

Southern Ohio Diversification Initiative

Pike County, Ohio

October 1, 2004 Through September 30, 2005

Fiscal Year Audited Under GAGAS: 2005

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**Auditor of State
Betty Montgomery**

Members of the Board
Southern Ohio Diversification Initiative
1864 Shyville Road
Piketon, Ohio 45661-9749

We have reviewed the *Independent Auditor's Report* of the Southern Ohio Diversification Initiative, Pike County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period October 1, 2004 through September 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

May 26, 2006

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*Southern Ohio Diversification Initiative
Pike County, Ohio*

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INDEPENDENT AUDITOR'S REPORT

Members of the Board
Southern Ohio Diversification Initiative
1864 Shyville Road
Piketon, Ohio 45661-9749

We have audited the accompanying statement of financial position of Southern Ohio Diversification Initiative as of September 30, 2005, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Southern Ohio Diversification Initiative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller 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 Southern Ohio Diversification Initiative as of September 30, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2006 on our consideration of the Southern Ohio Diversification Initiative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Balestra, Harr & Scherer, CPAs, Inc.

May 12, 2006

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Southern Ohio Diversification Initiative

Pike County

STATEMENT OF FINANCIAL POSITION

September 30, 2005

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 2,454,639
Accounts receivable	10,200
Prepaid expenses	3,948
Deposits	<u>36</u>
TOTAL CURRENT ASSETS	<u><u>2,468,823</u></u>

PROPERTY AND EQUIPMENT

Land	2,011,600
Infrastructure	2,900,880
Vehicles	48,739
Furniture and fixtures	2,430
Less: Accumulated depreciation	<u>(158,293)</u>
NET PROPERTY AND EQUIPMENT	<u><u>4,805,356</u></u>

TOTAL ASSETS \$ 7,274,179

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	2,661
Due on Zahn's Corner	100,000
Accrued expenses	14,165
Notes payable	<u>198,000</u>
TOTAL CURRENT LIABILITIES	314,826

NET ASSETS

Unrestricted	<u><u>6,959,353</u></u>
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TOTAL LIABILITIES AND NET ASSETS \$ 7,274,179

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

Southern Ohio Diversification Initiative

Pike County

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2005

Changes in Unrestricted Net Assets

Revenues, Gains, and Other Support:

Rent Income	\$ 43,800
Other	400
Interest Income	44,790
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	<u>88,990</u>

Expenses:

Program Expenses	90,307
Fringe Benefits	49,268
Indirect Costs	157,209
Depreciation	70,295
TOTAL EXPENSES	<u>367,079</u>

DECREASE IN NET ASSETS (278,089)

Net assets, beginning of year 7,237,442

Net assets, end of year \$ 6,959,353

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

Southern Ohio Diversification Initiative

Pike County

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2005

Cash Flows From Operating Activities:

Cash received from Other Sources	\$ 43,600
Cash paid to Suppliers	(354,499)
Cash paid to Employees for Services and Benefits	(47,467)
Net Cash Provided (Used) by Operating Activities	<u>(358,366)</u>

Cash Flows From Capital and Related Financing Activities:

Fixed Asset Acquisitions	(432,842)
Note Proceeds	<u>198,000</u>
Net Cash Used By Capital and Related Financing Activities	<u>(234,842)</u>

Cash Flows From Investing Activities:

Interest Income	<u>44,790</u>
Net Cash Provided By Investing Activities	<u>44,790</u>

Net Decrease In Cash	(548,418)
Cash At The Beginning Of Year	<u>3,003,057</u>
Cash At End Of Year	<u>\$ 2,454,639</u>

Reconciliation of Change in Net Assets to Net Cash Provided (Used) By Operating Activities:

Net Loss	\$ (278,089)
Depreciation	70,295
Interest Income Not Included in Operating Activities	(44,790)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities:	
Increase/(Decrease) in Accounts Payable	(109,741)
Increase/(Decrease) in Accrued Liabilities	1,801
(Increase)/Decrease in Accounts Receivable	(600)
(Increase)/Decrease in Prepaid Expenses	<u>2,758</u>
Total Adjustments	<u>(105,782)</u>
Net Cash Used By Operating Activities	<u>\$ (358,366)</u>

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

SOUTHERN OHIO DIVERSIFICATION INITIATIVE
PIKE COUNTY

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

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

B. BASIS OF ACCOUNTING

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

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

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

C. FINANCIAL STATEMENT PRESENTATION

SFAS No. 117, *Financial Statements of Not-For-Profit Organizations*, requires that the amounts for each of three classes of net assets: unrestricted, temporarily restricted and permanently restricted, be presented in an aggregated statement of financial position and that the amounts of changes in each of those classes of net assets be presented in a statement of activities. This statement requires that resources be classified into three net asset categories according to donor-imposed restriction. A description of each of the categories is as follows:

Unrestricted Net Assets

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

Temporarily Restricted Net Assets

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

Permanently Restricted Assets

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

When a donor restriction expires, that is, when a stipulated time restriction expires or purpose restriction is accomplished, restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

SOUTHERN OHIO DIVERSIFICATION INITIATIVE
PIKE COUNTY

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. COMPENSATED ABSENCES

Accumulated vacation leave and accumulated compensatory time are recorded as an expense and liability of the Initiative as the benefits accrue to the employees. Sick leave is accrued at 3.7 hours of sick leave per pay period to a maximum accrual of 960 hours. Vacation leave is accrued according to years of service with a maximum accrual of 120 hours.

E. CASH & CASH EQUIVALENTS

The Initiative's cash and cash equivalents are considered to be cash on hand and deposits.

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

F. FIXED ASSETS

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

<u>Description</u>	<u>Estimated Lives</u>
Infrastructure	40 years
Vehicles	5 years
Furniture & Fixtures	7 years

G. INCOME TAXES

The Initiative, is a not for profit corporation and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Initiative is also exempt from Ohio income tax.

H. ESTIMATES

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

NOTE 2 - CASH AND INVESTMENTS

Protection of part of the Initiative's deposits is provided by the Federal Deposit Insurance Corporation (FDIC).

Deposits At year end, the carrying amount of the Initiative's deposits was \$2,454,639 and the bank balance was \$2,466,609. Of the bank balance:

1. \$100,000 was covered by federal depository insurance.
2. \$2,366,609 was collateralized by specific investments held in the name of the Initiative by a third party trustee.

SOUTHERN OHIO DIVERSIFICATION INITIATIVE
PIKE COUNTY

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005
(Continued)

NOTE 3 – NOTES PAYABLE

During fiscal year 2005, the Initiative issued a 105 day note for the purpose of financing the development of the industrial park. This note is backed by the full faith and credit of the Initiative. The entire principal and interest of \$8,118 is due in fiscal year 2006.

	Balance 12/31/04	Additions	Deletions	Balance 12/31/05
Bank Note, 4.1 %	\$0	198,000	0	\$198,000

NOTE 4 - RISK MANAGEMENT

The Initiative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2005, the Initiative contracted with Zurich America for real property, building contents, and vehicle insurance coverage.

Coverages provided by the program are as follows:

General Liability	\$2 million *Annual Aggregate Limit
Automobile	\$1 million
Property	\$12 thousand
Inland Marine	\$ 6 thousand
Crime	\$500 thousand
Directors & Officers Liability	\$1 million
Umbrella	\$2 million

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

NOTE 5 - PENSION PLAN

All employees of the Initiative contribute into a simple IRA, a privately defined benefit pension plan. The Initiative contributes 3% of an employee's gross wages into the plan. An hourly employee must work six months prior to becoming eligible for the plan. A member is fully vested immediately and can retire at the age of 62. The Initiative's contributions to the Plan for the year ended September 30, 2005 were \$3,103.

SOUTHERN OHIO DIVERSIFICATION INITIATIVE
PIKE COUNTY

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005
(Continued)

NOTE 6 - CONTINGENCIES

Grants

The Initiative received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Initiative. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Initiative at September 30, 2005.

NOTE 7 – RELATED ENTITY

The Initiative has a controlling financial interest in Zahn's Corner Partners, LLC. This limited liability company, formed to initiate a meaningful redevelopment effort for the expansion of Zahn's Corner, had no financial activity in fiscal year 2005. The Initiative has the option under FAS-94, *Consolidation of All Majority Owned Subsidiaries* to not consolidate if there is not a material effect on the Initiative's financial statements. Since there is still a \$100,000 loan outstanding to this limited liability company, the Initiative has elected not to consolidate Zahn's Corner Partners, LLC into the Initiative's financial statements as the effect of consolidation would not be material to the financial statements of the Initiative.

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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*

Members of the Board
Southern Ohio Diversification Initiative
1864 Shyville Road
Piketon, Ohio 45661-9749

We have audited the financial statements of Southern Ohio Diversification Initiative as of and for the year ended September 30, 2005, and have issued our report thereon dated May 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Southern Ohio Diversification Initiative'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 an opinion 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts 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.

Compliance and Other Matters

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

Southern Ohio Diversification Initiative
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*
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This report is intended solely for the information and use of the audit committee, management, and Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

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Balestra, Harr & Scherer, CPAs, Inc.

May 12, 2006



**Auditor of State
Betty Montgomery**

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**SOUTHERN OHIO DIVERSIFICATION INITIATIVE
PIKE COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 13, 2006**