Activities column, the cost of capital assets is allocated over the assets' estimated useful lives as depreciation expense. No depreciation expense is recorded for the special revenue fund..... \$7,650

Salaries and Benefits

Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and, therefore, are not reported as expenditures in the special revenue fund..... \$14,390

Net Assets, Beginning of Year

In fiscal year 2001, the special revenue fund reported capital outlays as expenditures. However, for the Statement of Activities, the cost of assets is allocated over their estimated useful lives as depreciation expense ..... \$38,250

**SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**11. SUBSEQUENT EVENT**

Beginning in fiscal year 2003, the Foundation was awarded CAS Fund K87, previously owned by the Department of Agriculture, with a fund balance of \$1,716. In July of 2002, pursuant to Note 2, part G, the State of Ohio appropriated \$15,835,000 to Fund K87. In accordance with Amended Substitute Senate Bill No. 242, Section 11.01, the total amount of this payment, less administrative costs, is to be used by the Foundation for indemnification payments to eligible tobacco farmers.

In September of 2002, the State of Ohio appropriated an additional \$6,057,089 in disputed tobacco settlement funds to Fund K87 to be used at the discretion of the Foundation's Board.

In addition, Amended Substitute Senate Bill No. 242 Section 183.12 added four nonvoting members to the Foundation's Board of Trustees. Of the four new members, two shall be members of the House of Representatives appointed by the Speaker of the House and two shall be members of the Senate appointed by the Senate president.

**This page intentionally left blank.**





STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street  
Columbus, Ohio 43215  
Telephone 614-466-3402  
800-443-9275  
Facsimile 614-728-7199  
www.auditor.state.oh.us

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

Southern Ohio Agricultural and Community Development Foundation  
100 South High Street  
Hillsboro, Ohio 45133

We have audited the accompanying financial statements of the Southern Ohio Agricultural and Community Development Foundation (the Foundation), State of Ohio, as of and for the year ended June 30, 2002, as listed in the table of contents, and have issued our report thereon dated October 18, 2002 wherein we noted the Foundation adopted GASB Statement 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on 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 such an opinion. Our test results disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the Foundation in a separate letter dated October 18, 2002.

This report is intended for the information and use of the Foundation, management of the State of Ohio and the Ohio Legislature, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO  
Auditor of State

October 18, 2002





STATE OF OHIO  
OFFICE OF THE AUDITOR  

---

JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION**

**FRANKLIN 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  
NOVEMBER 14, 2002**