



**Auditor of State
Betty Montgomery**

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

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**Auditor of State
Betty Montgomery**

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying financial statements of the Southern Ohio Agricultural and Community Development Foundation (the Foundation), State of Ohio, as of and for the year ended June 30, 2003, as listed in the table of contents. 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.

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.

As discussed in Note 1, the financial statements present only the activity of the Foundation, a portion 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 enterprise funds in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southern Ohio Agricultural and Community Development Foundation, State of Ohio, as of June 30, 2003, and the results of its operations 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 October 7, 2003 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.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

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

BETTY MONTGOMERY
Auditor of State

October 7, 2003

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Year Ended June 30, 2003

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, 2003. Please read the overview in conjunction with the Foundation's basic financial statements, which follow.

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

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2003 are as follows:

- The Foundation continued its grant programs and disbursed more than \$10.9 million in grants to Southern Ohio farmers. Grants were awarded for 1) Educational Assistance; 2) Lime Program; 3) Agricultural Easement; 4) Grain Handling/ Livestock Systems; 5) Economic Development; and 6) Agricultural Expansion/ Diversification.
- Administrative expenses totaled \$846,458.
- The Foundation received \$6 million in disputed tobacco settlement funds from Brown vs. Williams. This was a one time payment.
- \$15.8 million was received under Amended Substitute Senate Bill No. 242 to be disbursed, less administrative expenses, to eligible tobacco farmers for indemnification payments.
- Interest earned was \$762,731.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Year Ended June 30, 2003

Unaudited

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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

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

FINANCIAL ANALYSIS OF THE FOUNDATION

The following is a summary of the Foundation's net assets as of June 30, 2003 compared to June 30, 2002.

Net Assets at June 30

	<u>2003</u>	<u>2002</u>	<u>% Change</u>
Assets			
Cash & Investments	\$29,142,198	\$33,121,528	(12.02%)
Collateral on Lent Securities	6,276,332	2,366,948	165.17%
Capital Assets	111,642	131,309	(14.98%)
Total Assets	<u>35,530,172</u>	<u>35,619,785</u>	(.25%)
Liabilities			
Obligations Under Lent Securities	6,276,332	2,366,948	165.17%
Accounts Payable	98,708	2,270	4248%
Wages Payable	14,321	11,960	19.74 %
Compensated Absences	22,276	14,390	54.8%
Total Liabilities	<u>6,411,637</u>	<u>2,395,568</u>	167.65%
Net Assets			
Invested in Capital Assets, net of related debt	111,642	131,309	(14.98%)
Restricted	29,006,893	33,092,908	(12.35%)
Total Net Assets	<u>29,118,535</u>	<u>\$33,224,217</u>	(12.36%)

Total net assets of the Foundation decreased by \$4,032,929 during fiscal year 2003. This decrease is mainly the result of awarding grants of nearly \$11 million in fiscal year 2003. This was offset by the receipt of about \$6 million in disputed tobacco settlement funds from the State of Ohio. All of the Foundation's net assets are restricted for the use of grants and loans, and administrative expenditures.

The State of Ohio pools all of its agencies' cash and investments for security lending investing. The increase in collateral on lent securities and the related obligations under lent securities is due to the State of Ohio expanding its security lending program. The amount recorded represents the Foundation's share of Ohio's total security lending holdings.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Year Ended June 30, 2003

Unaudited

The following is a summary of the Foundation's Statement of Activities for the year ending June 30, 2003 compared to the year ending June 30, 2002.

Statement of Activity for the year ending June 30

	<u>2003</u>	<u>2002</u>	<u>% Change</u>
Revenues			
Tobacco Income From the State of Ohio	\$21,892,089	\$122,744	17,736%
Interest Income	762,731	807,227	(5.5%)
Total Revenues	<u>22,654,820</u>	<u>929,971</u>	2,336%
Expenses			
Administrative	846,458	460,653	83.75%
Grants	10,942,237	4,039,464	171%
Indemnification Project	14,971,807	0	-
Total Expenses	<u>26,760,502</u>	<u>4,500,117</u>	495 %
 Change in Net Assets	 (4,105,682)	 (3,570,146)	 15%
Net Assets – Beginning of Year	<u>33,224,217</u>	<u>36,794,363</u>	(9.7%)
Net Assets – End of Year	<u>\$29,118,535</u>	<u>\$33,224,217</u>	(12.36%)

Payments under the Tobacco Master Settlement Agreement were not received as originally scheduled for fiscal years 2002 and 2003. These payments were deferred until fiscal years 2013 and 2014. Instead, in 2003 the Foundation received \$15.8 million in other tobacco settlement monies designated specifically for an Indemnification Payment Program. In addition, the Foundation received another \$6 million in disputed tobacco settlement monies.

Administrative expenses increased due to the Foundation becoming fully staffed in fiscal year 2003. Grant expenses increased as the Foundation added to its existing Grants program expanding the types of grants awarded from two to six. Finally, the Foundation made \$14.9 million in indemnification payments using the funding received as noted above.

BUDGET VARIANCES IN THE GENERAL FUND

The majority of the Foundation's assets are maintained in unappropriated accounts requiring no budgetary monitoring or reporting. The remaining assets of the Foundation are maintained in two special revenue funds within the Central Accounting System (CAS), CAS Funds 5M9 and K87. Although appropriated, CAS Funds 5M9 and K87 are not major special revenue funds, and therefore, budgetary reporting is not required.

CAPITAL ASSETS

At the end of fiscal year 2003, the Foundation had \$111,642 invested in net capital assets, as detailed below:

Capital Assets at June 30

	<u>2003</u>	<u>2002</u>	<u>% Change</u>
Vehicles	\$ 47,895	\$ 61,088	(21.6%)
Equipment	32,929	31,698	3.88%
Computer Software	30,818	38,523	(20%)
Total Capital Assets	<u>\$111,642</u>	<u>\$131,309</u>	(14.98%)

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Year Ended June 30, 2003

Unaudited

Total net capital assets for the Foundation decreased by \$19,667 during fiscal year 2003. The decrease is mostly due to current depreciation expense offset by the purchase of some equipment.

ECONOMIC FACTORS

The Foundation plans to continue to move forward with its mission "To help create and enhance economic opportunities for Ohio's tobacco farm families and their rural communities. Monies not used for administrative expenses and programs will be available for new programs as they evolve and are approved, or for investment." Section 183.15 of the Ohio Rev. Code requires the Foundation to keep a current plan to develop the means for tobacco growers to grow other agricultural products voluntarily.

For fiscal year 2004, the Foundation Board has approved the following grant programs to tobacco farmers in the 22 southern counties of Ohio serviced by the Foundation:

- \$2 million for Educational Assistance. Maximum individual grants range from \$1,000 to \$3,000, with families limited to \$10,000 in educational assistance per year.
- \$3 million for Agricultural Diversification. Agricultural Diversification Projects are designed to help those who voluntarily decide to move away from their dependence on tobacco or replace lost income from tobacco.
- \$3 million for Agricultural Projects. The projects include livestock systems, grain handling, livestock genetics, feeding systems & forage improvements. This program will assist eligible producers in making capital investments to achieve greater efficiencies for additional income over time.
- \$4 million for economic development. This program is designed to assist in strategic investments in communities that have been adversely affected by the reduction in the demand for tobacco. The emphasis is job creation and job retention.

Amended Senate Bill No. 242 provided the Foundation \$16.25 million, less administrative expenses, for an Indemnification Payment Project for tobacco growers that are quota owners, quota owners/producers, or grower/tenants, and are located in the 22 southern Ohio Counties. The funding was appropriated for and received in fiscal year 2004.

For fiscal year 2003, the anticipated transfer to the Foundation of master settlement agreement funds, was not received. The same situation occurred for fiscal year 2002. Instead, in accordance with amended Senate Bill 242, other tobacco settlement monies, which are designated specifically for the Indemnification Payment Program, described above, were transferred to the Foundation in 2003 and are expected again in 2004. Ohio Rev. Code Section 183.02 (C)(2), as amended, provides that amounts due under the above payment schedule for 2002 and 2003, shall be transferred to the Foundation in fiscal years 2013 and 2014, respectively.

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 Soudra Weaver, 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 ASSETS

As of June 30, 2003

	Special Revenue Fund	Adjustments (See Note 10)	Statement of Net Assets
	<u> </u>	<u> </u>	<u> </u>
Assets:			
Cash	\$ 427,472	\$ —	\$ 427,472
Investments.....	28,711,673	—	28,711,673
Collateral on Lent Securities.....	6,276,332	—	6,276,332
Capital Assets, net of accumulated depreciation.....	—	111,642	111,642
Amount on Deposit for Compensated Absences.....	3,053	—	3,053
Total Assets.....	<u>35,418,530</u>	<u>111,642</u>	<u>35,530,172</u>
 Liabilities:			
Accounts Payable.....	22,762	75,946	98,708
Wages Payable.....	14,321	—	14,321
Obligations under Lent Securities.....	6,276,332	—	6,276,332
Compensated Absences:			
Due in one year.....	—	1,656	1,656
Due in more than one year.....	—	20,620	20,620
Total Liabilities.....	<u>6,313,415</u>	<u>98,222</u>	<u>6,411,637</u>
 Fund Balance/Net Assets:			
Reserved for Compensated Absences.....	3,053	(3,053)	—
Reserved for Indemnification Payments.....	574,018	(574,018)	—
Fund Balance Reserved.....	28,528,044	(28,528,044)	—
Total Fund Balance.....	<u>29,105,115</u>	<u>(29,105,115)</u>	—
Total Liabilities and Fund Balance.....	<u>\$ 35,418,530</u>		
 Net Assets:			
Invested in capital assets, net of related debt.....		111,642	111,642
Restricted for Indemnification Program.....		574,018	574,018
Restricted for Programs to Reduce Tobacco Use		28,432,875	28,432,875
Total Net Assets.....		<u>\$ 29,118,535</u>	<u>\$ 29,118,535</u>

The notes to the financial statements are an integral part of this statement.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE / STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2003

	Special Revenue Fund	Adjustments (See Note 10)	Statement of Activities
Revenues:			
Indemnification Payment Program.....	\$15,835,000	—	\$15,835,000
Tobacco Settlement Income from the State of Ohio.....	6,057,089	—	6,057,089
Interest Income.....	763,953	(1,222)	762,731
Total Revenues.....	22,656,042	(1,222)	22,654,820
 Expenditures/Expenses:			
Current:			
Salaries and Benefits.....	346,655	7,886	354,541
Purchased Services.....	285,957	75,946	361,903
Materials, Supplies, and Other.....	101,243	—	101,243
Depreciation.....	—	28,771	28,771
Grants.....	10,942,237	—	10,942,237
Indemnification Project.....	14,971,807		14,971,807
Capital Outlay.....	9,104	(9,104)	—
Total Expenditures/Expenses.....	26,657,003	103,499	26,760,502
Excess of Revenues Over Expenditures..	(4,000,961)	4,000,961	—
Change in Net Assets.....	—	(4,105,682)	(4,105,682)
 Fund Balance/Net Assets:			
Beginning of the year.....	33,106,076	118,141	33,224,217
End of the year.....	\$ 29,105,115	\$ 13,420	\$ 29,118,535

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, 2003

1. DESCRIPTION OF THE REPORTING ENTITY

Introduction

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

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

Method of Operation

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

To carry out the duties of the Foundation, a separate endowment fund was created in the custody of the Treasurer of State, but not part of the State Treasury. The endowment fund consists 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. Disbursements from the fund shall be paid by the Treasurer of State only upon instruments duly authorized by the board of trustees of the Foundation or its designee. No disbursements shall be used for the direct production costs of growing tobacco.

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

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

Reporting Entity

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

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Southern Ohio Agricultural and Community Development Foundation present the financial position and results of operations of the Foundation. The financial statements, as of June 30, 2003, and for the year then ended, conform with accounting principles generally accepted in the United States of America as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification) documents these principles.

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

A. Fund Accounting

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

B. Measurement Focus and Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (e.g., revenues) and decreases (e.g., expenditures) in net current assets, and unreserved fund balance is a measure of available expendable resources. This measurement focus has been applied to the "Special Revenue Fund" columns on the accompanying financial statements.

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

C. Basis of Accounting

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

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Under the modified accrual basis, expenditures are recorded when related fund liabilities are incurred, which are recognized as expenditures when due. Significant revenue sources susceptible to accrual under the modified accrual basis of accounting may include master settlement agreement revenues received from the State of Ohio and interest income.

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

D. Budgetary Data

The majority of the Foundation's assets are maintained in unappropriated accounts requiring no budgetary monitoring or reporting. The remaining assets of the Foundation are maintained in two special revenue funds within the Central Accounting System (CAS), CAS Funds 5M9 and K87. Although appropriated, CAS Funds 5M9 and K87 are not major special revenue funds, and therefore, budgetary reporting is not required.

E. Cash

Cash of the Foundation includes amounts held in a custodial account with the Treasurer of State, CAS Funds 5M9 and K87, indemnification amounts on deposit with Bank One, and petty cash.

F. Investments

Investments of the Foundation consist of amounts maintained within the State Treasury Asset Reserve of Ohio (STAR Ohio), whereby the deposits are pooled with other deposits and reinvested daily. The investments are considered short-term and are reported at cost, which approximates market values. Investments of the Foundation are reported at fair value, which includes accrued interest receivable. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. 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.

GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, requires disclosure of assets and liabilities arising from securities lending transactions. The Foundation's investments with the State's cash and investment pool and STAR Ohio are both subject to lending transactions by the Treasurer of State. In accordance with paragraph 9 of GASB Statement No. 28, the Foundation's recording of assets and liabilities for securities lending transactions is based on their share of the cash and investment pool, as of the balance sheet date, as calculated by the Office of Budget and Management.

G. Capital Assets and Depreciation

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

All reported capital assets of the Foundation are depreciated. Depreciation is computed using the straight-line method of depreciation over the applicable useful life of the asset and commences the year after the asset is purchased.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Revenues and Receivables

Master Settlement Agreement Income

Master settlement agreement income received from the State of Ohio comprise the Foundation's primary source of revenue. These revenues are derived from the 1998 Tobacco Master Settlement Agreement (the Agreement) that was entered into by the State of Ohio, along with numerous other states, against major tobacco product manufacturers. The Agreement stipulates the conditions and calculations to be applied in order for each state to receive its annual allotments. Ohio Rev. Code Section 183.02 requires all payments received by the State to be deposited into the Treasurer of State's Tobacco Master Settlement Agreement Fund (Fund 087) and the payments and related interest are to be distributed by the Office of Budget and Management in accordance with the distribution schedule.

Payments are credited to the Tobacco Master Settlement Agreement Fund in accordance with the following schedule stipulated by Ohio Rev. Code Section 183.02 (C), and subsequently transferred, though not necessarily in the same fiscal year, to the Southern Ohio Agricultural and Community Development Fund (Fund K87). The ownership of Fund K87 was transferred from the Department of Agriculture to the Foundation in fiscal year 2003.

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

For fiscal year 2002 and 2003, the anticipated transfer to the Foundation, pursuant to the above schedule, was not received. Instead, in accordance with amended Senate Bill 242, other tobacco settlement monies, which are designated specifically for an Indemnification Payment Program, were transferred to the Foundation in 2003, with remaining monies expected to be transferred in 2004. Ohio Rev. Code Section 183.02 (C)(2), as amended, provides that amounts due under the above payment schedule for 2002 and 2003, shall be transferred to the Foundation in fiscal years 2013 and 2014, respectively.

Before fiscal year 2011 begins, the Foundation must report to the Governor and Legislature the progress the Foundation has made towards its goals and whether a need for additional funding still exists. At this point, the Governor and Legislature will decide whether funding to the Foundation will be continued. Funding estimates for receiving monies under the Master Tobacco Settlement Agreement were only projected through the year 2025; however, under the terms of the Agreement payments from the tobacco product manufacturers are to continue into perpetuity. Ohio Rev. Code Section 183.02 (K) further states that future year revenues from the Agreement are contingent upon sufficient proceeds being received to cover designated revenue set asides for the Education Facilities Trust and Endowment Funds.

In fiscal year 2003, in addition to tobacco settlement monies received specifically for the Indemnification Payment Program, the Foundation received \$6.1 million in disputed tobacco settlement funds from Brown vs. Williams. This was a one time payment.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Revenues and Receivables (Continued)

Interest Income

The Foundation receives interest income from investments with STAR Ohio, deposit in CAS Funds 5M9 and K87, deposits with Bank One and custodial deposits with the Treasurer of State. In fiscal year 2003, the Foundation earned \$556,733 of interest income on STAR Ohio investments, \$195,019 on deposits in CAS Funds 5M9 and K87, \$7,296 on deposits with Bank One, and \$3,683 on custodial deposits with the Treasurer of State.

I. Expenditures and Accounts Payable

Administrative expenditures

Administrative expenditures include operating and overhead items such as salaries, equipment purchases, and other miscellaneous expenditures. Ohio Rev. Code Section 183.30 (B) requires no more than five percent of total expenditures within a fiscal year shall be for administrative purposes.

Administrative expenditures for fiscal year 2003 were \$846,458. Of this amount, \$289,175 is attributed to carrying out the Indemnification Payment Program. The remaining \$557,283 is attributed to administering the Foundation's other programs.

J. Compensated Absences

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

K. Fund Balance/Net Assets

In accordance with the reporting requirements associated with GASB Statement No. 33's purpose restrictions, fund balance/net assets will be reported as reserved/restricted for making grants or loans to qualifying individuals, public agencies, or privately owned companies and covering administrative expenditures of the Foundation.

L. Self-Insurance

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.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2003

3. DEPOSITS AND INVESTMENTS

Ohio Revised Code Section 183.08 (A) 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 following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*:

Deposits

At fiscal year end, the bank balance and carrying amount of the Foundation's deposits was \$427,472. Of the bank balance, \$215,110 was held on deposit by the State of Ohio, \$208,669 was maintained in a custodial account held by the Treasurer of State, and \$3,193 was on deposit with Bank One. The remaining \$500 represents petty cash maintained by the Foundation. The State of Ohio's deposits span all three categories of investment risk, all of which meet applicable collateralization requirements. Custodial balances are collateralized with securities held by the pledging financial institution's trust department or an agent in the State's name.

Investments

GASB Statement No. 3 requires that governments disclose the carrying amounts and market value of investments, classified by risk. Investments are to be categorized as either (1) insured or registered, or securities held by the Foundation or its agent in the Foundation's name, (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Foundation's name or (3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Foundation's name.

The Foundation's only investment at June 30, 2003 was STAR Ohio, which totaled \$28,711,673. STAR Ohio is an investment pool operated by the Treasurer of State and is unclassified since it is not evidenced by securities that exist in physical or book entry form.

4. FIXED/CAPITAL ASSETS

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

<u>Asset Category</u>	<u>Balance at 6/30/02</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/03</u>
Equipment	\$ 34,470	\$9,104	\$(1,224)	\$42,350
Vehicles	65,966	0	0	65,966
Computer Software	38,523	0	0	38,523
Subtotal	138,959	9,104	(1,224)	146,839
Accumulated Depreciation	(7,650)	(28,771)	1,224	(35,197)
Net Capital Assets	<u>\$ 131,309</u>	<u>\$(19,667)</u>	<u>\$0</u>	<u>\$111,642</u>

Depreciation is calculated using the straight-line basis over the estimated useful lives of the assets. The useful life for each asset category noted above is 5 years.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2003

5. COMPENSATED ABSENCES

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

Changes in compensated absences for the year ended June 30, 2003, are as follows:

<u>Balance at 6/30/02</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at 6/30/03</u>	<u>Amounts Due In One Year</u>
\$ 14,390	\$7,886	\$ 0	\$22,276	\$1,656

6. PENSION PLAN

All full-time employees participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer defined benefit pension plan. OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code establishes benefits. OPERS issues a stand-alone financial report that may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Employee and employer contributions to OPERS 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. Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2002 employer contribution rate was 13.31 percent. The Foundation's required contributions to PERS for the years ended June 30, 2003 and 2002 were \$36,060 and \$24,318, respectively. The full amount has been contributed for both years.

7. OTHER POST-EMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) 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 OPERS is set aside for the funding of post-retirement health care based on authority granted by State statute. The 2002 employer contribution rate was 13.31 percent, of which 5.0 percent was the portion that was used to fund health care for 2002.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2001, include a rate of return on investments of 8.0 percent, an annual increase in active employee total payroll of 4.0 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.0 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.

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2003

7. OTHER POST-EMPLOYMENT BENEFITS (Continued)

The number of active contributing participants was 402,041 as of December 31, 2001, the date the latest actuarial review was performed. The actual contribution and the actuarially required contribution amounts are the same. PERS' net assets available for payment of benefits at December 31, 2001, (the latest information available) were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$16.4 billion and \$4.8 billion, respectively.

8. LEASES

The Foundation entered into a lease agreement for office space. Leased properties not having elements of ownership are classified as operating leases and likewise are recorded as expenditures when payable. Total operating lease expense for fiscal year 2003 was \$16,524.

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, except that the base rent during said renewal terms would be negotiated, provided the Foundation is in compliance with the existing terms of the contract. The Foundation is in the process of renewing its lease through 2005 with expected future minimum lease payments totaling approximately \$16,500 in fiscal years 2004 and 2005.

9. CONTINGENCIES

As of June 30, 2003, 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.

10. EXPLANATION OF ADJUSTMENTS

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

Governmental Fund Balance Sheet/Statement of Net Assets

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the special revenue fund; however, capital assets are reported in the Statement of Net Assets column \$111,642

Long-term liabilities, such as for compensated absences are not due and payable in the current period and, therefore, are not reported in the special revenue fund. However, long-term liabilities are reported in the Statement of Net Assets column.

	Accounts Payable	(\$75,946)
	Compensated Absences	(\$22,276)
		(\$98,222)

SOUTHERN OHIO AGRICULTURAL AND COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2003

10. EXPLANATION OF ADJUSTMENTS (CONTINUED)

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

Interest received in the special revenue fund in fiscal year ending June 30, 2003 was reported as interest revenue in the Statement of Activities in the fiscal year ending June 30, 2002. The interest had been received beyond the Foundation's availability period for the year ending June 30, 2002. (\$1,222)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. No depreciation expense is recorded in the Governmental funds.

Capital Outlay	\$9,104
Depreciation	(\$28,771)
	<u>(\$19,667)</u>

Some expenses reported in the Statement of Activities, such as compensated absences payable and accounts payable, do not require the use of current financial resources and, therefore, are not reported as expenditures in the special revenue fund.

Compensated Absences Payable	(\$7,886)
Accounts Payable	(\$75,946)
	<u>(\$83,832)</u>

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Auditor of State Betty Montgomery

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

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

We have audited the accompanying financial statements of the Southern Ohio Agricultural and Community Development Foundation (the Foundation), State of Ohio, as of and for the year ended June 30, 2003, as listed in the table of contents, and have issued our report thereon dated October 7, 2003. 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 October 7, 2003.

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This report is intended for the information and use of the Foundation, 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.

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

BETTY MONTGOMERY
Auditor of State

October 7, 2003



**Auditor of State
Betty Montgomery**

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SOUTHERN OHIO AGRICULTURAL & COMMUNITY DEVELOPMENT FOUNDATION

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 18, 2003**