STATE OF OHIO - DEPARTMENT OF DEVELOPMENT
OFFICE OF BUSINESS DEVELOPMENT
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2001

JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

STATE OF OHIO - DEPARTMENT OF DEVELOPMENT
OFFICE OF BUSINESS DEVELOPMENT

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REPORT OF INDEPENDENT ACCOUNTANTS

State of Ohio, Department of Development
Office of Business Development
77 South High Street, 28th Floor
Columbus, Ohio 43215

We have audited the Balance Sheet of the Office of Business Development's (the Office) Special Revenue Fund Type as of June 30, 2001 and the Special Revenue Fund Type's and Debt Service Fund Type's related Statement of Revenues, Expenditures and Changes in Fund Balance for the year then ended. These financial statements are the responsibility of the Office'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 Office, a division of the Department of Development of the State of Ohio, and are not intended to present fairly the financial position of the Department of Development or the State of Ohio and the results of its operations and cash flows of the State's proprietary fund types 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 Office of Business Development's Special Revenue Fund Type as of June 30, 2001, and the results of the Special Revenue Fund Type's and Debt Service Fund Type's 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 Office 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 28, 2001 on our consideration of the Office of Business Development'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.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Special Revenue Fund Type and Debt Service Fund Type of the Office of Business Development taken as a whole. The combining financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements of the Special Revenue Fund Type and Debt Service Fund Type taken as a whole.

JIM PETRO
Auditor of State

September 28, 2001

STATE OF OHIO - DEPARTMENT OF DEVELOPMENT
OFFICE OF BUSINESS DEVELOPMENT

COMBINED BALANCE SHEET
JUNE 30, 2001

	Special Revenue Funds
ASSETS	
Cash	$116,994,588
Investments	28,165,271
Allocated Collateral on Lent Securities	47,045,679
Accounts Receivable	532,449
Loans Receivable, net	275,939,260
Total Assets	$468,677,247
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts Payable	$137,252
Accrued Expenditures	36,345
Allocated Obligations Under Securities Lending	47,045,679
Total Liabilities	47,219,276
Fund Balance	
Fund Balance, Reserved for Loans	275,939,260
Fund Balance, Reserved for OEBF	10,000,000
Fund Balance, Unreserved	135,518,711
Total Fund Balance	421,457,971
Total Liabilities and Fund Balance	$468,677,247

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

STATE OF OHIO - DEPARTMENT OF DEVELOPMENT
OFFICE OF BUSINESS DEVELOPMENT

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

	Special Revenue Funds	Debt Service Funds	Total (memorandum only)
Revenues:			
Investment Income	$5,978,947	$2,112,004	$8,090,951
Net Decrease in Fair Value of Investments	(875,334)	-----	(875,334)
Interest Income	8,256,053	-----	8,256,053
Fees	1,327,566	-----	1,327,566
Miscellaneous	807,689	-----	807,689
Total Revenues	15,494,921	2,112,004	17,606,925
Expenditures:			
Personnel Expenditures	720,993	-----	720,993
Operating Expenditures	2,218,446	8,718	2,227,164
Debt Service, Principal	-----	1,320,000	1,320,000
Debt Service, Interest	-----	64,020	64,020
Total Expenditures	2,939,439	1,392,738	4,332,177
Excess of Revenues over Expenditures	12,555,482	719,266	13,274,748
Other Financing Sources (Uses):			
Operating Transfers-In	21,862,046	1,266,104	23,128,150
Operating Transfers-Out	(13,814,987)	(9,313,163)	(23,128,150)
Other State Agencies Transfers-Out	(866,640)	(292,987)	(1,159,627)
Total Other Financing Sources (Uses)	7,180,419	(8,340,046)	(1,159,627)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	19,735,901	(7,620,780)	12,115,121
Fund Balance, July 1, 2000 (as restated)	377,778,615	31,564,235	409,342,850
Residual Equity Transfers In (Out)	23,943,455	(23,943,455)	-----
Fund Balance, June 30, 2001	$421,457,971	$0	$421,457,971

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Office of Business Development (OBD) present the financial position of the special revenue fund types and the results of operations of the special revenue and debt service fund types. The financial statements, as of June 30, 2001, and for the year then ended, conform with the 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* documents these principles. The OBD's significant accounting policies are as follows:

A. Reporting Entity

The Office of Business Development was created as part of the Department of Development of the State of Ohio on July 14, 1983, by action of the State of Ohio Legislature. The OBD administers the Direct Loan, Loan Guarantee, and the Ohio Enterprise Bond Fund programs of the Department of Development under Chapters 122 and 166 of the Ohio Revised Code. These programs loan money to qualified businesses throughout the state for the purpose of stimulating jobs and business within the state. The financial statements present only the financial position and results of operations of the transactions attributable to the Office of Business Development, which is a part of the primary reporting entity of the State of Ohio, and they are not intended to present the financial position or the results of operations of the Department of Development taken as a whole. The Comprehensive Annual Financial Report of the State of Ohio provides more extensive disclosure of the significant accounting policies of the State as a whole. The majority of the assets of the Office are not subject to budgetary monitoring or reporting requirements.

B. Measurement Focus and Basis of Accounting

A fund's measurement focus determines the accounting and financial reporting treatment applied to the fund. Governmental funds are accounted for using a flow of current financial resources measurement focus. Under this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available expendable resources.

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, the OBD 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 OBD considers revenues as available if they are collected within 60 days after year end. Under the modified accrual basis, the OBD records expenditures when it incurs related fund liabilities.

Significant revenue sources susceptible to accrual under the modified accrual basis of accounting include:

- Investment Income (including net increase or decrease in the fair value of investments)
- Interest Income
- Fee Revenue

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation - Fund Accounting

The Office of Business Development uses funds to report on its financial position and results of its operations. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and aids management in demonstrating compliance with finance-related legal and contractual provisions.

The funds maintained by the OBD are all governmental fund types. A description of each fund type and combining fund administered by the OBD are as follows:

GOVERNMENTAL FUND TYPES:

Special Revenue Funds:

Accounts for specific revenues that are legally restricted to expenditure for designated purposes. The special revenue funds included in this fund type are as follows:

Operating Fund (CAS Fund 451) – records operating expenditures related to the administration of the loans and loan guarantees made pursuant to Revised Code Sections 122.39 to 122.62 and Chapter 166. Operations are primarily funded through transfers from the Facilities Establishment Fund.

Facilities Establishment Fund (CAS Fund 037) - accounts for proceeds deposited by the Treasurer of the State of Ohio with the OBD from bond sales, fee income, interest income, loan receipts and disbursements for loans made pursuant to Chapter 166 of the Code. Also, this Fund provides a reserve for the Ohio Enterprise Bond Fund in the event of bondholder default.

Regional Agency Fund – reports funds deposited with the regional agencies from fee income, interest income, loan receipts and loans disbursements made pursuant to Chapter 166 of the Code and transfers of funds from the Facilities Establishment Fund.

Loan Guarantee Fund - records funds deposited with the Treasurer of the State of Ohio and accounts for payments made by the OBD due to the default on contractual loan terms by borrowers on loans guaranteed pursuant to Chapter 166 of the Code (See Note 4).

122 Direct Loan Program Fund - accounts for the administration of development loans made pursuant to Sections 122.38 to 122.62 of the ORC.

Premium Income Fund - reports fee income generated from the Ohio Enterprise Bond loans and investment income.

Rural Industrial Park Fund - accounts for designated priority investment areas within Ohio.

Port Authority Bond Reserve Fund - records direct economic development assistance provided to eligible port authorities in the form of grant assistance or direct guarantees.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation - Fund Accounting (Continued)

GOVERNMENTAL FUND TYPES: (Continued)

Special Revenue Funds: (Continued)

Urban Redevelopment Loan Fund - accounts for activity which aides in the development of eligible communities within the State of Ohio, which are designated as "Central Cities" as defined by the U.S. Office of Management and Budget.

Family Farm Loan Guarantee Fund - reports OBD's share of family farm loan financing deposited with various financial institutions as a loan guarantee for eligible borrowers. OBD guarantees up to 40% of the loan project which should not exceed $200,000 per project.

Debt Service Funds:

Accounts for the accumulation of resources and payment of principal and interest on long-term obligations. During state fiscal year 2001, the debt service obligations were completely repaid which resulted in a residual equity transfer to the special revenue fund's Facilities Establishment Fund. The state fiscal year 2001 debt service activity was accounted for in the following funds:

OEBF Program Reserve Fund - This reserve fund was initially created from net proceeds of the 1988-1 State of Ohio bond issuance. The fund is used to ensure adequate funds are available to repay Ohio Enterprise Bond Fund (OEBF) bondholders when due. The $10,000,000 OEBF fund balance reserve will remain for OEBF bondholders within the special revenue fund type's Facilities Establishment Fund.

1988-1 Debt Series Fund - This fund accounts for payment of interest and the redemption of 1988-1 bonds. This fund receives investment earnings from the program reserve fund and if additional funds are needed to meet the debt obligations, funds will be provided by net revenues of the Facilities Establishment Fund's Chapter 166 program or from transfers from the OEBF Program Reserve Fund. In December 2000, OBD paid the final debt service payment on these bonds.

Development Enterprise Bond Reserve Fund - This fund is used to account for the accumulation of payments made on type166 loans from January to June and July to December. Funds are held in the account for a six month period to provide a secondary reserve in the event the OEBF Program Reserve Fund exceeds the $10,000,000 available balance. At the end of the six month holding period, the fund balance is transferred into the Facilities Establishment Fund, however, with the complete repayment of the 1988-1 Debt Series Fund the funds will no longer be required to be deposited into this fund, rather 166 loan program repayments will be shown directly within the special revenue fund type's Facilities Establishment Fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Accounts and Policies

1. Cash and Investments

Cash consists of cash on hand, cash held by depository institutions and trustees, and cash equity with treasurer. Investments include holdings in the State Treasury Asset Reserve of Ohio (STAROhio) investment pool. (See Note 3 for further descriptions).

2. Allocated Collateral on Lent Securities / Allocated Obligations Under Securities Lending

The Treasurer of State participates in securities lending programs for securities included in the cash equity with treasurer account. The Treasurer of State lending program is administered by a custodial agent bank, whereby certain securities are transferred to an independent broker-dealer (borrower) in exchange for cash collateral. The State requires its custodial agents to ensure OBD's lent securities are collateralized at no less than 102 percent of market value. Consequently, as of June 30, 2001, OBD had no credit exposure since the value of the collateral exceeds the value of the securities loaned.

For loan contracts the Treasurer executes, not more than 15 percent of the State's cash and investment portfolio, which is reported as cash equity with treasurer, can be lent to a single broker-dealer.

The State invests cash collateral in short-term obligations, which have a weighted average maturity of 4 days or less and generally match the maturities of securities loans. Loan contracts do not provide any loss indemnification by securities lending agents in cases of borrower default; however, during fiscal year 2001, the State had not experienced any losses due to credit or market risk on securities lending activities.

The State's Office of Budget and Management allocates the State's pooled cash collateral to various funds within the State's Central Accounting System (CAS) based on cash balances at June 30, 2001. As a result, OBD's Allocated Collateral on Lent Securities and related Allocated Obligations Under Securities Lending as of June 30, 2001, was $47,045,679.

3. Accounts Receivable

Accounts receivable includes receivables for commitment fees, OEBF service fees, OEBF program reserve dividend revenue, and interest revenue. It also includes receivables for investment earnings received from CAS Fund 608 and interest as determined by the Office of Budget and Management. Total accounts receivable as of June 30, 2001, was $532,449.

4. Loans Receivable

Loans receivable includes amounts due OBD for loans and loan guarantees entered into as part of its loan programs. Loans receivable is reported net of the allowance for uncollectible loans, which is completely recorded within the Facilities Establishment Fund, and applies the following allowance methodology:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Accounts and Policies (Continued)

4. Loans Receivable (Continued)

- 100% of loans certified to the Office of the Attorney General in prior periods,
- 75% of loans certified to the Office of the Attorney General in the current period,
- 1% of loans outstanding within the Facilities Establishment Fund, and
- 0.5% of the loans outstanding in all other funds.

5. Accounts Payable and Accrued Expenditures

Accounts payable includes accruals for operating expenditures which are attributable to purchases prior to June 30, 2001. It also includes trustee fees paid to the regional agency escrow agents. Total accounts payable as of June 30, 2001 was $137,252. Accrued expenditures includes wages payable, which was $36,345 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 OBD 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 OBD's reporting purposes.

6. Fund Balance

Reservations of equity represent amounts that are not appropriable or are legally restricted for a specific purpose. The OBD reserves fund balance for loans and the OEBF program reserve.

7. Investment and Interest Income

Investment income includes investment earnings from STAROhio investments and the quarterly allocation of investment earnings from cash equity with treasurer and corresponding interest receivables. Interest income from loans includes interest earned from the repayment of loans.

8. Fee Revenue and Miscellaneous Revenue

Fees include service fees for the administration of the loan processing and commitment and application fees paid by the borrower. Total fee revenue for the period ended June 30, 2001, was $1,327,566. Miscellaneous revenue for the period ended June 30,2001, was $807,689.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Accounts and Policies (Continued)

9. Personnel and Operating Expenditures

Personnel expenditures include all payroll and fringe benefit costs paid by the OBD. Operating expenditures include various supplies and maintenance expenditures, equipment purchases, and regional agency trustee and administrative fees.

10. Debt Service Principal and Interest Expenditures

Debt service expenditures include the final principal and interest payment for the 1988-1 bonds.

11. Transfers In and Transfers Out

OBD recognizes a residual equity transfer when nonrecurring transfers between funds as additions to or deductions from fund equity. During state fiscal year 2001, a residual equity transfer resulted from the closure of debt service accounts into the special revenue fund with the final debt payment. Operating transfers in and out primarily consisted of transfers from the Facilities Establishment Fund to regional agencies. Transfers out to state agencies resulted from repayment of 122 Direct Loans into the State of Ohio's General Revenue Fund and other transfers to the Department of Development. Since the financial statements present only the financial information of OBD and do not present the consolidated financial information of the State of Ohio, taken as a whole, the total transfers out to state agencies will not reflect offsetting transfers in from state agencies.

12. Self-Insurance

The State of Ohio serves as OBD'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.

13. Total (memorandum only) Columns

Total columns are presented to facilitate financial analysis. Data in these columns are not comparable to a consolidation as they do not reflect the elimination of interfund activities.

2. RESTATEMENTS AND CHANGES IN ACCOUNTING PRINCIPLES AND STANDARDS

A. Restatements

Certain restatements of fund balance, as of June 30, 2000 are summarized as follows:

Restatements of Beginning Balance
July 1, 2000

Fund	Fund Balance as Previously Reported, June 30, 2000	Increase (Decrease) for Restatement	Fund Balance as Restated, July 1, 2000
Facilities Establishment	$307,086,362	$0	$307,086,362
Port Authority Bond Reserve	1,000,000	2,000,000	3,000,000
122 Direct Loan Program	1,475,829	716,116	2,191,945
Regional Agency	45,143,224	(243,180)	44,900,044
All Other Special Revenue	20,600,264	0	20,600,264
Total Special Revenue Fund	$375,305,679	$2,472,936	$377,778,615

The special revenue fund type reports a $2.5 million net increase in opening fund balance to reflect:

- a $2,000,000 increase in loans receivable within the Port Authority Bond Reserve Fund to record a loan which was closed but not recorded in the prior period,
- a $716,116 increase in loans receivable within the 122 Direct Loan Program Fund to more appropriately reflect the loans receivable, net of the allowance for uncollectible accounts,
- a $243,180 decrease resulting from a $58,820 correction in beginning cash balance for the Regional Agency Fund and a $184,359 correction in beginning loans receivable balance,
- previously, the Regional Agency fund was reported within the Facilities Establishment fund; however, the regional agency activity is now separately reported as its own fund, and
- loans receivable and an offsetting allowance for doubtful accounts within the Facilities Establishment Fund were added back to the financial statements for $9,003,709 since loans which were previously certified as uncollectible to the Office of the Attorney General were written off of the financial records; however, there was no fund balance impact.

B. Changes in Accounting Principles and Standards

Recently Adopted Standards

In December 1998, the GASB issued Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions.* The provisions of this statement are effective for periods beginning after June 15, 2000. GASB Statement No. 33 principally addresses the timing of recognition of non-exchange transactions involving financial or capital resources (e.g., most taxes, grants, and private donations) in a government's financial statements.

2. RESTATEMENTS AND CHANGES IN ACCOUNTING PRINCIPLES AND STANDARDS (Continued)

B. Changes in Accounting Principles and Standards (Continued)

Recently Adopted Standards (Continued)

Later, the GASB amended paragraph 28 of GASB Statement No. 33 when it adopted GASB Statement No. 36, *Recipient Reporting for Certain Shared Non-exchange Transactions* in April 2000. GASB Statement No. 36 provides symmetrical accounting treatment for certain shared revenues by requiring recipient governments to account for the sharing of revenues in the same manner as provider governments. GASB Statement No. 36 also removes the guidance in GASB Statement No. 33 that required recipient governments to accrue revenues equal to cash received if notification of the amount was not available in a timely manner; instead, recipient governments must use a reasonable estimate of the amount to be accrued. In addition, Statement No. 33 requires recipients of resources with purpose restrictions to report resulting fund balance as restricted until the resources are used for the specified purpose or for as long as the provider requires the resources to be maintained intact.

Newly Issued Pronouncements

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* The State and OBD are required to apply the statement for periods beginning after June 15, 2001. GASB Statement No. 34 establishes new financial reporting requirements that fundamentally affect the presentation of a government's basic financial statements and related required supplementary information. In June 2001, the GASB issued Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus.* This Statement amends Statement No. 34 by clarifying MD&A requirements, modified approach, program revenue classifications, and major fund criteria provisions.

Also in June 2001, the GASB issued Statement No. 38, *Certain Financial Statement Note Disclosures*. This Statement modifies, establishes and rescinds certain financial statement disclosure requirements. Existing disclosure requirements will be modified to include the following:

- Description of the activities accounted for in the major funds,
- The length of time used to define available for purposes of revenue recognition in the governmental fund financial statements,
- Actions taken to address significant violations of finance-related legal or contractual provisions, debt service requirements to maturity, separately identifying principal and interest for each of the subsequent five years and in five year increments thereafter,
- Obligations under leases for each of the five subsequent years and in five year increments thereafter,

2. RESTATEMENTS AND CHANGES IN ACCOUNTING PRINCIPLES AND STANDARDS (Continued)

B. Changes in Accounting Principles and Standards (Continued)

Newly Issued Pronouncements (Continued)

- A schedule of changes in short term debt and the purpose for which short-term debt was issued, and

- For interfund balances, amounts due from other funds by individual major fund and nonmajor governmental funds in the aggregate; the purpose for those balances; and amounts not expected to be repaid within one year.

Governments should provide the following additional note disclosures:

- Interest requirements for variable-rate debt computed using the rate effective at year-end,

- Terms of interest rate changes for variable rate debt

- Details about major components of receivable and payable balances when obscured by aggregation and identification of receivable balances not expected to be collected within one year, and

- For interfund transfers, amount transferred from other funds by individual major and nonmajor governmental funds in the aggregate; a general description of the principal purposes of interfund transfers; and purposes for and amounts of certain transfers.

Management has not yet determined the impact of GASB Statements 34, 37, and 38 on their financial statements.

3. CASH AND INVESTMENTS

Cash equity with treasurer consists of pooled demand deposits and investments carried at fair value. The State's cash pool under the Treasurer of State's administration has 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. Cash also includes the net increase (decrease) in fair value of investments and warrants which have been written for loans which have yet to close as of June 30, 2001.

In accordance with Government Accounting Standards Board Statement 31, investments are recorded at fair value. Investments include holdings in the STAROhio investment pool which are reported at $1 / share. STAROhio operates in a manner consistent with Rule 2a7 of the Investment Company Act of 1940; investments in the 2a7-like pool are reported at amortized cost (which approximates fair value).

3. CASH AND INVESTMENTS (Continued)

Cash and investments within special revenue funds at June 30, 2001 were as follows:

Cash and Investments
June 30, 2001

	Cash	Investments (at fair value)
Special Revenue Funds:		
Operating	$1,901,939	$0
Facilities Establishment	94,499,350	23,843,508
Regional Agency	9,463,077	0
Loan Guarantee	500	702,941
Premium Income	96,631	3,618,822
Rural Industrial Park Program	1,978,871	0
Port Authority Bond Reserve Program	111,970	0
Urban Redevelopment Loan Program	8,255,418	0
Family Farm Loan Guarantee Program	686,832	0
Total Special Revenue Funds	$116,994,588	$28,165,271

OBD's cash funds are primarily maintained in the State Treasurer's pooled cash funds. Funds held within the State Treasurer's pooled cash funds are not required to be categorized for credit risk. As of June 30, 2001, the carrying amount of deposits held with custodial agents was $9,463,077 and collateralization could not be determined and therefore was categorized as uninsured and uncollateralized (Category 3).

Investing is performed in accordance with investment policies complying with State statutes. Funds may be invested in: (1) Obligations of U.S. Treasury agencies and instrumentalities, (2) Shares of an open-end diversified management company, the investments of which are primarily in governmental obligations, Standard and Poor's A-1 rated commercial paper or Moody's P-1 Commercial Paper Record and bankers' acceptances. Management of the non-pooled investments is performed in accordance with applicable bond indentures by trustee bank departments.

The OBD categorizes investments to give an indication of the level of credit risk associated with the OBD's custodial arrangements at year end. *Category 1* includes investments that are insured, registered, or held by the OBD or its agent in OBD's name. *Category 2* includes uninsured and unregistered investments held by the counterparty's trust department or its agent in the OBD's name. *Category 3* includes uninsured and unregistered investments held by the counterparty, its trust department, or its agent, but not in the OBD's name.

In conformity with Governmental Accounting Standards Board Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions,* securities lent at year-end for cash collateral have not been categorized by customer credit risk, while securities lent for securities collateral have been collateralized.

3. CASH AND INVESTMENTS (Continued)

The STAROhio investments are not required to be categorized in accordance with Governmental Accounting Standards Board Statement No. 3. The level of credit risk assumed by the OBD and the fair value of investments, as of June 30, 2001 are as follows:

Categorization of Investments
June 30, 2001

	Category				
	1	2	3	Fair Value	Cost
Non-Pooled Investments:					
Money Market Funds	$6,690,019	---	---	$6,690,019	$6,690,019
Certificates of Deposit	3,732,860	---	---	3,732,860	3,732,860
Star Ohio	N/A	N/A	N/A	17,742,392	17,742,392
Totals	$10,422,879	$0	$0	$28,165,271	$28,165,271

4. LOAN PROGRAM ACTIVITY

The following summarizes loan repayment and new loan activity of the various funds during the fiscal year:

Loan Program Activity
for the year ended June 30, 2001

	Adjusted Balance 7/01/00	New Loan Activity	Principal Repayments	Balance 6/30/01
Facilities Establishment	$222,726,397	$36,346,122	($26,920,664)	$232,151,855
Regional Agency	36,739,183	15,967,094	(7,302,388)	45,403,889
122 Direct Loan Program	2,184,983	3,261	(796,409)	1,391,835
Rural Industrial Park Program	900,720	1,534,463	(107,718)	2,327,465
Port Authority Bond Reserve Program	2,000,000	2,000,000	0	4,000,000
Urban Redevelopment Loan Program	202,000	2,000,000	(82,418)	2,119,582
Family Farm Loan Guarantee Program	1,531,010	1,597,203	(25,261)	3,102,952
Total	$266,284,293	$59,448,143	($35,234,858)	$290,497,578

The allowance for loan losses is the result of management's review of loans, with consideration given to collateral values, borrower's financial condition and current economic environment. The allowance is maintained at the level management estimates adequately provide for potential loan losses. The allowance for loan losses is reflected within the Special Revenue Fund's Facilities Establishment fund and as of June 30, 2001 the allowance was $14,558,318.

5. COMMITMENTS AND CONTINGENCIES

Ohio Enterprise Bond Funds

Ohio Enterprise Bond Fund bonds are issued through the Treasurer of State for the purpose of financing “eligible projects” of private industry organizations, such as a company’s purchase of manufacturing equipment. The actual bonds are sold through private placement. At June 30, 2001 outstanding loan balances under this program aggregated $95,463,000 with original terms up to 20 years at interest ranging from 5.6% to 10.0%. The scheduled payments of the bonds is guaranteed through the OBD. The OBD only monitors OEBF activities and does not include the financial transactions within its financial statements. All of the bonds guaranteed by the OBD were current in their repayment as of June 30, 2001.

According to the Ohio Enterprise Bond Fund’s official bond statement, the bonds are not obligations of the State of Ohio or OBD. Rather, the rights of the bond holders are limited to the amounts the State has pledged as available (currently $10 million) within the Ohio Enterprise Bond Fund, but only to the extent the funds are necessary and available and have not been committed for other uses and subject to the State’s Controlling Board approval.

Loan Commitments

These commitments primarily represent Chapter 166 loan commitments which have been approved by the OBD’s Development Financing Advisory Council and the State’s Controlling Board; however, the loans were not closed as of June 30, 2001. Below is a summary of outstanding commitments of the OBD related to the Chapter 166 programs:

Facilities Establishment	$43,771,695
Regional Agency	16,209,454
Family Farm Loan Guarantee	910,453
Urban Redevelopment Loan	15,420,418
Rural Industrial Park Loan	1,753,675
Port Authority Bond Reserve	500,000
Total	$78,565,695

The regional agency funds represents additional escrow fund commitments to local agencies from original allotments made for various regional programs. These funds are transferred to the escrow funds of these agencies, which then make eligible project loans based on program requirements. The commitments do not include each individual agency’s loan commitments to eligible borrowers. The regional programs include the 166 loan program and the pollution prevention loan program. These programs are administered by the local agencies on behalf of the OBD.

Under the Chapter 166 Loan Guarantee Program, OBD guarantees up to 75% of certain qualifying loans made by various financial institutions. The bonds issued by the State of Ohio to fund the loan and loan guarantee programs under 166 of the Code are to be repaid initially from revenue of the State from the sale of liquor. Repayment would come from the Facilities Establishment Fund only if such revenues were inadequate to service the debt. At June 30, 2001, OBD had one loan guarantee with a maximum liability of $1,955,907. At June 30, 2001, the loan guaranteed by the OBD was not in default. In September 2001, OBD’s Development Financing Advisory Council and the State’s Controlling Board approved an additional loan commitment of $14 million, whereby OBD entered into a loan guarantee.

6. PENSION PLAN

All full-time employees participate 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 period January 1, 2000 to June 30, 2000. Effective July 1, 2000 to December 31, 2000, the employer's required contribution rate to PERS for regular employees was reduced from 13.31 percent to 7.99 percent. Employees' required contribution rates remain unchanged. This temporary rate reduction was made possible by higher-than-anticipated returns on investments. Required employer contributions are equal to 100% of the dollar amount billed to each employer. Employer contributions required and made to PERS for the current and previous two years were:

Fiscal Year	Percentage Contribution	Required Contributed
2001	100%	$60,605
2000	100%	$79,908
1999	100%	$84,803

7. 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.

7. OTHER POST-EMPLOYMENT BENEFITS (Continued)

The number of active contributing participants was 401,339. OBD's actual contributions for state fiscal year 2001 which were used to fund other postemployment benefits were $30,023 (assuming a rate of 4.30 percent during the period). 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 and later, 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.

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STATE OF OHIO - DEPARTMENT OF DEVELOPMENT
OFFICE OF BUSINESS DEVELOPMENT

COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
JUNE 30, 2001

	Operating Fund	Facilities Establishment Fund	Regional Agency Fund
ASSETS			
Cash	$1,901,939	$94,499,350	$9,463,077
Investments	-----	23,843,508	-----
Allocated Collateral on Lent Securities	839,433	41,388,628	-----
Accounts Receivable	33,000	470,760	-----
Loans Receivable, net	-----	217,593,537	45,403,889
Total Assets	$2,774,372	$377,795,783	$54,866,966
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts Payable	$41,570	-----	$95,682
Accrued Expenditures	36,345	-----	-----
Allocated Obligations Under Securities Lending	839,433	41,388,628	-----
Total Liabilities	917,348	41,388,628	95,682
Fund Balance			
Fund Balance, Reserved for Loans	-----	217,593,537	45,403,889
Fund Balance, Reserved for OEBF	-----	10,000,000	-----
Fund Balance, Unreserved	1,857,024	108,813,618	9,367,395
Total Fund Balance	1,857,024	336,407,155	54,771,284
Total Liabilities and Fund Balance	$2,774,372	$377,795,783	$54,866,966

Loan Guarantee Fund	122 Direct Loan Fund	Premium Income Fund	Rural Industrial Park Loan Fund	Port Authority Bond Reserve Program Fund
$500	-----	$96,631	$1,978,871	$111,970
702,941	-----	3,618,822	-----	-----
-----	-----	-----	869,849	-----
-----	-----	28,689	-----	-----
-----	1,391,835	-----	2,327,465	4,000,000
$703,441	$1,391,835	$3,744,142	$5,176,185	$4,111,970
-----	-----	-----	-----	-----
-----	-----	-----	-----	-----
-----	-----	-----	869,849	-----
-----	-----	-----	869,849	-----
-----	1,391,835	-----	2,327,465	4,000,000
-----	-----	-----	-----	-----
703,441	-----	3,744,142	1,978,871	111,970
703,441	1,391,835	3,744,142	4,306,336	4,111,970
$703,441	$1,391,835	$3,744,142	$5,176,185	$4,111,970

(Continued)

STATE OF OHIO - DEPARTMENT OF DEVELOPMENT
OFFICE OF BUSINESS DEVELOPMENT

COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
JUNE 30, 2001

(Continued)

	Urban Redevelopment Loan Fund	Family Farm Loan Guarantee Fund	Total (memorandum only)
ASSETS			
Cash	$8,255,418	$686,832	$116,994,588
Investments	-----	-----	28,165,271
Allocated Collateral on Lent Securities	3,644,551	303,218	47,045,679
Accounts Receivable	-----	-----	532,449
Loans Receivable, net	2,119,582	3,102,952	275,939,260
Total Assets	$14,019,551	$4,093,002	$468,677,247
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts Payable	-----	-----	$137,252
Accrued Expenditures	-----	-----	36,345
Allocated Obligations Under Securities Lending	3,644,551	303,218	47,045,679
Total Liabilities	3,644,551	303,218	47,219,276
Fund Balance			
Fund Balance, Reserved for Loans	2,119,582	3,102,952	275,939,260
Fund Balance, Reserved for OEBF	-----	-----	10,000,000
Fund Balance, Unreserved	8,255,418	686,832	135,518,711
Total Fund Balance	10,375,000	3,789,784	421,457,971
Total Liabilities and Fund Balance	$14,019,551	$4,093,002	$468,677,247

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STATE OF OHIO - DEPARTMENT OF DEVELOPMENT
OFFICE OF BUSINESS DEVELOPMENT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2001

	Operating Fund	Facilities Establishment Fund	Regional Agency Fund
Revenues:			
Investment Income	-----	$5,344,353	$441,292
Net Decrease in Fair Value of Investments	-----	(875,334)	-----
Interest Income	-----	6,178,233	1,894,125
Fees	438,506	504,768	-----
Miscellaneous	43,754	6,491	755,250
Total Revenues	482,260	11,158,511	3,090,667
Expenditures:			
Personnel Expenditures	720,993	-----	-----
Operating Expenditures	673,779	13,245	1,531,422
Total Expenditures	1,394,772	13,245	1,531,422
Excess of Revenues over (under) Expenditures	(912,512)	11,145,266	1,559,245
Other Financing Sources (Uses):			
Operating Transfers-In	1,027,939	8,047,059	8,311,995
Operating Transfers-Out	-----	(13,814,987)	-----
Other State Agencies Transfers-Out	-----	-----	-----
Total Other Financing Sources (Uses)	1,027,939	(5,767,928)	8,311,995
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	115,427	5,377,338	9,871,240
Fund Balance, July 1, 2000 (as restated)	1,741,597	307,086,362	44,900,044
Residual Equity Transfers In (Out)	-----	23,943,455	-----
Fund Balance, June 30, 2001	$1,857,024	$336,407,155	$54,771,284

Loan Guarantee Fund	122 Direct Loan Fund	Premium Income Fund	Rural Industrial Park Loan Fund	Port Authority Bond Reserve Program Fund
$39,475	-----	$153,827	-----	-----
-----	-----	-----	-----	-----
-----	64,313	-----	-----	111,970
-----	23	383,828	441	-----
-----	2,194	-----	-----	-----
39,475	66,530	537,655	441	111,970
-----	-----	-----	-----	-----
-----	-----	-----	-----	-----
-----	-----	-----	-----	-----
39,475	66,530	537,655	441	111,970
-----	-----	-----	2,195,000	1,000,000
-----	-----	-----	-----	-----
-----	(866,640)	-----	-----	-----
-----	(866,640)	-----	2,195,000	1,000,000
39,475	(800,110)	537,655	2,195,441	1,111,970
663,966	2,191,945	3,206,487	2,110,895	3,000,000
-----	-----	-----	-----	-----
$703,441	$1,391,835	$3,744,142	$4,306,336	$4,111,970

(Continued)

STATE OF OHIO - DEPARTMENT OF DEVELOPMENT
OFFICE OF BUSINESS DEVELOPMENT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2001

(Continued)

	Urban Redevelopment Loan Fund	Family Farm Loan Guarantee Fund	Total (memorandum only)
Revenues:			
Investment Income	-----	-----	$5,978,947
Net Decrease in Fair Value of Investments	-----	-----	(875,334)
Interest Income	-----	7,412	8,256,053
Fees	-----	-----	1,327,566
Miscellaneous	-----	-----	807,689
Total Revenues	-----	7,412	15,494,921
Expenditures:			
Personnel Expenditures	-----	-----	720,993
Operating Expenditures	-----	-----	2,218,446
Total Expenditures	-----	-----	2,939,439
Excess of Revenues over (under) Expenditures	-----	7,412	12,555,482
Other Financing Sources			
Operating Transfers-In	-----	1,280,053	21,862,046
Operating Transfers-Out	-----	-----	(13,814,987)
Other State Agencies Transfers-Out	-----	-----	(866,640)
Total Other Financing Sources (Uses)	-----	1,280,053	7,180,419
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	-----	1,287,465	19,735,901
Fund Balance, July 1, 2000 (as restated)	10,375,000	2,502,319	377,778,615
Residual Equity Transfers In (Out)	-----	-----	23,943,455
Fund Balance, June 30, 2001	$10,375,000	$3,789,784	$421,457,971

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STATE OF OHIO - DEPARTMENT OF DEVELOPMENT
OFFICE OF BUSINESS DEVELOPMENT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2001

	OEBF Program Reserve Fund	1988-1 Debt Series Fund	Development Enterprise Bond Reserve Fund
Revenues:			
Investment Income	$387,607	$157,994	$1,566,403
Total Revenues	387,607	157,994	1,566,403
Expenditures:			
Operating Expenditures	783	2,325	5,610
Debt Service, Principal	-----	1,320,000	-----
Debt Service, Interest	-----	64,020	-----
Total Expenditures	783	1,386,345	5,610
Excess of Revenues over (under) Expenditures	386,824	(1,228,351)	1,560,793
Other Financing Sources (Uses):			
Operating Transfers-In	-----	1,266,104	-----
Operating Transfers-Out	(373,041)	-----	(8,940,122)
Other State Agencies Transfers-Out	-----	-----	(292,987)
Total Other Financing Sources (Uses)	(373,041)	1,266,104	(9,233,109)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	13,783	37,753	(7,672,316)
Fund Balance, July 1, 2000 (as restated)	10,162,852	258,812	21,142,571
Residual Equity Transfers Out	(10,176,635)	(296,565)	(13,470,255)
Fund Balance, June 30, 2001	$0	$0	$0

Total (memorandum only)
$2,112,004
2,112,004
8,718
1,320,000
64,020
1,392,738
719,266
1,266,104
(9,313,163)
(292,987)
(8,340,046)
(7,620,780)
31,564,235
(23,943,455)
$0

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STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

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

State of Ohio, Department of Development
Office of Business Development
77 South High Street, 28th Floor
Columbus, Ohio 43215

We have audited the financial statements of the Office of Business Development (the Office), as of and for the year ended June 30, 2001, and have issued our report thereon dated September 28, 2001 wherein we noted the Office 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 Office'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 Office'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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Office's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2001-01.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

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 Office in a separate letter dated September 28, 2001.

This report is intended for the information and use of the Office, the Office's Development Financing Advisory Council 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 28, 2001

SCHEDULE OF FINDINGS
JUNE 30, 2001

Finding Number	2001-01

General Ledger

Generally accepted accounting principles require that financial statements present fairly the financial position of an entity, be free of material misstatements, and be supported by the underlying accounting records of the entity. Furthermore, one objective of internal controls is to provide management with reasonable assurance that transactions are being processed in accordance with prescribed laws and regulations and are properly recorded in the accounting records. The use of a general ledger is one means of achieving this objective.

The Office of Business Development did not utilize a general ledger system to record and manage its financial activities; rather, it utilized internal spreadsheets to record and track the activities of the various funds administered by the Office. The Department of Development's management information systems division would be responsible for implementing and maintaining any general ledger system for the Office.

Not maintaining a detailed ledger increases the risk that financial statements could be misstated without timely detection, which could result in financial statements that are materially incorrect. An inadequate or inconsistent system or method of recording financial transactions could cause inaccurate information to be furnished to management who relies on such information to make operational decisions. Furthermore, internal controls associated with timely recording and reconciliations may not be performed as management had intended and data security and inadequate back-up procedures are also impacted by the lack of a centralized general ledger system.

We recommend the Office, with the assistance of the Department of Development, consider implementing an effective general ledger system. Once a system is implemented, the Office should periodically review those ledgers and reconcile them to the supporting documentation or other internal records and the reports available from the Treasurer of State.

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OFFICE OF BUSINESS DEVELOPMENT

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
NIOVEMBER 27, 2001