



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

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

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REPORT OF INDEPENDENT ACCOUNTANTS

Southern Ohio Agricultural and Community Development Foundation
100 South High Street, 2nd Floor
Hillsboro, Ohio 45133

To the Foundation:

We have audited the Balance Sheet of the Southern Ohio Agricultural and Community Development Foundation (the Foundation) as of June 30, 2001 and the related Statement of Revenues, Expenditures and Changes in Fund Balance for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southern Ohio Agricultural and Community Development Foundation as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the Foundation adopted the Governmental Accounting Standards Board Statement No. 33 during the year ended June 30, 2001.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2001 on our consideration of the Southern Ohio Agricultural and Community Development Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

JIM PETRO
Auditor of State

September 14, 2001

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SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

**BALANCE SHEET
JUNE 30, 2001**

ASSETS

Cash	\$610
Investments	21,220,282
Tobacco Settlement Receivable	15,050,439
Interest Receivable	<u>567,836</u>
Total Assets	<u><u>\$36,839,167</u></u>

LIABILITIES AND FUND BALANCE

Accounts Payable	\$80,311
Wages Payable	<u>2,743</u>
Total Liabilities	83,054
Fund Balance - Reserved	<u>36,756,113</u>
Total Liabilities and Fund Balance	<u><u>\$36,839,167</u></u>

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

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2001**

Revenues:

Tobacco Settlement Revenues	\$34,939,574
Interest Income	<u>1,951,983</u>
Total Revenues	<u>36,891,557</u>

Expenditures:

Administrative	<u>135,444</u>
Excess of Revenues Over Expenditures	36,756,113
Fund Balance, July 1, 2000	<u>0</u>
Fund Balance, June 30, 2001	<u><u>\$36,756,113</u></u>

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Revised Code Section 183.12 and is enabled through R.C. 183.11 to R.C. 183.17, inclusive. The Foundation's Board is composed of twelve voting members as set forth in Section 183.12 of the Ohio Revised Code. Members include six active farmers and two persons with community development experience, all from Ohio's major tobacco growing counties, and four state officials sitting ex officio.

Method of Operation

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

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

The endowment fund is responsible for covering administrative expenditures such as staff salaries, equipment purchases, rental payments and program expenses. As a result of the legislation defining the Foundation's employees as state employees the State established an appropriation to provide payroll for state employees of the foundation, which is reimbursed by the Foundation's endowment fund. An appropriation amount of \$500,000 was established in anticipation of hiring several employees during the year; however, only one employee was hired late in the year which resulted in cash-basis expenditures of approximately \$26,000 during fiscal year 2001. Since the assets of the foundation are required to be maintained in unappropriated custodial accounts no budgetary monitoring or reporting is required.

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.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accompanying financial statements of the Southern Ohio Agricultural and Community Development Foundation present the financial position and results of operations of the Foundation. The financial statements, as of June 30, 2001, and for the year then ended, conform with accounting principles generally accepted in the United States of America as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification) documents these principles. The Foundation's significant accounting policies are as follows.

A. 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.

B. Basis of Presentation - Fund Accounting

The foundation uses a special revenue fund to report its financial position and results of operations. The special revenue fund is an independent fiscal and accounting entity with a self-balancing set of accounts and accounts for revenues sources that are legally restricted to expenditure for specific purposes.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Governmental funds are accounted for using a flow of current financial resources measurement focus. Under this measurement focus, operating statements present increases (i.e., revenues) and decreases (i.e., expenditures) in net current assets, and unreserved fund balance is a measure of available expendable resources.

The modified accrual basis of accounting has been applied to the special revenue fund. 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.

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 include tobacco settlement revenues and interest income.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash

Cash of the Foundation includes amounts held in a checking account at a financial institution and at June 30, 2001, the Foundation had \$610 on deposit. The Foundation does not require these to be collateralized but are fully collateralized by the financial institution.

E. Investments

Investments of the Foundation include amounts on deposit in the Treasurer of State's endowment fund custodial account. Custodial account deposits are maintained within the State Treasury Asset Reserve of Ohio (STAROhio), whereby the deposits are pooled with other deposits and reinvested daily. The investments are considered short-term and are reported at cost which approximate the market values. At June 30, 2001, the Foundation reported \$21,220,282 in investments. The pooled deposits at StarOhio 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 STAROhio, a statewide external investment pool authorized under Section 135.45, Ohio Revised Code.

The Foundation's investments are normally categorized to give an indication of the level of custodial risk assumed by the entity as of June 30, 2001. Category 1 includes investments that are insured or registered or for which the securities are held by the Foundation or its agent in the Foundation's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the Foundation's agent but not in the Foundation's name. Investments with STAROhio are not required to be categorized due to their nature.

GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, requires disclosure of assets and liabilities arising from securities lending transactions. STAROhio investments are subject to lending transactions by the Treasurer of State. The STAROhio Fund issues a separate audited financial report and resulting assets and liabilities are not reported on the Foundation's balance sheet.

F. Fixed Assets

Fixed asset purchases are included within the operating expenditures line item and no depreciation is recorded on these assets. During fiscal year 2001, the fixed assets purchased by the Foundation which exceeded \$300 or more included a vehicle purchase of \$24,390 and a copier for \$13,860. Although the Foundation maintains title to these assets the Foundation is still considered part of the primary government of the State of Ohio for reporting purposes, and as such, the responsibility for reporting these assets within a general fixed asset account group will remain with the State of Ohio.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Revenues and Receivables

Tobacco Settlement Revenues

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

Revised Code Section 183.02 (C) stipulates the payments to the Foundation from the Agreement shall be as follows:

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

Before fiscal year 2011 begins, the Foundation must report to the Governor and Legislature the progress the Foundation has made towards its goals and whether a need for additional funding still exists. At this point, the Governor and Legislature will decide whether funding to the Foundation will be continued. Funding estimates for receiving monies under the Master Tobacco Settlement Agreement were only projected through the year 2025; however, under the terms of the Agreement payments from the tobacco product manufacturers are to continue into perpetuity.

The State of Ohio received 7.1 percent less than the pre-adjusted base pay amount contained in the Agreement, resulting in the Foundation receiving less tobacco settlement revenues than anticipated due to adjustment factors such as inflation and volume. Revised Code Section 183.02 (I) further states that future year revenues from the Agreement are contingent upon sufficient proceeds being received to cover designated revenue set asides for the Education Facilities Trust and Endowment Funds. The Foundation recognizes a receivable for tobacco settlement revenues on the date the payment is received by the State since the revenue is both measurable and available. The Foundation's tobacco settlement receivable at June 30, 2001, was \$15,050,439.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Revenues and Receivables (Continued)

Interest Income

The Foundation receives interest income from the State of Ohio for any earnings resulting from the time the State receives the master tobacco settlement money until the time in which the monies are paid into the Foundation's custodial account. In addition, the Foundation earns interest income from deposits with STAROhio and funds held in a checking account at a financial institution. The Foundation recognizes this revenue in the period in which it is measurable and available. The Foundation's interest receivable at June 30, 2001, was \$567,836.

H. Expenditures and Accounts Payable

Grants and Loans

During fiscal year 2001, no grants or loans were disbursed as a result of the recently created Foundation and appointment of Board members and the Executive Director. Currently, the Board is developing guidelines to oversee the implementation and monitoring of future grant and loan activity. In future years, the majority of expenditure activity will be comprised of these type of activities.

Administrative expenditures

Administrative expenditures include operating and overhead items such as salaries, equipment purchases, start-up costs incurred by Department of Agriculture personnel, and other miscellaneous expenditures. Accounts payable relating to administrative expenditures at June 30, 2001 were \$80,311 (including \$58,364 to the Department of Agriculture and \$689 in building lease payable). Ohio Revised Code Section 183.30 (B) requires no more than five percent of total expenditures within a fiscal year shall be for administrative purposes, however, H.B. 94 eliminated the requirement in fiscal years 2001 and 2002, provided the Foundation has submitted a spending plan to the Controlling Board and the Controlling Board has approved the plan.

I. Wages Payable

Accrued payroll consists of \$2,743 in wages payable owed to a Foundation employee as of June 30, 2001. The State of Ohio, which governs employee leave benefits and policies, pays compensation to separated employees for leave balances accumulated during the employee's term of service. In accordance with Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*, the Foundation calculated the compensated absences liability on employees' fiscal year-end balances for vacation, sick, and compensatory leaves; however, compensated absences were not considered material for reporting purposes.

J. Fund Balance

In accordance with reporting requirements associated with GASB Statement No. 33's purpose restrictions, fund balance will be reported as reserved for the purpose which the resources are required to be used.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Self-Insurance

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

2. CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2001, the Foundation implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which became effective for fiscal years beginning after June 15, 2000. GASB Statement No. 33 requires the Foundation to report nonexchange transactions involving financial or capital resources. Nonexchange transactions occur when an entity gives (or receives) value without directly receiving (or giving) equal value in return.

Implementation of GASB Statement No. 33 during the Foundation's initial year of existence resulted in the recognition of voluntary nonexchange transactions associated with tobacco settlement revenues and associated interest received from the Tobacco Master Settlement Agreement in the amount of \$36,891,557 during fiscal year 2001.

3. PENSION PLAN

The Foundation's only full-time employee participates in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Required employee and employer contributions to PERS are established under the Ohio Revised Code and are based on percentages of covered employees' gross salaries, with the contribution rate percentages being calculated annually by the Retirement Board's actuaries. The employee contribution rate is 8.5 percent of covered payroll costs; the employer contribution rate was 13.31 percent of the covered payroll costs for the employee's pay periods April 21, 2001 to June 30, 2001. Employer contributions required and made to PERS during the audit period was \$3,046, or 13.31 percent of the covered payroll of \$22,877.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

4. OTHER POST-EMPLOYMENT BENEFITS

The Public Employees Retirement System of Ohio (PERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post-retirement health care based on authority granted by State statute. The 2000 employer contribution rate was rolled back to 10.65 percent of covered payroll; 4.30 percent was the portion that was used to fund health care for 2000. For 1999, the contribution rate was 13.31 percent of covered payroll; 4.20 percent was the portion that was used to fund health care.

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

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

The number of active contributing participants was 401,339. The Foundation's actual contributions for 2001 which were used to fund other postemployment benefits were \$961 (assuming a rate of 4.20 percent in calendar year 2001). PERS's net assets available for payment of benefits at December 31, 1999, (the latest information available) were \$10,805.5 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$12,473.6 million and \$1,668.1 million, respectively.

For 2000, PERS elected to return to an actuarially pre-funded type of disclosure because it is a better presentation of PERS's actual funding methodology. Since 1997, disclosures had been based on a pay-as-you-go funding basis.

5. LEASES

The Foundation entered into a lease agreement for office space. Leased property not having elements of ownership are classified as operating leases and are recorded as expenditures when payable. Total operating lease expense for fiscal year 2001 was \$689. At June 30, 2001, the Authority had future minimum lease payments under operating leases with a remaining term in excess of one year as follows:

2002	\$5,508
2003	<u>5,508</u>
Total	\$11,016

According to the Foundation's lease agreement, the Foundation has the option to renew the lease for the same terms and conditions during fiscal years 2004 and 2005, provided the Foundation is in compliance with the existing terms of the contract.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

6. CONTINGENCIES

As of June 30, 2001, the Foundation's management, in consultation with the 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.



STATE OF OHIO
OFFICE OF THE AUDITOR

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

Southern Ohio Agricultural and Community Development Foundation
100 South High Street, 2nd Floor
Hillsboro, Ohio 45133

We have audited the financial statements of the Southern Ohio Agricultural and Community Development Foundation, (the Foundation) as of and for the year ended June 30, 2001, and have issued our report thereon dated September 14, 2001 wherein we noted the Foundation adopted GASB 33. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. Our test results disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the Foundation in a separate letter dated September 14, 2001.

This report is intended for the information and use of the Foundation, the Foundation's Board which serves as the equivalent to an audit committee, management of the State of Ohio and the Ohio Legislature, and is not intended to be and should not be used by anyone other than these specified parties.

JIM PETRO
Auditor of State

September 14, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

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SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 2, 2001**