Southern Ohio Diversification Initiative
Pike County, Ohio

Financial Statements
For the Year Ended September 30, 2012

Whited Seigneur Sams & Rahe, LLP
CERTIFIED PUBLIC ACCOUNTANTS

213 South Paint Street, Chillicothe, Ohio 45601-3828
Phone: (740) 702-2600 ● Fax: (740) 702-2610 ● Audit Fax: (740) 702-2612
email@wssrcpa.com ● http://www.wssrcpa.com

Members of the Board
Southern Ohio Diversification Initiative
P.O. Box 517
Piketon, Ohio 45661

We have reviewed the *Independent Auditor's Report* of the Southern Ohio Diversification Initiative, Pike County, prepared by Whited, Seigneur, Sams & Rahe CPAs, LLP, for the audit period October 1, 2011 through September 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost
Auditor of State

May 2, 2013

This page intentionally left blank.

Southern Ohio Diversification Initiative

Table of Contents

For the Fiscal Year Ended September 30, 2012

Title — Page

Independent Auditor's Report 1

Financial Statements:

Statement of Financial Position 3

Statement of Activities 4

Statement of Cash Flows 5

Notes to the Basic Financial Statements 6

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With *Government Auditing Standards* 10

Schedule of Findings and Responses 12

This page intentionally left blank.

Whited Seigneur Sams & Rahe, LLP
CERTIFIED PUBLIC ACCOUNTANTS

(740) 702-2600—Phone
(740) 702-2610—Fax
(740) 702-2612—Audit Fax
email@wssrcpa.com
http://www.wssrcpa.com

WSSR

213 South Paint Street, Chillicothe, OH 45601-3828

Jerry B. Whited, CPA
Donald R. Seigneur, CPA
John R. Sams, CPA
Barry L. Rahe, CPA
Kathleen M. Alderman, CPA
Nathan C. Baldwin, CPA

March 29, 2013

Members of the Board
Southern Ohio Diversification Initiative

Independent Auditor's Report

We have audited the accompanying statement of financial position of Southern Ohio Diversification Initiative (a nonprofit organization) (the Initiative) as of September 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Initiative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

The Initiative became majority owner of Southern Ohio Asset Recovery, LLC (SOAR), a limited liability company, in October 2011. As majority owner, generally accepted accounting principles require that financial statements of Southern Ohio Asset Recovery, LLC be consolidated with the financial statements of the Initiative. The Initiative has opted to not present consolidated financial statements. The effects on the financial statements of not consolidating the financial position, activities, and cash flows of the majority owned limited liability company are not reasonably determinable.

In our opinion, except for the effects of not presenting consolidated financial statements as discussed in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Initiative as of September 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2013 on our consideration of the Initiative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Respectfully submitted,

WHITED SEIGNEUR SAMS & RAHE, CPAs, LLP

Whited Seigneur Sams & Rahe

Southern Ohio Diversification Initiative
Pike County, Ohio
Statement of Financial Position
September 30, 2012

Assets		
Current Assets:		
Cash and Investments	$	2,649,925
Prepaid Expenses		5,253
TOTAL CURRENT ASSETS		2,655,178
Property and Equipment:		
Land		2,016,600
Building		426,594
Infrastructure		2,511,904
Vehicles		35,189
Equipment		21,000
Furniture and Fixtures		4,251
Less: Accumulated Depreciation		(655,522)
NET PROPERTY AND EQUIPMENT		4,360,016
TOTAL ASSETS	$	7,015,194
Liabilities and Net Assets		
Current Liabilities:		
Accounts Payable	$	14,280
Due to Other Governments		89,624
Grant Payable to Other Government		150,000
Accrued Expenses		7,574
TOTAL CURRENT LIABILITIES		261,478
Net Assets:		
Unrestricted		6,753,716
TOTAL LIABILITIES AND NET ASSETS	$	7,015,194

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

Southern Ohio Diversification Initiative
Pike County, Ohio
Statement of Activities
For the Fiscal Year Ended September 30, 2012

Changes in Unrestricted Net Assets	
Revenues, Gains, and Other Support:	
Rent Income	$ 16,100
Other	6,667
Contributions & Donations	148,310
Interest Income	14,707
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	185,784
Expenses:	
Program Expenses	634,929
Fringe Benefits	38,760
Indirect Costs	359,297
Depreciation	86,062
TOTAL EXPENSES	1,119,048
DECREASE IN NET ASSETS	(933,264)
Net assets, beginning of year	7,686,980
Net assets, end of year	$ 6,753,716

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

Southern Ohio Diversification Initiative
Pike County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended September 30, 2012

Cash Flows From Operating Activities:		
Cash Received from Other Sources	$	116,809
Cash Paid to Suppliers		(736,503)
Cash Paid to Employees for Services and Benefits		(144,307)
Net Cash Used for Operating Activities		(764,001)
Cash Flows From Capital and Related Financing Activities:		
Capital outlay		(53,795)
Net Cash Used for Capital and Related Financing Activities		(53,795)
Cash Flows From Investing Activities:		
Interest Income		14,707
Net Cash Provided By Investing Activities		14,707
Net Decrease in Cash and Investments		(803,089)
Cash and Investments Beginning of Year		3,453,014
Cash and Investments End of Year	$	2,649,925
Reconciliation of Change in Net Assets to Net Cash Provided By Operating Activities:		
Decrease in Net Assets	$	(933,264)
Depreciation		86,062
Interest Income Not Included in Operating Activities		(14,707)
Adjustments to Reconcile Decrease in Net Assets to Net Cash Used for Operating Activities:		
Decrease in Accounts Receivable		164,975
Increase in Prepaid Expenses		(4,137)
Decrease in Deposits		36
Decrease in Accounts Payable		(11,777)
Decrease in Due to Other Governments		(203,179)
Increase in Grant Payable to Other Government		150,000
Increase in Accrued Expenses		1,990
Total Adjustments		97,908
Net Cash Used for Operating Activities	$	(764,001)

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

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

To facilitate the efficient processing of contributions received from the Portsmouth Gaseous Diffusion Plant, the Initiative has a 51% ownership interest in a limited liability company, Southern Ohio Asset Recovery, LLC.

B. BASIS OF ACCOUNTING

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

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

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

C. FINANCIAL STATEMENT PRESENTATION

The amounts for each of three classes of net assets: unrestricted, temporarily restricted and permanently restricted, be presented in an aggregated statement of financial position and that the amounts of changes in each of those classes of net assets be presented in a statement of activities. This statement requires that resources be classified into three net asset categories according to donor-imposed restriction. A description of each of the categories is as follows:

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. FINANCIAL STATEMENT PRESENTATION (continued)

When a donor restriction expires, that is, when a stipulated time restriction expires or purpose restriction is accomplished, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There were no restrictions on the Initiative's net assets as of September 30, 2012.

D. COMPENSATED ABSENCES

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

E. CASH AND INVESTMENTS

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

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

F. PROPERTY AND EQUIPMENT

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

Description	Estimated Lives
Buildings	40 years
Infrastructure	40 years
Vehicles	5 years
Furniture and Fixtures	7 years
Equipment	5 years

G. INCOME TAXES

The Initiative is a not for profit corporation and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Initiative is also exempt from Ohio income tax. All IRS Form 990, Return of Organization Exempt from Income Tax, have been timely filed and are subject to examination by the IRS, generally for three years after they are filed.

H. ESTIMATES

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. ACCOUNTS RECEIVABLE AND DUE TO OTHER GOVERNMENTS

The Initiative receives certain proceeds from the sale of assets through the United States Department of Energy. When work has been completed, such amount due to the Initiative is recorded as accounts receivable in the accompanying financial statements. However, 50 percent of such monies must be remitted back to the United States Department of Energy and this portion of such monies is recorded as a liability as due to other governments.

NOTE 2 - CASH AND INVESTMENTS

Deposits - Custodial credit risk for deposits is the risk that in the event of bank failure, the Initiative's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The Initiative's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateralization of public funds.

Deposits At September 30, 2012, the carrying amount of the Initiative's deposits was $2,649,925 and the bank balance was $2,658,868. Of the bank balance:

1. $500,000 was covered by federal depository insurance.
2. $2,158,868 was collateralized by the financial institutions' public entity deposit pools in the manner described above.

NOTE 3 - RISK MANAGEMENT

The Initiative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2012, the Initiative contracted with Cincinnati Insurance Company for real property, building contents, and vehicle insurance coverage.

Coverage provided by the program are as follows:

General Liability	$2 million Annual Aggregate Limit
Automobile	$1 million
Property	$1.114 million
Crime	$500 thousand
Directors & Officers Liability	$1 million
Umbrella	$2 million

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

NOTE 4 - PENSION PLAN

All employees of the Initiative contribute into a simple IRA, a privately defined benefit pension plan. The Initiative contributes 3% of an employee's gross wages into the plan. An hourly employee must work six months prior to becoming eligible for the plan. A member is fully vested immediately and can retire at the age of 62. No employees were participating in the plan in 2012.

NOTE 5- OPERATING LEASE

In August 2011, the Initiative entered into a 36 month lease for a Xerox copier. The lease terms have a minimum payment of $138.53 per month plus additional fees for supplies and copy volume. Total expenses for the year ending September 30, 2012 related to the lease were $2,220. Minimum remaining lease payments as of the years ending September 30 are:

2013	$1,662
2014	1,662
	$3,324

NOTE 6 - CONTINGENCIES

The Initiative was not involved in any litigation as of September 30, 2012.

NOTE 7- SUBSEQUENT EVENTS

In preparing these financial statements, the Initiative has evaluated events and transactions for potential recognition or disclosure through March 29, 2013, the date the financial statements were available to be issued.

The Initiative entered into a lease to purchase agreement with Ohio Valley Regional Development Commission (OVRDC) as of November 27, 2012. The Initiative and OVRDC are going to jointly participate in the construction of an office building for OVRDC. In order to participate in the development and construction of the building, the Initiative acquired a promissory note, dated October 31, 2012, for $300,025. OVRDC shall lease the building for a term of 20 years. The Initiative will retain ownership of the building and land until all payments due under lease to purchase agreement have been paid.

NOTE 8- RELATED PARTY TRANSACTIONS

The Initiative is 51% owner of Southern Ohio Asset Recovery, LLC (SOAR). During the fiscal year ending September 30, 2012, the Initiative made $40,476 in contributions to SOAR.

Whited Seigneur Sams & Rahe, LLP
CERTIFIED PUBLIC ACCOUNTANTS

(740) 702-2600—Phone
(740) 702-2610—Fax
(740) 702-2612—Audit Fax
email@wssrcpa.com
http://www.wssrcpa.com

WSSR

213 South Paint Street, Chillicothe, OH 45601-3828

Jerry B. Whited, CPA
Donald R. Seigneur, CPA
John R. Sams, CPA
Barry L. Rahe, CPA
Kathleen M. Alderman, CPA
Nathan C. Baldwin, CPA

March 29, 2013

Members of the Board
Southern Ohio Development Commission

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited the financial statements of Southern Ohio Diversification Initiative (a nonprofit organization) (the Initiative) as of and for the year ended September 30, 2012, and have issued our report thereon dated March 29, 2013, in which a qualified opinion was issued due to a departure from generally accepted accounting principles. 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.

Internal Control Over Financial Reporting

Management of the Initiative is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Initiative's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Initiative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Initiative's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as Finding 2012-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Initiative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as Finding 2012-002.

We noted certain matters that we reported to management of the Initiative in a separate letter dated March 29, 2013.

This report is intended solely for the information and use of the members of the Board and management. It is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,
WHITED SEIGNEUR SAMS & RAHE CPAs, LLP

Finding 2012-001 Material Weakness in Internal Control over Financial Reporting

Internal controls should be in place and operating throughout the fiscal year that allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. Sound financial reporting is the responsibility of the Executive Director and Board of Directors and is essential to ensure the information provided to the readers of financial statements is complete and accurate.

The following conditions were identified:

1. Bank reconciliations were not performed throughout the fiscal year.
2. Not all transactions were recorded into Quickbooks at the time of occurrence.
3. Timeliness of year-end closing procedures. Although a compilation report is required by January 31st each year, year-end closing procedures were not completed until February/March 2013.
4. Management was unable to provide invoices or equivalent for three invoices totaling $37,399.02 which represented 11% of the sample examined.

A material audit adjustment was necessary to recognize a grant payable.

Appropriate and timely month-end and year-end closing procedures were not being performed. The lack of controls over the posting of financial transactions and financial reporting can result in the financial information used by management and the governing board being materially misstated.

Recommendation: All transactions should be input into the general ledger in a timely manner. Month-end closing procedures should be performed consistently and timely throughout the year. The Executive Director should initial and date the reconciliation to indicate his review. Monitoring of the general ledger throughout the fiscal year rather than only at year end will allow the year-end closing process to be performed in a more timely manner.

Management Response: The Initiative plans to have a consultant come on a monthly basis to assist in completing bank reconciliations. The Executive Director will begin reviewing and signing off on these each month. Transactions will be recorded on the day of occurrence. Deposits paid to us on large transactions will also be logged with a receipt. Year-end procedures will be performed on a more timely basis in the future.

Finding 2012-002 Compliance with Grant Agreements- Grant Monitoring

In 2009, the Initiative was awarded a $750,000 Industrial Site Improvement Fund grant by the Ohio Department of Development. Fiscal year 2012 was the first year that any draws had been requested. No monitoring of the grant is being performed by the Initiative. The Initiative has, in all actions, sub-granted this award informally to the Pike County Development Office. The grant project may require that prevailing wage rates be paid to workers involved in any construction activity or that competitive bidding procedures were followed.

Recommendation: The Executive Director should ensure that the expenditures being presented for his certification have indeed been disbursed prior to any reimbursement request. Documentation of the disbursements along with each reimbursement request should be maintained by the Initiative. The Initiative should perform minimum oversight procedures to ensure that these requirements among others in the grant agreement are being complied with by the 'subgrantee'.

Management Response: No response was provided by management.

This page intentionally left blank.

Dave Yost • Auditor of State

SOUTHERN OHIO DIVERSIFICATION INITIATIVE

PIKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 14, 2013