

Southern Ohio Agricultural and Community Development Foundation
Regular Audit
For the Year Ended June 30, 2016



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Dave Yost • Auditor of State

Members of the Board
Southern Ohio Agricultural and Community Development Foundation
100 S. High St
P.O. Box 47
Hillsboro, OH 45133

We have reviewed the *Independent Auditor's Report* of the Southern Ohio Agricultural and Community Development Foundation, Highland County, prepared by Millhuff-Stang, CPA, Inc., for the audit period July 1, 2015 through June 30, 2016. 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 Agricultural and Community Development Foundation is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

November 28, 2016

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Southern Ohio Agricultural and Community Development Foundation
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the special revenue fund of the Southern Ohio Agricultural and Community Development Foundation, (the Foundation), a department of the State of Ohio, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the special revenue fund of the Southern

Ohio Agricultural and Community Development Foundation, State of Ohio, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note 1, the financial statements of the Foundation present the financial position and changes in financial position thereof for the governmental activities and the special revenue fund of only the transactions of the Southern Ohio Agricultural and Community Development Foundation. They do not purport to, and do not, present fairly the financial position of the State of Ohio as of June 30, 2016, or the changes to its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability, and the schedule of contributions on pages 3 through 8, 29, and 30, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2016 on our consideration of the Foundation'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* in considering the Foundation's internal control over financial reporting and compliance.



Robyn Roush, CPA, CITP, Vice-President/Owner
Millhuff-Stang, CPA, Inc.
Chillicothe, Ohio
September 28, 2016

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION MANAGEMENT'S DISCUSSION & ANALYSIS

For the Year Ended June 30, 2016
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, 2016. Please read the overview in conjunction with the Foundation's basic financial statements, which follow.

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

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2016 are as follows:

- The assets and deferred outflows of resources of the Foundation exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by approximately \$10.1 million (net position). Of this amount, approximately \$9.9 million may be used in the Foundation's programs to voluntarily diversify from tobacco production.
- The Foundation's total net position decreased by approximately \$2.3 million during the fiscal year.
- The Foundation continued its grant programs and disbursed approximately \$1.9 million in grants to Southern Ohio farmers and businesses. Grants were awarded for: Agricultural Development; Educational Assistance; Economic Development; Young Farmer; and Educational Excellence.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

**SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION
MANAGEMENT'S DISCUSSION & ANALYSIS**

For the Year Ended June 30, 2016
UNAUDITED

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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

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

FINANCIAL ANALYSIS OF THE FOUNDATION

The following is a summary of the Foundation's net position as of June 30, 2016 compared to June 30, 2015.

Net Position at June 30

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Assets			
Current and Other Assets	\$ 10,330,672	\$ 12,593,666	-17.97%
Capital Assets	25,324	34,387	-26.36%
Total Assets	<u>10,355,996</u>	<u>12,628,053</u>	
Deferred Outflow of Resources			
Pension	110,153	25,931	324.79%
Total Liabilities	<u>110,153</u>	<u>25,931</u>	
Liabilities			
Other Liabilities	36,058	29,139	23.74%
Long-Term Liabilities	351,218	260,795	34.67%
Total Liabilities	<u>387,276</u>	<u>289,934</u>	
Deferred Inflow of Resources			
Pension	6,038	3,740	61.44%
Total Liabilities	<u>6,038</u>	<u>3,740</u>	
Net Position			
Net Investment in Capital Assets	25,324	34,387	-26.36%
Restricted for Indemnification Program	163,312	163,312	0.00%
Unrestricted Net Position	9,884,199	12,162,611	-18.73%
	<u>\$ 10,072,835</u>	<u>\$ 12,360,310</u>	

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

The significant increase in Deferred Outflows of Resources, Long-Term Liabilities, and Deferred Inflows of Resources are the result of an increase in the Foundation's net pension liability, as reported by the pension system.

**SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION
MANAGEMENT'S DISCUSSION & ANALYSIS**

For the Year Ended June 30, 2016
UNAUDITED

FINANCIAL ANALYSIS OF THE FOUNDATION (Continued)

The following is a summary of the Foundation's Statement of Activities for the year ending June 30, 2016 compared to the year ending June 30, 2015.

Statement of Activity for the year ending June 30

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Revenues			
Investment Income	\$ 138,409	\$ 131,666	5.12%
Settlement Income	25,000	-	100.00%
Other Income	-	23,578	-100.00%
Total Revenues	<u>163,409</u>	<u>155,244</u>	
Expenses			
Salaries and Benefits	359,025	342,554	4.81%
Purchased Services	109,415	108,779	0.58%
Materials, Supplies and Other	49,930	50,425	-0.98%
Depreciation	10,092	6,294	60.34%
Grants	1,922,422	1,889,267	1.75%
Total Expenses	<u>2,450,884</u>	<u>2,397,319</u>	
Change in Net Position	(2,287,475)	(2,242,075)	-2.02%
Net Position, Beginning of Year	12,360,310	14,602,385	
Net Position, End of Year	<u>\$ 10,072,835</u>	<u>\$ 12,360,310</u>	

Revenues

Investment Income increased in comparison with the prior fiscal year. This increase is the result of improved market conditions for fixed income securities offset by a decrease in amounts available for investment.

Expenses

The minimal increase in program and operating expenses are the result of the Foundation's conscious effort to keep spending to a minimum in light of the State of Ohio budgetary constraints, coupled with the uncertainty of future funding sources.

BUDGET VARIANCES

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

**SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION
MANAGEMENT'S DISCUSSION & ANALYSIS**

For the Year Ended June 30, 2016
UNAUDITED

CAPITAL ASSETS

The following is a summary of the Foundation's net capital assets at the end of fiscal year 2016, compared to the end of fiscal year 2015:

	<u>2016</u>	<u>2015</u>
Vehicles	\$ 22,374	\$ 29,765
Equipment	2,950	4,622
Total Capital Assets, net	<u>\$ 25,324</u>	<u>\$ 34,387</u>

The Foundation's Total Capital Assets (net) decreased by \$9,063 during the fiscal year. This decrease represents the amount in which current year depreciation, totaling \$10,092, exceeded capital asset additions, totaling \$1,029, during the fiscal year.

ECONOMIC FACTORS

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

For fiscal year 2016 the Foundation's Board approved the following grant programs for farmers and rural communities in 22 southern counties of Ohio:

- **Educational Assistance:** The Foundation's Educational Assistance Program assists farmers who live within the communities that suffered the economic impact of reductions in tobacco quota. The Educational Assistance program is an investment in Appalachian Ohio that will pay dividends well into the future. These grants are to be awarded on a competitive basis based on essay questions, community and school activities and a minimum 2.0 cumulative college g.p.a. unless they are incoming freshmen. Award recipients are to apply their assistance toward tuition, on campus room and board, lab fees and books for in-state or out-of-state accredited institutions of higher education. For the 2015-2016 academic year, the Foundation Educational Assistance Program provides up to \$2,000 for undergraduate or graduate degree programs. The actual amount awarded to an individual may not exceed the calculated need determined by the educational institution. The total assistance provided to any family may not exceed \$10,000 per academic year. In addition, a \$12,000 lifetime maximum per individual was put into effect in fiscal year 2013. The Foundation budgeted \$450,000 for Educational Assistance in fiscal year 2016.
- **Educational Excellence Competitive Grant:** The Educational Excellence Competitive program was offered to eligible recipients, in fiscal year 2016, for the purpose of making investments in the future in communities that were affected by the reduction in the demand for tobacco by providing education and training. Individuals who have a current Farm Service Number on record with the Farm Service Agency and reside in the 22 counties the Foundation serves or tobacco quota owners, quota owners/growers, or grower/tenants of Farm Service Agency record in any single crop year from 1997 through 2004, and their immediate family dependents, that are enrolled at an accredited institution and are seeking a Bachelor degree are eligible. Applicants must be enrolled as a full time sophomore, junior or senior in the 2016-2017 school year to be eligible. These grants are to be awarded on a competitive basis based on essay questions, interview, community and school activities and a 2.8 cumulative college g.p.a. Applicants may only receive the Foundation's Educational Excellence Competitive Grant one time. The Foundation budgeted \$150,000 for Educational Excellence Competitive Grant in fiscal year 2016.

**SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION
MANAGEMENT'S DISCUSSION & ANALYSIS**

For the Year Ended June 30, 2016
UNAUDITED

ECONOMIC FACTORS (Continued)

- **Agricultural Development:** The Agricultural Development program is offered to eligible applicants for the purpose of assisting farmers in diversifying from tobacco into non-tobacco areas, including; expansion of an existing agricultural enterprise, diversification into a new agricultural enterprise, commercial agribusiness, and marketing/processing of value added agriculture. Applicants who received grant awards for Agriculture Development in fiscal year 2014 or 2015 are ineligible. Approved applicants are eligible for up to \$25,000. 1st time recipients are eligible for up to 50% reimbursement, 2nd time up to 40% and 3rd time up to 30%. The Foundation will require a minimum ownership retention period of two years from date of purchase for all goods, products, or equipment obtained with grant funds. The Foundation budgeted program allocation up to \$700,000.
- **Young Farmer Program:** The Young Farmer Program is offered to eligible producers in the 22 counties that the Foundation serves. Applicants must be 20-38 years of age as of August 1, 2015. Applicants must reside and project must be located within the 22 counties that the Foundation serves. Copy of Ohio Driver's license is required to confirm age and residency. Approved applicants are eligible for up to 50% reimbursement with a \$25,000 maximum grant payment. Awards are based on the highest scoring business plans and personal interviews. Project criteria for Young Farmer Program are similar to the Agricultural Development Program. The Foundation budgeted program allocation for the Young Farmer Program \$500,000.
- **Economic Development Program:** The Economic Development Program is offered to eligible recipients for the purpose of making strategic investments in communities that were affected by the reduction in the demand for tobacco. A total of \$700,000 was allocated by the Foundation for these projects during fiscal year 2016. A total of \$600,000 has been allocated by the Foundation's Board of Trustees for Economic Development projects for fiscal year 2016 for the following major counties of Adams, Brown, Clermont, Gallia, Highland, Jackson, Lawrence, Pike and Scioto. There will be 3 competitive rounds. Any funds not used in one round will rollover to the next round. There is a maximum of \$200,000 any one applicant may apply for in fiscal year 2016. No major county may receive more than \$200,000 in fiscal year 2016. A total of \$100,000 has been allocated by the Foundation's Board of Trustees for Economic Development projects in fiscal year 2016 for the following Appalachian Regional Commission (ARC) designated counties of Athens, Meigs, Monroe, Morgan, Noble, Ross, Vinton and Washington. \$100,000 will be available in the first round and any unused monies will rollover to subsequent rounds until awarded. There is a maximum of \$50,000 any one ARC designated county applicant may apply for in fiscal year 2016. No ARC designated county may receive more than \$50,000 in fiscal year 2016. The requirements for this grant are as follows: Eligible applicants are political sub-divisions; public non-profits including Port Authorities and Community Improvement Corporations; private sector businesses/industries with job creation/retention as a component of the project; and colleges and universities when projects are private sector driven. Eligibility guidelines are as follows: To be eligible for the grant an applicant must meet the Board approved PROJECT GRANT GUIDELINES. The Foundation will provide grants for up to a maximum of 35% of a total project cost for projects based upon job creation or retention for residents in the traditional tobacco producing counties of Southern Ohio not to exceed the availability of remaining funds. Private sector applicants may only receive the Economic Development Grant twice. A maximum of up to \$10,000 will be awarded for each year round full time job created, defined as a minimum of 32 hours per week. No credit will be given for part time (less than 32 hours per week), seasonal, or indirect job creation. A maximum of up to \$10,000 for each full time job truly retained and it is the applicant's responsibility to prove true job retention. It is the goal of the Foundation to improve the economic base of communities and families by attracting companies with higher paying jobs. Foundation funds may be used for capital improvements, fixed assets or land acquisitions where the end purpose is for manufacturing, distribution, warehousing or health care.

**SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION
MANAGEMENT'S DISCUSSION & ANALYSIS**

For the Year Ended June 30, 2016
UNAUDITED

ECONOMIC FACTORS (Continued)

Investments – The Board's investment policy was last updated in July, 2015. The Board, in concert with recommendations from its investment manager Hartland & Company, has concentrated on more conservative, lower risk fixed income investments. In total, approximately \$9.8 million is in the investment portfolio.

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

CONTACTING THE FOUNDATION'S FINANCIAL MANAGEMENT

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

**SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION
GOVERNMENTAL FUND BALANCE SHEET / STATEMENT OF NET POSITION**

As of June 30, 2016

	Special Revenue Fund	Adjustments (See Note 12)	Statement of Net Position
Assets:			
Cash	\$ 457,439	\$ —	\$ 457,439
Investments.....	9,792,064	—	9,792,064
Interest Receivable.....	55,805	—	55,805
Settlement Receivable.....	15,500	—	15,500
Collateral on Lent Securities.....	5,667	—	5,667
Other Receivable.....	260	—	260
Capital Assets, net of accumulated depreciation.....	—	25,324	25,324
Amount on Deposit for Compensated Absences.....	3,937	—	3,937
Total Assets.....	10,330,672	25,324	10,355,996
Deferred Outflows of Resources:			
Pension.....	—	110,153	110,153
Total Deferred Outflows of Resources.....	—	110,153	110,153
Liabilities:			
Accounts Payable.....	5,195	—	5,195
Accrued Liabilities.....	25,196	—	25,196
Obligations under Lent Securities.....	5,667	—	5,667
Long-Term Liabilities:			
Due in one year:			
Compensated Absences.....	—	14,417	14,417
Due in more than one year:			
Net Pension Liability.....	—	312,476	312,476
Compensated Absences.....	—	24,325	24,325
Total Liabilities.....	36,058	351,218	387,276
Deferred Inflows of Resources:			
Unavailable Revenue.....	54,867	(54,867)	—
Pension.....	—	6,038	6,038
Total Deferred Inflows of Resources.....	54,867	(48,829)	6,038
Fund Balance/Net Position:			
Restricted - Community and Economic Development.....	163,312	(163,312)	—
Committed - Community and Economic Development.....	10,076,435	(10,076,435)	—
Total Fund Balance.....	10,239,747	(10,239,747)	—
Total Liabilities and Fund Balance.....	\$ 10,330,672		
Net Position:			
Net Investment in Capital Assets.....		25,324	25,324
Restricted - Community and Economic Development.....		163,312	163,312
Unrestricted.....		9,884,199	9,884,199
Total Net Position.....		\$ 10,072,835	\$ 10,072,835

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, 2016

	<u>Special Revenue Fund</u>	<u>Adjustments (See Note 12)</u>	<u>Statement of Activities</u>
Revenues:			
Investment Income.....	\$ 136,023	\$ 2,386	\$ 138,409
Settlement Income.....	10,500	14,500	25,000
Total Revenues.....	<u>146,523</u>	<u>16,886</u>	<u>163,409</u>
Expenditures/Expenses:			
Current:			
Salaries and Benefits.....	350,526	8,499	359,025
Purchased Services.....	109,415	—	109,415
Materials, Supplies, and Other.....	49,930	—	49,930
Depreciation.....	—	10,092	10,092
Grants.....	1,922,422	—	1,922,422
Capital Outlay.....	1,029	(1,029)	—
Total Expenditures/Expenses.....	<u>2,433,322</u>	<u>17,562</u>	<u>2,450,884</u>
Excess of Revenues Under Expenditures....	(2,286,799)	2,286,799	—
Change in Net Position.....	—	(2,287,475)	(2,287,475)
Fund Balance/Net Position:			
Beginning of the year.....	12,526,546	(166,236)	12,360,310
End of the year.....	<u>\$ 10,239,747</u>	<u>\$ (166,912)</u>	<u>\$ 10,072,835</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, 2016

1. DESCRIPTION OF THE REPORTING ENTITY

Introduction

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

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

Method of Operation

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

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

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

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

Reporting Entity

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

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Fund Accounting

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

B. Measurement Focus and Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, current liabilities, and certain deferred inflows of resources 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 unassigned fund balance is a measure of available expendable resources. This measurement focus has been applied to the Governmental Fund Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance columns on the accompanying financial statements.

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

C. Basis of Accounting

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

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

D. Budgetary Data

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

E. Cash

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

F. Investments

Investments of the Foundation are reported at fair value. Fair value is the price that would be received in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. 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.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 are subject to lending transactions by the Treasurer of State. In accordance with paragraph 9 of GASB Statement No. 28, the Foundation's recording of assets and liabilities for securities lending transactions is based on their share of the cash and investment pool, as of the balance sheet date, as calculated by the Office of Budget and Management.

H. Capital Assets and Depreciation

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

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

I. Revenues and Receivables

The Foundation recognizes realized and unrealized gains and losses, as well as interest and dividend income, from investments with STAR Ohio and Boyd Watterson. The net of these gains and losses and interest and dividend income is reported as investment income on the Foundation's Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities. In fiscal year 2016, the Foundation's investment income was \$138,409.

The Foundation records Interest Receivable on fixed income securities.

J. Expenditures and Accounts Payable

Administrative expenditures

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

K. Self-Insurance and Accrued Liabilities

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

The Foundation's share of the self-insurance plans' net deficit is reported as Accrued Liabilities.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Compensated Absences

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

M. Fund Balance/Net Position

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

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

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

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

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

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

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

N. Pensions

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

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

3. DEPOSITS AND INVESTMENTS

Deposits - At fiscal year end, the carrying amount of the Foundation's deposits was \$461,345 and the bank balance was the same. Of the bank balance, \$63,033 was held on deposit by the State of Ohio and \$398,312 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 \$31.

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

Investment Type	Total Fair Value
U.S. Government Obligations	\$ 456,840
U.S. Government Agency Obligations	3,019,373
Corporate Bonds and Notes	5,682,832
Money Market Funds	433,685
STAR Ohio	199,334
Total Investments	<u>\$ 9,792,064</u>

The Foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All of the Foundation's investments are valued using quoted market prices (Level 1 inputs)

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, 2016, 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, 2016

3. DEPOSITS AND INVESTMENTS (Continued)

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

Quality Rating	STAR Ohio	Federal Agency Obligations	Corporate Bonds/Notes	Federal Government Obligations	Money Market Funds	Total
AAA	\$ 199,334	\$ -	\$ -	\$ 456,840	\$ -	\$ 656,174
AA	-	3,008,318	451,624	-	-	3,459,942
A	-	-	2,700,762	-	-	2,700,762
BBB	-	-	2,530,446	-	-	2,530,446
Not Rated	-	11,055	-	-	433,685	444,740
Total	\$ 199,334	\$ 3,019,373	\$ 5,682,832	\$ 456,840	\$ 433,685	\$ 9,792,064

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

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

Investment Type	Investment Maturities (in years)				Total Fair Value
	Less than 1	1-5	6-10	More than 10	
U.S. Government Obligations	\$ -	\$ 456,840	\$ -	\$ -	\$ 456,840
U.S Government					
Agency Obligations	1,628,854	1,379,464	-	11,055	3,019,373
Corporate Bonds and Notes	1,060,073	4,622,759	-	-	5,682,832
STAR Ohio	199,334				199,334
Money Market Funds	433,685				433,685
Total Investments	\$ 3,321,946	\$ 6,459,063	\$ -	\$ 11,055	\$ 9,792,064

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.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

3. DEPOSITS AND INVESTMENTS (Continued)

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

<u>Investment Type/Issuer</u>	<u>Fair Value</u>	<u>Concentration Percentage</u>
U.S Government Agency Obligations - Fannie Mae	\$ 1,815,588	19%
U.S Government Agency Obligations - Freddie Mac	752,030	8%
U.S Government Agency Obligations - Federal Home Loan Bank	451,755	5%
Money Market Funds	433,685	4%
STAR Ohio	199,334	2%

4. SECURITIES LENDING TRANSACTIONS

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

During the fiscal year, the State funds lending program lent Corporate Bonds and Notes, U.S. government obligations (excluding strips) and U.S. government agency obligations (excluding strips) in exchange for collateral consisting of cash. The State cannot sell securities received as collateral unless the borrower defaults. At fiscal year-end, the collateral the State had received for securities lent consisted entirely of cash. For State funds, the weighted average maturity of all loans was 7.51 days, while the weighted average maturity of all collateral was 31.74 days. The STAR Ohio lending program had no lent securities at fiscal year-end.

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

For the State funds lending program, since the lender owes the borrower more than the borrower owes the lender, there is no credit risk to the lender as of fiscal year-end. The State's Office of Budget and Management allocates the State's pooled cash collateral to various funds within the State's Accounting System (OAKS) based on cash balances at fiscal year-end. The Foundation's Allocated Collateral on Lent Securities and related Allocated Obligations Under Securities Lending as of fiscal year-end was \$5,667.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

5. CAPITAL ASSETS

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

Asset Category	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 25,983	\$ 1,029	\$ (3,901)	\$ 23,111
Vehicles	36,953	-	-	36,953
Subtotal	<u>62,936</u>	<u>1,029</u>	<u>(3,901)</u>	<u>60,064</u>
<i>Accumulated Depreciation:</i>				
Equipment	(21,361)	(2,701)	3,901	(20,161)
Vehicles	(7,188)	(7,391)	-	(14,579)
Subtotal	<u>(28,549)</u>	<u>(10,092)</u>	<u>3,901</u>	<u>(34,740)</u>
Net Capital Assets	<u>\$ 34,387</u>	<u>\$ (9,063)</u>	<u>\$ -</u>	<u>\$ 25,324</u>

6. LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2016, are as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Amount Due in One Year
Compensated Absences	\$ 47,916	\$ 31,680	\$ (40,854)	\$ 38,742	\$ 14,417
Net Pension Liability	212,879	99,597	-	312,476	-
Total	<u>\$ 260,795</u>	<u>\$ 131,277</u>	<u>\$ (40,854)</u>	<u>\$ 351,218</u>	<u>\$ 14,417</u>

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

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

7. DEFINED BENEFIT PENSION PLANS

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

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

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

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

The proportionate share of the plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year would be included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting. The Foundation had no such liability at fiscal year-end.

Plan Description

Foundation employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. Foundation employees) may elect the member-directed plan and the combined plan, all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

7. DEFINED BENEFIT PENSION PLANS (Continued)

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	Group B 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Group C Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

2015 Statutory Maximum Contribution Rates

Employer	14.0 %
Employee	10.0 %

2015 Actual Contribution Rates

Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0
	<hr/>
Total Employer	14.0 %
	<hr/>
Employee	10.0 %
	<hr/>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Foundation's contractually required pension contribution for fiscal year 2016 was \$27,366.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

7. DEFINED BENEFIT PENSION PLANS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Foundation's proportion of the net pension liability was based on the Foundation's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

Proportionate Share of the Net Pension Liability	\$	312,476
Proportion of the Net Pension Liability		0.001804%
Pension Expense	\$	45,338

At June 30, 2016, the Foundation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows of Resources		
Net difference between projected and actual earnings on pension plan investments	\$	91,848
Changes in proportionate share		3,104
Foundation contributions subsequent to the measurement date		15,201
Total Deferred Outflows of Resources	\$	<u>110,153</u>
 Deferred Inflows of Resources		
Differences between expected and actual experience		<u>\$6,038</u>

\$15,201 reported as deferred outflows of resources related to pension resulting from Foundation contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	Fiscal Year Ending June 30:	Amount
	2017	\$ 21,068
	2018	22,537
	2019	24,361
	2020	20,948
Total		<u>\$ 88,914</u>

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

7. DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

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

The most recent experience study was completed for the five-year period ended December 31, 2010.

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

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is .4 percent for 2015.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

7. DEFINED BENEFIT PENSION PLANS (Continued)

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.31 %
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other investments	18.00	4.59
Total	100.00 %	5.27 %

Discount Rate The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Foundation's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Foundation's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the Foundation's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Foundation's proportionate share of the net pension liability	\$ 497,850	\$ 312,476	\$ 156,118

8. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

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

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

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

8. OTHER POST-EMPLOYMENT BENEFITS (Continued)

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

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

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml#CAFR>, by writing OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 1-800-222-7377.

Funding Policy

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In fiscal year 2016, the Foundation contributed at a rate of 14 percent of earnable salary. The Ohio Revised Code currently limits the employer contribution rate not to exceed 14 percent of covered payroll. Active member contributions do not fund health care.

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined Plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2015. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0% for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2015 was 4.5%.

In fiscal year 2016, the Foundation's required contributions to OPERS totaled \$31,927. Of this amount, \$4,561 was allocated to fund health care. The portion of the Foundation's fiscal year 2015 and 2014 contributions that were allocated to fund health care plan were \$4,434 and \$3,038, respectively.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

9. LEASES

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

For fiscal year 2016, total operating lease expenses for the office space was \$21,747. The following schedule details future lease payments of the Foundation.

<u>Term</u>	<u>Office Space</u>
Fiscal year 2017	\$ 21,747

10. CONTINGENCIES

As of June 30, 2016, 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.

11. SETTLEMENT RECEIVABLE

On August 17, 2015, a consent judgment was entered in favor of the Foundation whereas Spine Center Chiropractic agreed to damages in the amount of \$60,000. Spine Center Chiropractic was required to pay \$5,000 by September 15, 2015, \$500 per month the 15th of each month beginning September 2015 and continuing for 29 consecutive months, thereafter, and \$5,000 before February 15, 2018 for a total amount paid of \$25,000.

If Spine Center Chiropractic makes all payments on time the Judgment shall be considered satisfied. If, however, Spine Center Chiropractic fails to make or is late in making any of the payments, a Judgment shall be entered against Spine Center Chiropractic in the full amount of \$60,000 (minus any payments already made) which will become immediately due and payable.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

12. EXPLANATION OF ADJUSTMENTS

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

Governmental Fund Balance Sheet/Statement of Net Position

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the Special Revenue Fund column; however, capital assets are reported in the Statement of Net Position column		\$25,324
Receivables that are not available to pay for current period expenditures are unavailable in the Special Revenue Fund column		
	Accrued Interest	(\$40,367)
	Settlement	(\$14,500)
Long-term liabilities, such as net pension liability and compensated absences, are not due and payable in the current period and, therefore, are not reported in the Special Revenue Fund column. However, long-term liabilities are reported in the Statement of Net Position column.		
	Compensated Absences	\$38,742
	Net Pension Liability	\$312,476
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
	Deferred Outflow of Resources – Pension Plan Investments	\$91,848
	Deferred Outflow of Resources – Employer Contributions	\$15,201
	Deferred Outflow of Resources – Change in Proportionate Share	\$3,104
	Deferred Inflow of Resources – Pension Plan Experience	\$6,038

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

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the Special Revenue Fund column.		\$16,886
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. No depreciation expense is recorded in the Special Revenue Fund column.		
	Capital Outlay	(\$1,029)
	Depreciation	\$10,092
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the Special Revenue Fund column.		
	Compensated Absences	(\$9,174)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
	Pension Expense	\$45,338
	Pension Contributions	(\$27,665)

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

13. CHANGE IN ACCOUNTING PRINCIPLES/ACCOUNTABILITY

For fiscal year 2016, the Foundation has implemented the following:

GASB Statement No. 72 "Fair Value Measurement and Application" enhances comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also enhances fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The implementation of this statement did not have a significant effect on the financial statements of the Foundation.

GASB Statement No. 76 "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments" improves financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in non-authoritative literature. The implementation of this statement did not have an effect on the financial statements of the Foundation.

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

LAST THREE YEARS (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportion of the net pension liability	0.001804%	0.001765%	0.001765%
Proportionate share of the net pension liability	\$ 312,476	\$ 212,879	\$ 208,071
Covered-employee payroll	\$ 228,050	\$ 217,108	\$ 203,338
Proportionate share of the net pension liability as a percentage of covered-employee payroll	137.02%	98.05%	102.33%
Plan fiduciary net position as a percentage of the total pension liability	81.08%	86.45%	86.36%

(1) Information prior to 2013 is not available.

Amounts presented as of the Foundation's measurement date, which is December 31.

**SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS
 OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM**

LAST THREE YEARS (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 27,366	\$ 26,053	\$ 26,434
Contributions in relation to the contractually required contribution	\$ 27,366	\$ 26,053	\$ 26,434
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 228,050	\$ 217,108	\$ 203,338
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available.

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*

Independent Auditor's Report

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

We have audited, in accordance with the 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, the financial statements of the governmental activities and the special revenue fund of the Southern Ohio Agricultural and Community Development Foundation, (the Foundation), a department of the State of Ohio, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated September 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Robyn Roush, CPA, CITP, Vice-President/Owner
Millhuff-Stang, CPA, Inc.
Chillicothe, Ohio
September 28, 2016

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Dave Yost • Auditor of State

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUND

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 8, 2016**