



**Auditor of State
Betty Montgomery**

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying basic 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, 2005, as listed in the table of contents. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the Foundation's financial statements present the financial position and changes in financial position of only 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, 2005, or the changes in its financial position and cash flows of its proprietary fund types for the year then ended 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 governmental activities of the Southern Ohio Agricultural and Community Development Foundation as of June 30, 2005, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3, during the year ended June 30, 2005, the Foundation adopted the Governmental Accounting Standards Board's Statement No. 40, *Deposit and Investment Risk Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005, 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, grants, and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing in internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion in it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

September 30, 2005

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Year Ended June 30, 2005

(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, 2005. 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 2005 are as follows:

- The assets of the Foundation exceeded its liabilities at the close of the most recent fiscal year by \$38.3 million (net assets). Of this amount, \$38 million may be used in the Foundation's programs to reduce tobacco use and production.
- The Foundation's total net assets increased by \$5 million during fiscal year 2005.
- The Foundation continued its grant programs and disbursed \$10.3 million in grants to Southern Ohio farmers. Grants were awarded for 1) Educational Assistance; 2) Forage Improvement; 3) Forage Handling; 4) Grain Handling; 5) Livestock Systems; 6) Genetic Improvement; 7) Feeding Systems; 8) Economic Development; and 9) Agricultural Expansion/ Diversification.
- Interest earned totaled \$845,499 during fiscal year 2005.

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 Foundations 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.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Year Ended June 30, 2005

(UNAUDITED)

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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.

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, 2005 compared to June 30, 2004.

Net Assets at June 30

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Assets			
Cash and Investments	\$ 23,098,903	\$ 18,098,879	27.63%
Collateral on Lent Securities	275,774	1,244,051	-77.83%
Tobacco Settlement Receivables	15,205,619	15,144,938	0.40%
Capital Assets	64,351	89,199	-27.86%
Other Assets	5,817	8,452	-31.18%
Total Assets	<u>38,650,464</u>	<u>34,585,519</u>	
Liabilities			
Accounts Payable	19,976	27,528	-27.43%
Wages Payable	21,122	18,271	15.60%
Obligations under Lent Securities	275,774	1,244,051	-77.83%
Compensated Absences Payable	56,849	45,613	24.63%
Total Liabilities	<u>373,721</u>	<u>1,335,463</u>	
Net Assets			
Invested in capital assets	64,351	89,199	-27.86%
Restricted for Indemnification Program	163,312	163,312	0.00%
Restricted for Programs to Reduce Tobacco Use	38,049,080	32,997,545	15.31%
	<u>\$ 38,276,743</u>	<u>\$ 33,250,056</u>	

Collateral on Lent Securities and Obligations under Lend Securities directly relate to security lending activity on behalf of the Treasurer of the State of Ohio. The amount of securities out on loan at June 30, 2005 was significantly less than the amount out on loan and the end of the previous period resulting in the significant decreases in these two accounts.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Year Ended June 30, 2005

(UNAUDITED)

The following is a summary of the Foundation's Statement of Activities for the year ending June 30, 2005 compared to the year ending June 30, 2004

Statement of Activity for the year ending June 30

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Revenues			
Indemnification Program Revenues	\$ -	\$ 16,275,517	-100.00%
Tobacco Settlement Income received from the State of Ohio	15,205,619	15,144,938	0.40%
Interest Income	845,499	570,592	48.18%
Other Income	45,000	515	86.38%
Total Revenues	<u>16,096,118</u>	<u>31,991,562</u>	
Expenses			
Salaries and Benefits	404,453	394,139	2.62%
Purchased Services	290,472	418,237	-30.55%
Materials, Supplies and Other	65,955	75,197	-12.29%
Depreciation	30,753	29,368	4.72%
Grants	10,277,798	10,482,590	-1.95%
Indemnification Program Payments	-	16,460,510	-100.00%
Total Expenses	<u>11,069,431</u>	<u>27,860,041</u>	
Change in Net Assets	5,026,687	4,131,521	21.67%
Net Assets, Beginning of Year	<u>33,250,056</u>	<u>29,118,535</u>	
Net Assets, End of Year	<u>\$ 38,276,743</u>	<u>\$ 33,250,056</u>	

The Tobacco Indemnification Program was a two-year program that ceased during fiscal year 2004, resulting in the significant decrease in program revenues and expenses during fiscal year 2005. The Foundation's increase in Net Assets is the result of Tobacco Settlement Income received from the State of Ohio exceeding grant awards and administrative costs. All of the Foundation's net assets are restricted for the use of grants and loans, and administrative expenditures.

BUDGET VARIANCES IN THE GENERAL FUND

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 two special revenue funds within the Central Accounting System (CAS), CAS Funds 5M9 and K87. Although appropriated, CAS Funds 5M9 and K87 are not major special revenue funds, and therefore, budgetary reporting is not required.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Year Ended June 30, 2005

(UNAUDITED)

CAPITAL ASSETS

At the end of fiscal year 2005, the Foundation had \$64,351 invested in net capital assets, as detailed below:

Capital Assets at June 30

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Vehicles	\$ 21,508	\$ 34,701	-38.02%
Equipment	27,434	31,384	-12.59%
Computer Software	15,409	23,114	-33.33%
Total Capital Assets	<u>\$ 64,351</u>	<u>\$ 89,199</u>	

Total net capital assets for the Foundation decreased by \$24,848 during fiscal year 2005. The decrease is due to current depreciation expense offset by a minor equipment purchase.

ECONOMIC FACTORS

The Southern Ohio Agricultural and Community Development 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 2005, the Foundation's Board has approved the following grant programs to burley tobacco farmers and rural communities in the 22 southern counties of Ohio:

- **Educational Assistance:** The SOACDF Educational Assistance Program assists tobacco farmers who have suffered the economic impact of reductions in quota in recent years. The funds are intended to help these individuals acquire skills to enter new or supplemental income-generating occupations, and to help put their dependents through college with financial support that can no longer 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 and fees in-state or out-of-state accredited institutions of higher education, or to receive specialized training at non-accredited institutions approved by the Board of SOACDF. Students may participate in certificate programs or other training that will provide them with employment opportunities. For the 2005-06 academic year, the SOACDF Educational Assistance Program will provide up to \$3,000 in educational assistance per person for eligible tobacco growers, their spouses and immediate family dependents. Quota Owners, their spouses and immediate family dependents may each receive up to \$1,000. 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. \$2 million is approved for the Educational Assistance Program in fiscal year 2006.
- **Agricultural Diversification Program:** \$4 million is approved for fiscal year 2006. Ohio burley tobacco growers completing requirements set forth by the Board and certified by FSA county office including a Business plan, completed tobacco history, cash flow projections that qualify as Quota Owner/Growers or Grower Tenants can apply for 50% cost share up to a maximum of \$40,000 and qualified Quota Owners can apply for 50% cost share up to a maximum of \$15,000. These projects must be agriculturally based and go through a competitive review & score process by a review committee. Agriculture Diversification Projects are designed to help those who voluntarily decide to transition away from their dependence on tobacco or replace lost income from tobacco.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Year Ended June 30, 2005

(UNAUDITED)

- **General Agricultural Projects:** The Foundation, formed four years ago with monies from the Tobacco Master Settlement Agreement, is charged with helping to create and enhance economic opportunities for tobacco farm families and rural communities. \$3 million is approved for fiscal year 2006 for agricultural projects. Projects available this fiscal year for burley tobacco farmers include: Livestock Systems, Feeding Systems, (New) Forage Handling Equipment, Forage Improvement (Lime & Seeding), Production Livestock Genetic Improvement and Grain Handling. These grant awards are \$1,000 and \$2,000 and are meant to supplement lost income for a majority of the burley tobacco producers who do not opt to apply for the larger agricultural diversification grants. These grants will assist producers in making capital investments to achieve improved efficiencies for additional income over time.
- **Economic Development:** \$4 million for approved Economic projects and \$500,000 for R&D projects is approved for FY2006 fiscal year for the Economic Development program. This program is designed to assist in strategic investments in communities that are affected by the reduction in the demand for tobacco. The emphasis of SOACDF's Economic Development program is to provide up to a maximum of 35% of a total project cost for projects that will create, retain, or expand job opportunities for residents in the traditional burley tobacco producing counties of southern Ohio. Both public and private sector businesses are eligible to apply in order to achieve those means. In the nine major burley tobacco producing counties, dollars are budgeted for use within those counties for projects that meet guideline criteria. An extensive review process which includes county, regional and final Board approval must be met before dollars are awarded.
- **Investment:** The SOACDF Board adopted an investment policy in fiscal year 2003 and \$10 million dollars was budgeted for investment that began in fiscal year 2004. The investment managers which were chosen by the Treasurer of State were put in place and an additional \$2 million was added to the investment program. It is the Board's intention to continue to look for funds that can be placed into the investment program in order to extend the life line of the Foundation.
- **Loan Program:** The SOACDF Board budgeted \$1.5 million for a loan program in fiscal year 2006.

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.

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SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

GOVERNMENTAL FUND BALANCE SHEET / STATEMENT OF NET ASSETS

As of June 30, 2005

	Special Revenue Fund	Adjustments (See Note 11)	Statement of Net Assets
	<u> </u>	<u> </u>	<u> </u>
Assets:			
Cash	\$ 432,034	\$ —	\$ 432,034
Investments.....	22,666,869	—	22,666,869
Collateral on Lent Securities.....	275,774	—	275,774
Tobacco Settlement Receivable.....	15,205,619	—	15,205,619
Prepaid Assets.....	704	—	704
Capital Assets, net of accumulated depreciation.....	—	64,351	64,351
Amount on Deposit for Compensated Absences.....	5,113	—	5,113
Total Assets.....	<u>38,586,113</u>	<u>64,351</u>	<u>38,650,464</u>
 Liabilities:			
Accounts Payable.....	19,976	—	19,976
Wages Payable.....	21,122	—	21,122
Obligations under Lent Securities.....	275,774	—	275,774
Compensated Absences:			
Due in one year.....	—	14,632	14,632
Due in more than one year.....	—	42,217	42,217
Total Liabilities.....	<u>316,872</u>	<u>56,849</u>	<u>373,721</u>
 Fund Balance/Net Assets:			
Reserved for Compensated Absences.....	5,113	(5,113)	—
Reserved for Prepaid Assets.....	704	(704)	—
Reserved for Indemnification Payments.....	163,312	(163,312)	—
Fund Balance Reserved.....	38,100,112	(38,100,112)	—
Total Fund Balance.....	<u>38,269,241</u>	<u>(38,269,241)</u>	—
Total Liabilities and Fund Balance.....	<u>\$ 38,586,113</u>		
 Net Assets:			
Invested in capital assets, net of related debt.....		64,351	64,351
Restricted for Indemnification Program.....		163,312	163,312
Restricted for Programs to Reduce Tobacco Use		38,049,080	38,049,080
Total Net Assets.....		<u>\$ 38,276,743</u>	<u>\$ 38,276,743</u>

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, 2005

	<u>Special Revenue Fund</u>	<u>Adjustments (See Note 11)</u>	<u>Statement of Activities</u>
Revenues:			
Tobacco Settlement Income from the State of Ohio.....	\$15,205,619	—	\$15,205,619
Interest Income.....	845,499	—	845,499
Other.....	45,000	—	45,000
Total Revenues.....	<u>16,096,118</u>	<u>—</u>	<u>16,096,118</u>
 Expenditures/Expenses:			
Current:			
Salaries and Benefits.....	393,217	11,236	404,453
Purchased Services.....	291,837	(1,365)	290,472
Materials, Supplies, and Other.....	65,955	—	65,955
Depreciation.....	—	30,753	30,753
Grants.....	10,277,798	—	10,277,798
Indemnification Project.....	—	—	—
Capital Outlay.....	5,905	(5,905)	—
Total Expenditures/Expenses.....	<u>11,034,712</u>	<u>34,719</u>	<u>11,069,431</u>
Excess of Revenues Over Expenditures..	5,061,406	(5,061,406)	—
Change in Net Assets.....	—	5,026,687	5,026,687
 Fund Balance/Net Assets:			
Beginning of the year.....	33,207,835	42,221	33,250,056
End of the year.....	<u>\$ 38,269,241</u>	<u>\$ 7,502</u>	<u>\$ 38,276,743</u>

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

For the Year Ended June 30, 2005

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.

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 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

For the Year Ended June 30, 2005

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, 2005, 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.

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 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 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

For the Year Ended June 30, 2005

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 two special revenue funds within the Central Accounting System (CAS), CAS Funds 5M9 and K87. Although appropriated, CAS Funds 5M9 and K87 are not major special revenue funds, 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, CAS Funds 5M9 and K87, and petty cash.

F. Investments

Investments of the Foundation are reported at fair value, which includes accrued interest receivable. 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.

G. Securities Lending Transactions

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.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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. The useful life for each asset category noted in Note 5 is 5 years.

I. 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 087) 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).

<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 and 2003, the anticipated transfer to the Foundation, pursuant to the above schedule, was not received. Instead, in accordance with amended Senate Bill 242, other tobacco settlement monies, which were designated specifically for an Indemnification Payment Program, were transferred to the Foundation. 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. The fiscal year 2005 transfer, totaling \$15,205,619, was received in July of 2005 and has been reported as a Tobacco Settlement Receivable on the Statement of Net Assets.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Revenues and Receivables (Continued)

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.

Interest Income

The Foundation receives interest income from investments with STAR Ohio, Mellon Bank, MDL Capital Management Inc., deposits in CAS Funds 5M9 and K87, deposits with JP Morgan and custodial deposits with the Treasurer of State. In fiscal year 2005, the Foundation earned \$845,499 in interest income.

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. 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.

Administrative expenditures for fiscal year 2005 were \$756,914.

K. 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."

L. 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.

M. Self-Insurance

The State of Ohio serves as the Foundation's primary government and is selfinsured 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

For the Year Ended June 30, 2005

3. DEPOSITS AND INVESTMENTS

In fiscal year 2005, the Foundation implemented GASB Statement No. 40, Deposit and Investment Risk Disclosures. This Statement's required disclosures are as follows:

Deposits - At fiscal year end, the carrying amount of the Foundation's deposits was \$431,534 and the bank balance was the same. Of the bank balance, \$23,807 was held on deposit by the State of Ohio, \$407,727 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 \$500.

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

Investment Type	Total Fair Value
U.S. Government Obligations	\$ 2,600,201
U.S. Government Agency Obligations	747,209
Corporate Bonds and Notes	1,503,227
Domestic Equity	6,197,314
Money Market Funds	1,692,626
STAR Ohio	9,926,292
Total Investments	\$ 22,666,869

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, 2005, 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.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

3. DEPOSITS AND INVESTMENTS (Continued)

The Foundation's exposure to credit risk is as follows:

Quality Rating	STAR Ohio	Corporate Bonds and Notes	Total
AAA	\$ 9,926,292	\$ 134,224	\$ 10,060,516
AA3/AA-	-	371,536	371,536
A1/A+	-	471,986	471,986
A2/A	-	278,123	278,123
A3	-	32,327	32,327
BBB	-	215,031	215,031
Total	<u>\$ 9,926,292</u>	<u>\$ 1,503,227</u>	\$ 11,429,519
			U.S. Govt. Obligations and Guaranteed Securities 3,347,410
			Money Market Funds - Not Rated <u>1,692,626</u>
			<u>\$ 16,469,555</u>

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. At June 30, 2005, the Foundation had no concentration of credit risk.

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.

Investment Type	Investment Maturities (in years)				Total Fair Value
	Less than 1	1-5	6-10	More than 10	
U.S. Government Obligations	\$ -	\$ 2,276,965	\$ 323,236	\$ -	\$ 2,600,201
U.S Government Agency Obligations	98,765	588,685	59,759	-	747,209
Corporate Bonds and Notes	-	957,404	419,261	126,562	1,503,227
STAR Ohio	9,926,292	-	-	-	9,926,292
Money Market Funds	1,692,626	-	-	-	1,692,626
Total Investments	<u>\$ 11,717,683</u>	<u>\$ 3,823,054</u>	<u>\$ 802,256</u>	<u>\$ 126,562</u>	<u>\$ 16,469,555</u>

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

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.

For State funds, the lending agent may not lend more than 75 percent of the total average portfolio and not more than 15 percent can be lent to a single broker-dealer. For the STAR Ohio program, not more than 25 percent of the STAR Ohio investment pool may be lent at any one time, and not more than 10 percent of the investment pool may be subject to term loans in excess of one business day.

During the fiscal year, the State funds and STAR Ohio lending programs lent U.S. government and agency obligations in exchange for collateral consisting of cash and/or U.S. government obligations. The State cannot sell securities received as collateral unless the borrower defaults. At June 30, 2005 the collateral the State had received for securities lent consisted entirely of cash, some of which had been temporarily invested in various securities. For State funds, the weighted average maturity of all loans was 4.9 days while the weighted maturity of collateral was 19.5 days. For STAR Ohio, the weighted average of all loans and collateral was 1 day.

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 fiscal year 2005 due to prior-period losses.

For both the State funds and STAR Ohio lending programs, since the lender owes the borrower more than the borrower owes the lender, there is no credit risk to the lender as of June 30, 2005. The State's Office of Budget and Management allocates the State's pooled cash collateral to various funds within the State's Central Accounting System (CAS) based on cash balances at June 30, 2005. The Foundations Allocated Collateral on Lent Securities and related Allocated Obligations Under Securities Lending as of June 30, 2005, was \$275,774.

5. CAPITAL ASSETS

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

<u>Asset Category</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Equipment	\$ 49,275	\$ 5,905	\$ -	\$ 55,180
Vehicles	65,966	-	-	65,966
Computer Software	<u>38,523</u>	<u>-</u>	<u>-</u>	<u>38,523</u>
Subtotal	153,764	5,905	-	159,669
Accumulated Depreciation	<u>(64,565)</u>	<u>(30,753)</u>	<u>-</u>	<u>(95,318)</u>
Net Capital Assets	<u>\$ 89,199</u>	<u>\$ (24,848)</u>	<u>\$ -</u>	<u>\$ 64,351</u>

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

6. 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, 2005, are as follows:

<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Amount Due in One Year</u>
\$ 45,613	\$ 47,549	\$ (36,313)	\$ 56,849	\$ 14,632

7. DEFINED BENEFIT PENSION PLANS

All full-time employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans as described below:

1. The Traditional Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
2. The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3. The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The 2005 member and employer contribution rates were consistent across all three plans. For fiscal year 2005, the contribution rate for Foundation employees was 8.5% of covered payroll and the employer contribution rate was 13.31% of covered payroll. The Foundation's required contributions to OPERS for the years ended June 30, 2005, 2004, and 2003 were \$40,338, \$37,846, and \$36,060, respectively. The full amount has been contributed for each year.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

8. OTHER POST-EMPLOYMENT BENEFITS

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 provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees must have 10 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 Post-employment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2005 employer contribution rate for state employers was 13.31% of covered payroll, of which 4% was used to fund health care for the year.

The assumptions and calculations below were based on the Retirement System's latest Actuarial Review performed as of December 31, 2003.

An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually.

The investment assumption rate for 2003 was 8%. An annual increase of 4%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4% base increase, were assumed to range from .5% to 6.3%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate) annually.

OPEB's are advance-funded on an actuarially determined basis. At year-end 2004, the number of active contributing participants in the Traditional and Combined Plans totaled 369,885. The contribution rates stated above are the actuarially determined contribution requirements for OPERS. The portion of the Foundation's 2005 contributions that were used to fund post-employment benefits were \$12,122.

The amount of \$10.5 billion represents the actuarial value of the OPERS' net assets available for OPEBs at December 31, 2003. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

8. OTHER POST-EMPLOYMENT BENEFITS (Continued)

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

9. LEASES

On July 1, 2003, the Foundation amended their lease agreement for office space. In addition, the Foundation entered into an operating lease agreement for a Pitney Bowes posting machine. Leased properties not having elements of ownership are classified as operating leases and likewise are recorded as expenditures when payable. For fiscal year 2005, total operating lease expenses for the office space and the posting machine were \$24,624 and \$3,288, respectively. The following schedule details future lease payments of the Foundation.

Term	Office Space	Postage Machine
Fiscal year 2005	24,624	3,288
Fiscal year 2006	24,624	3,288
Fiscal year 2007	24,624	3,288
Fiscal year 2008	25,353	3,288
Fiscal year 2009	25,353	2,466
Fiscal year 2010	26,136	-
Fiscal year 2011	26,136	-

According to the Foundation's amended 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 four successive and continuous terms of two years each upon the same terms and conditions except that the base rent during said renewal terms be as noted above.

10. CONTINGENCIES

As of June 30, 2005, 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

For the Year Ended June 30, 2005

11. 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

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 \$64,351

Long-term liabilities, such as accounts payable and 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.

Compensated Absences (\$56,849)

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

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 Governmental funds.

Capital Outlay \$5,905
Depreciation (\$30,753)

(\$24,848)

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.

Accounts Payable \$1,365
Compensated Absences Payable (\$11,236)

(\$9,871)



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' 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
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, 2005, and have issued our report thereon dated September 30, 2005, wherein we noted the Foundation adopted GASB Statement No. 40. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Southern Ohio Agricultural and Community Development Foundation's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Southern Ohio Agricultural and Community Development Foundation's management dated September 30, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Southern Ohio Agricultural and Community Development 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 effect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. In a separate letter to the Southern Ohio Agricultural and Community Development Foundation's management dated September 30, 2005, we reported other matters related to noncompliance we deemed immaterial.

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www.auditor.state.oh.us

Southern Ohio Agricultural and Community Development Foundation
Independent Accountants' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Required by *Government Auditing Standards*
Page 2

We intended this report solely for the information and use of Southern Ohio Agricultural and Community Development Foundation's management and the Ohio General Assembly. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

September 30, 2005

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

**SCHEDULE OF PRIOR FINDINGS
JULY 1, 2004 THROUGH JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected, Significantly Different Corrective Action Taken, or Finding No Longer Valid. Explain:
2004-01	The Foundation did not have procedures in place to monitor the activities of the service organization processing indemnification payments.	No	No longer valid since the indemnification payment program has ended (only authorized for 2003 and 2004).



**Auditor of State
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**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 10, 2005**