

Office of Financial Incentives

Basic Financial Statements

For the Year Ended June 30, 2009



Mary Taylor, CPA

Auditor of State

Office of Financial Incentives
77 South High Street
28th Floor
Columbus, Ohio 43215

We have reviewed the *Report of Independent Auditors* of the Office of Financial Incentives, Franklin County, prepared by Crowe Horwath LLP, for the audit period July 1, 2008 through June 30, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 18, 2009

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Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT AUDITORS

To the Office of Financial Incentives
State of Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of Financial Incentives (OFI), State of Ohio, as of and for the year ended June 30, 2009, which collectively comprise OFI's basic financial statements as listed in the table of contents. These financial statements are the responsibility of OFI's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

As discussed in Note 1, the financial statements of the Office of Financial Incentives are intended to present the financial position and the changes in net assets, or fund balances there of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information that is attributable to the transactions of OFI. They do not purport to, and do not, present fairly the financial position of the State of Ohio as of June 30, 2009, and the changes in its financial position for the year ended 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 respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of OFI, as of June 30, 2009, and the respective changes in financial position thereof 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 30, 2009 on our consideration of OFI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

The Management's Discussion and Analysis pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Office of Financial Incentives' basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
October 30, 2009

OFFICE OF FINANCIAL INCENTIVES MANAGEMENT'S DISCUSSION & ANALYSIS

For the Year Ended June 30, 2009

(Unaudited)

As management of the Office of Financial Incentives (OFI) we are providing this overview of OFI's financial activities for the fiscal year ended June 30, 2009. Please read this overview in conjunction with the OFI's basic financial statements, which follow.

OFI was created as part of the Ohio Department of Development (ODOD) on July 14, 1983, by action of the State of Ohio Legislature. OFI administers the 166 Direct Loan, Loan Guarantee, and Ohio Enterprise Bond Fund programs of the ODOD under Chapter 122 and 166 of the Ohio Revised Code, as well as the Urban Redevelopment, Rural Industrial, Family Farm, Research and Development and Innovation Ohio loan programs.

The 166 Direct Loan program provides direct loans for businesses locating or expanding in Ohio that demonstrate they will create or retain new jobs for Ohio citizens. The Ohio Enterprise Bond Fund program (OEBF) provides one-stop project financing for qualifying commercial, industrial, and manufacturing businesses in the State of Ohio. OEBF project amounts may range from \$2 million to \$10 million for up to 90% of the eligible project cost. The OEBF has achieved an investment grade rating of "AA-" by Standard & Poors (S&P). As a result, ODOD can issue, on behalf of all borrowers, investment grade economic development revenue bonds. The OEBF allows large and small creditworthy, but unrated, businesses access to national capital markets which they otherwise may not be able to independently enter.

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

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2009 are as follows:

- The assets of the OFI exceeded its liabilities at the close of the most recent fiscal year by \$694.3 million (net assets).
- The OFI's total net assets increased by approximately \$32.8 million.
- As of the close of the current fiscal year, the OFI's government funds reported combined ending fund balances of \$695.6 million, an increase of \$33.8 million in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance was \$98.2 million.
- During the fiscal year, OFI closed twenty-one 166 Direct Loans totaling \$49.8 million, one Rural Development Initiative Grant totaling \$500,000, ten Research and Development loans totaling \$30.7 million, and nineteen Innovation Ohio loans totaling \$14.2 million. OFI also had \$8 million in additional disbursements on existing loans.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to OFI's basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the OFI's finances, in a manner similar to a private-sector business.

**OFFICE OF FINANCIAL INCENTIVES
MANAGEMENT'S DISCUSSION & ANALYSIS**

For the Year Ended June 30, 2009
(Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The statement of net assets presents information on all of the OFI's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of OFI is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. 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 inflows or outflows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements can be found on pages 10-11 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The OFI, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. All of the OFI's funds are governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The OFI maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the Operating Fund, Facilities Establishment Fund, Regional Agency Fund, Ohio Innovation Fund, Research and Development Fund and Logistics and Distribution Infrastructure Fund, all of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The fund financial statements can be found on pages 12-18 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-32 of this report.

**OFFICE OF FINANCIAL INCENTIVES
MANAGEMENT'S DISCUSSION & ANALYSIS**
For the Year Ended June 30, 2009
(Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Other information

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. These combining statements can be found on pages 34-37 of this report.

FINANCIAL ANALYSIS OF THE OFFICE OF FINANCIAL INCENTIVES

Government-wide Financial Analysis

The following is a summary of OFI's net assets as of June 30, 2009 compared to June 30, 2008.

	Net Assets at June 30		
	2009	2008	% Change
Assets			
Current and Other Non Current Assets	\$ 802,114,570	\$ 761,553,450	5.3%
Capital Assets, Net	<u>231,524</u>	<u>231,524</u>	0.0%
Total Assets	<u>802,346,094</u>	<u>761,784,974</u>	5.3%
Liabilities			
Current Liabilities	104,179,905	96,903,214	7.5%
Long-term Liabilities	<u>3,907,599</u>	<u>3,413,490</u>	14.5%
Total Liabilities	<u>108,087,504</u>	<u>100,316,704</u>	7.7%
Net Assets			
Invested in Capital Assets	231,524	231,524	0.0%
Restricted for the Enterprise Bond Program	10,000,000	10,000,000	0.0%
Unrestricted	<u>684,027,066</u>	<u>651,236,746</u>	5.0%
Total Net Assets	<u>\$ 694,258,590</u>	<u>\$ 661,468,270</u>	5.0%

The significant increase in current assets and unrestricted net assets is primarily the result of \$50 million received in bond proceeds for the new Logistics and Distribution Infrastructure fund. The increase was offset by \$14.3 million in distributions to other offices.

**OFFICE OF FINANCIAL INCENTIVES
MANAGEMENT'S DISCUSSION & ANALYSIS**

*For the Year Ended June 30, 2009
(Unaudited)*

FINANCIAL ANALYSIS OF THE OFFICE OF FINANCIAL INCENTIVES (CONTINUED)

The following is a summary of OFI's Statement of Activities for the year ending June 30, 2009 compared to the year ending June 30, 2008.

Statement of Activity for the year ending June 30

	<u>2009</u>	<u>2008</u>	<u>% Change</u>
Revenues			
Program Revenues:			
Community and Economic Development	<u>\$ 11,971,355</u>	<u>\$ 14,349,283</u>	-16.6%
General Revenues			
Bond Proceeds received from the State of Ohio	50,000,000	-	100.0%
Investment Income	5,079,327	15,842,834	-67.9%
Miscellaneous Revenues	132,307	167,704	-21.1%
Total General Revenues	<u>55,211,634</u>	<u>16,010,538</u>	244.8%
Program Expenses			
Community and Economic Development	<u>(20,045,991)</u>	<u>(10,609,223)</u>	88.9%
Distributions to Other Offices	<u>(14,346,678)</u>	<u>(16,762,119)</u>	-14.4%
Change in Net Assets	32,790,320	2,988,479	997.2%
Net Assets at Beginning of Year	<u>661,468,270</u>	<u>658,479,791</u>	
Net Assets at End of Year	<u>\$ 694,258,590</u>	<u>\$ 661,468,270</u>	

Program Revenues

Program revenues consist of loan fees and interest income. In fiscal year 2009, program revenues decreased \$2.4 million, or 16.6%. This decrease is primarily a result of a decrease in loan interest income.

General Revenues

Investment income decreased \$10.8 million, or 67.9%. This decrease was the result of the decrease in investment balances, coupled with a decreased rate of return on deposits with the State of Ohio. OFI also received bond proceeds for the creation of the Logistics and Distribution Infrastructure fund.

Program Expenses

Program expenses consist primarily of personnel and operating expenditures, grant expenditures and bad debt expense. The total program expenses increased \$9.4 million, or 88.9%. The most significant component of this increase was a \$7.4 million increase in bad debt expense as a result of deteriorating economic conditions.

Distributions to Other Offices decreased \$2.4 million in fiscal year 2009. In fiscal year 2009, the controlling board approved distributions to the Workforce Development Initiative Program (\$2 million), Job Development Initiative Program (\$4.3 million), and the State General Fund (\$8 million).

**OFFICE OF FINANCIAL INCENTIVES
MANAGEMENT'S DISCUSSION & ANALYSIS**

*For the Year Ended June 30, 2009
(Unaudited)*

FINANCIAL ANALYSIS OF THE OFFICE OF FINANCIAL INCENTIVES (CONTINUED)

Financial Analysis of the Government's Funds

The following is a summary of OFI's fund balances as of June 30, 2009 compared to June 30, 2008.

Fund Balance at June 30

	<u>2009</u>	<u>2008</u>	<u>% Change</u>
Operating Fund	\$ 3,565,326	\$ 3,073,776	16.0%
Facilities Establishment Fund	368,754,506	377,869,422	-2.4%
Regional Agency Fund	66,560,241	66,221,804	0.5%
Ohio Innovation Fund	56,426,382	56,182,709	0.4%
Research and Development Fund	110,828,865	110,484,742	0.3%
Logistics and Distribution Infrastructure Fund	50,013,582	-	100.0%
Nonmajor Governmental Funds	39,404,650	47,967,822	-17.9%
Total Fund Balance	<u>\$ 695,553,552</u>	<u>\$ 661,800,275</u>	5.1%

The Operating Fund fund balance increased \$.5 million, or 16%. This is the amount by which fee revenue and operating transfers in exceeded personnel and operating expenditures during fiscal year 2009.

The Facilities Establishment Fund fund balance decreased \$9.1 million, or 2.4%. This was mainly due to the fund transferring \$12.4 million to other agencies during fiscal year 2009.

The Logistics and Distribution Infrastructure fund was established in fiscal year 2009 with \$50 million received in bond proceeds from the State of Ohio.

The Nonmajor Governmental Funds fund balance decreased \$8.6 million, or 17.9%. The result is due to \$4.3 million increase in bad debt expense and transfers of \$4.1 to other funds and offices.

BUDGET VARIANCES IN THE GENERAL FUND

Since OFI operates using only special revenue funds, an analysis of variations between original and final budget amounts for the General Fund has not been presented.

CAPITAL ASSETS

OFI has \$231,524 invested in net capital assets as of June 30, 2009. There were no acquisitions or dispositions during the fiscal year.

CONDITIONS EXPECTED TO AFFECT FUTURE OPERATIONS

OFI is currently not aware of any conditions that would have a significant impact on future operations. However in light of the current economic conditions, OFI will continue to carefully monitor the existing portfolio and new requests for financing assistance.

CONTACTING THE OFFICE OF FINANCIAL INCENTIVES MANAGEMENT

This financial report is designed to provide an overview of OFI's finances and its accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sharon Anthony, Assistant Manager, Ohio Department of Development, Office of Financial Incentives, 77 South High Street, 28th Floor, Columbus, Ohio 43216-1001.

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BASIC FINANCIAL STATEMENTS

OFFICE OF FINANCIAL INCENTIVES
STATEMENT OF NET ASSETS
June 30, 2009

	Governmental Activities
Assets	
Cash Equity with Treasurer	\$ 241,560,011
Cash and Cash Equivalents	67,036,739
Allocated Collateral on Lent Securities	104,013,829
Loans Receivable, Net	388,572,375
Leases Receivable	898,889
Other Assets	32,727
Capital Assets, Net	231,524
Total Assets	802,346,094
 Liabilities	
Accounts Payable	75,039
Accrued Liabilities	91,037
Allocated Obligations Under Securities Lending	104,013,829
Long Term Liabilities:	
Due in One Year	210,334
Due in More Than One Year	3,697,265
Total Liabilities	108,087,504
 Net Assets	
Invested in Capital Assets, Net of Related Debt	231,524
Restricted for:	
Enterprise Bond Program	10,000,000
Unrestricted	684,027,066
Total Net Assets	\$ 694,258,590

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

OFFICE OF FINANCIAL INCENTIVES
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2009

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets Primary Governmental Activities</u>
Primary Government			
Governmental Activities			
Community and Economic Development	\$ 20,045,991	\$ 11,971,355	\$ (8,074,636)
Total Governmental Activities	<u>20,045,991</u>	<u>11,971,355</u>	<u>(8,074,636)</u>
Total Primary Government	<u>\$ 20,045,991</u>	<u>\$ 11,971,355</u>	<u>\$ (8,074,636)</u>
General Revenues:			
Bond Proceeds received from the State of Ohio			50,000,000
Investment Income			5,079,327
Miscellaneous Revenue			132,307
Total General Revenues			<u>55,211,634</u>
Distributions to Other Offices			<u>(14,346,678)</u>
Change in Net Assets			32,790,320
Net Assets, Beginning of Year			<u>661,468,270</u>
Net Assets, End of Year			<u>\$ 694,258,590</u>

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

OFFICE OF FINANCIAL INCENTIVES
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2009

	Operating Fund	Facilities Establishment Fund	Regional Agency Fund
ASSETS:			
Cash Equity with Treasurer	\$ 3,703,466	\$113,541,985	\$ -
Cash and Cash Equivalents	-	35,628,382	30,537,026
Allocated Collateral on Lent Securities	1,594,335	48,890,447	-
Loans Receivable, Net	-	221,144,755	36,023,215
Leases Receivable	-	898,889	-
Other Assets	12,936	19,791	-
Due From Other Funds	15,000	28,974	-
TOTAL ASSETS	<u>\$ 5,325,737</u>	<u>\$420,153,223</u>	<u>\$ 66,560,241</u>
LIABILITIES:			
Accounts Payable	\$ 75,039	\$ -	\$ -
Accrued Liabilities	91,037	-	-
Allocated Obligations Under Securities Lending	1,594,335	48,890,447	-
Deferred Revenue	-	2,381,113	-
Due To Other Funds	-	127,157	-
TOTAL LIABILITIES	<u>1,760,411</u>	<u>51,398,717</u>	<u>-</u>
FUND BALANCES:			
Reserved for:			
Encumbrances	622,655	122,425,908	-
Noncurrent Portion of Loans Receivable	-	214,361,392	34,910,388
Noncurrent Portion of Leases Receivable	-	875,498	-
Ohio Enterprise Bond Program	-	10,000,000	-
Unreserved/Undesignated (Deficits)	2,942,671	21,091,708	31,649,853
TOTAL FUND BALANCES	<u>3,565,326</u>	<u>368,754,506</u>	<u>66,560,241</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,325,737</u>	<u>\$420,153,223</u>	<u>\$ 66,560,241</u>

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

Innovation Ohio Fund	Research and Development Fund	Logistics and Distribution Infrastructure Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 18,065,422	\$ 45,390,378	\$ 50,013,582	\$ 10,845,178	\$241,560,011
-	-	-	871,331	67,036,739
7,778,854	19,544,804	21,535,526	4,669,863	104,013,829
38,389,934	65,349,094	-	27,665,377	388,572,375
-	-	-	-	898,889
-	-	-	-	32,727
-	89,393	-	22,764	156,131
<u>\$ 64,234,210</u>	<u>\$130,373,669</u>	<u>\$ 71,549,108</u>	<u>\$ 44,074,513</u>	<u>\$802,270,701</u>
\$ -	\$ -	\$ -	\$ -	\$ 75,039
-	-	-	-	91,037
7,778,854	19,544,804	21,535,526	4,669,863	104,013,829
-	-	-	-	2,381,113
28,974	-	-	-	156,131
<u>7,807,828</u>	<u>19,544,804</u>	<u>21,535,526</u>	<u>4,669,863</u>	<u>106,717,149</u>
10,687,541	28,222,627	34,114,000	11,538,353	207,611,084
38,175,442	64,383,783	-	27,071,344	378,902,349
-	-	-	-	875,498
-	-	-	-	10,000,000
7,563,399	18,222,455	15,899,582	794,953	98,164,621
<u>56,426,382</u>	<u>110,828,865</u>	<u>50,013,582</u>	<u>39,404,650</u>	<u>695,553,552</u>
<u>\$ 64,234,210</u>	<u>\$130,373,669</u>	<u>\$ 71,549,108</u>	<u>\$ 44,074,513</u>	<u>\$802,270,701</u>

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

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**OFFICE OF FINANCIAL INCENTIVES
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2009**

Total Fund Balances for Governmental Funds **\$ 695,553,552**

Total net assets reported for governmental activities in the Statement of Net Assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds. 231,524

Some of the Office's revenues are collected after year-end but are not available soon enough to pay for the current period's (within 60 days of year-end) expenditures, and therefore, are deferred in the funds. 2,381,113

Long term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.

Compensated Absences	(155,486)
Ohio Enterprise Bond Fund Liability	(3,752,113)
	<u>(3,907,600)</u>

Total Net Assets of Governmental Activities **\$ 694,258,590**

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

OFFICE OF FINANCIAL INCENTIVES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2009

	Operating Fund	Facilities Establishment Fund	Regional Agency Fund
REVENUES:			
Fee Revenue	\$ 1,542,857	\$ 901,668	\$ 37,623
Loan Interest Income	-	5,141,791	1,469,230
Investment Income	-	3,168,824	236,567
Miscellaneous	542	36,304	1,077
TOTAL REVENUES	<u>1,543,399</u>	<u>9,248,587</u>	<u>1,744,497</u>
EXPENDITURES:			
Personnel Expenditures	1,429,977	-	-
Operating Expenditures	1,421,872	-	1,231,234
Grant Expenditures	-	1,500,000	-
Bad Debt Expense	-	4,952,868	(6,667)
Miscellaneous	-	865	20,436
TOTAL EXPENDITURES	<u>2,851,849</u>	<u>6,453,733</u>	<u>1,245,003</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,308,450)</u>	<u>2,794,854</u>	<u>499,494</u>
OTHER FINANCING SOURCES (USES):			
Interfund Transfers	1,800,000	467,730	(161,057)
Bond Proceeds received from the State of Ohio	-	-	-
Distributions to Other Offices	-	(12,377,500)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,800,000</u>	<u>(11,909,770)</u>	<u>(161,057)</u>
NET CHANGE IN FUND BALANCES	491,550	(9,114,916)	338,437
FUND BALANCES - JULY 1	<u>3,073,776</u>	<u>377,869,422</u>	<u>66,221,804</u>
FUND BALANCES, JUNE 30	<u>\$ 3,565,326</u>	<u>\$ 368,754,506</u>	<u>\$ 66,560,241</u>

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

Innovation Ohio Fund	Research and Development Fund	Logistics and Distribution Infrastructure Fund	Nonmajor Governmental Funds	Total
\$ 301,936	\$ 133,995	\$ -	\$ 70,290	\$ 2,988,369
1,393,608	1,049,941	-	224,499	9,279,069
597,626	1,224,432	13,582	11,061	5,252,092
-	89,397	-	4,987	132,307
<u>2,293,170</u>	<u>2,497,765</u>	<u>13,582</u>	<u>310,837</u>	<u>17,651,837</u>
-	-	-	-	1,429,977
167,285	-	-	-	2,820,391
-	-	-	500,000	2,000,000
1,809,476	2,153,642	-	4,298,158	13,207,477
72,736	-	-	-	94,037
<u>2,049,497</u>	<u>2,153,642</u>	<u>-</u>	<u>4,798,158</u>	<u>19,551,882</u>
<u>243,673</u>	<u>344,123</u>	<u>13,582</u>	<u>(4,487,321)</u>	<u>(1,900,045)</u>
-	-	-	(2,106,673)	-
-	-	50,000,000	-	50,000,000
-	-	-	(1,969,178)	(14,346,678)
-	-	50,000,000	(4,075,851)	35,653,322
243,673	344,123	50,013,582	(8,563,172)	33,753,277
56,182,709	110,484,742	-	47,967,822	661,800,275
<u>\$ 56,426,382</u>	<u>\$ 110,828,865</u>	<u>\$ 50,013,582</u>	<u>\$ 39,404,650</u>	<u>\$ 695,553,552</u>

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

OFFICE OF FINANCIAL INCENTIVES
RECONCILIATION OF THE CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds **\$ 33,753,277**

The change in net assets reported for governmental activities in the Statement of Activities is different because:

Some of the Office's revenues are collected after year-end but are not available soon enough to pay for the current period's (within 60 days of year-end) expenditures, and therefore, are deferred in the funds. This amount represents the change in beginning and end of year deferred revenues. (468,848)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds

Change in Compensated Absences	5,882
Change in Ohio Enterprise Bond Fund Liability	<u>(499,991)</u>

Change in Net Assets of Governmental Activities **\$ 32,790,320**

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

**OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Office of Financial Incentives (OFI), as of June 30, 2009, and for the year then ended, conform with accounting principles generally accepted in the United States of America as applied to governments. The OFI is considered a single purpose governmental entity reported as Community and Economic Development. 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. OFI's significant accounting policies are as follows:

A. Reporting Entity

The Office of Financial Incentives, formerly the Office of Credit and Finance, 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. OFI administers the Direct Loan, Loan Guarantee, and 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 OFI, 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. Budgetary statements are not required since the budgetary level of control lies with the Department of Development and not with the OFI.

B. Basis of Presentation

The Statement of Net Assets and the Statement of Activities display information about OFI. These statements include the financial activities of the overall government and eliminations have been made for interfund transfers.

The Statement of Net Assets reports all financial and capital resources using the economic resources measurement focus and the accrual basis of accounting. OFI presents the statement in a format that displays assets less liabilities equal net assets. Net assets is displayed in three components:

- The *Invested in Capital Assets* component consists of land that OFI acquired.
- The *Restricted Net Assets* component represents net assets with constraints placed on their use that are either 1.) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2.) imposed by law through constitutional provisions or enabling legislation.
- The *Unrestricted Net Assets* component consists of net assets that do not meet the definition of the preceding two components.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of OFI's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular program or function. Centralized expenses have been included in direct expenses. Indirect expenses have not been allocated to the programs or functions reported in the Statement of Activities. Generally, OFI does not incur expenses for which it has the option of first applying restricted or unrestricted resources for their payment.

OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

Program revenues include loan interest income and fee revenue. Revenues that are not classified as program revenues include all unrestricted investment income and miscellaneous revenue.

The fund financial statements provide information about OFI's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds. The funds maintained by OFI are all governmental special revenue fund types. Each accounts for specific revenues that are legally restricted to expenditure for designated purposes.

1. Major Governmental Funds

Operating Fund (OAKS Fund 4510) – 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 (OAKS Fund 7037) - accounts for proceeds deposited by the Treasurer of the State of Ohio with OFI 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.

Development Enterprise Bond Reserve Account - This account is used to account for the accumulation of payments made on type 166 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 Account exceeds the \$10,000,000 available balance.

OEBF Program Reserve Account - This reserve account was initially created from net proceeds of the 1988-1 State of Ohio bond issuance. The account 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 Facilities Establishment Fund.

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.

Innovation Ohio Loan Fund (OAKS Fund 7009) – created to assist existing Ohio companies develop next generation products within certain Targeted Industry Sectors by financing the acquisition, construction and related costs of technology, facilities and equipment.

Research and Development Investment Loan Fund (OAKS Fund 7010) – created to position Ohio to compete aggressively for private-sector research and development investments that will create high wage jobs.

Logistics and Distribution Infrastructure Fund (OAKS Fund 7008) – created to provide loans for eligible transportation, logistics, and infrastructure projects in the State of Ohio. Loans will be made on favorable terms, including interest at or below market rates, opportunities to earn forgiveness of principal and accrued interest based on attainment of defined performance measures and use of loan proceeds for construction financing.

OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

2. Non-major Governmental Funds

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

Rural Industrial Park Fund (OAKS Fund 4Z60) - accounts for designated priority investment areas within Ohio.

Urban Redevelopment Loan Fund (OAKS Fund 5D20) - 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 (OAKS Fund 5H10) - reports OFI's share of family farm loan financing deposited with various financial institutions as a loan guarantee for eligible borrowers. OFI guarantees up to 40% of the loan project, which should not exceed \$200,000 per project. The loan balances in the Family Farm Loan Guarantee Fund were transferred to the Facilities Establishment Fund at the close of fiscal year 2009.

Rural Development Initiative Fund – provides grants to eligible applicants who also qualify and receive funding under the Rural Industrial Park Loan program.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. For revenues arising from exchange transactions (i.e., charges for goods or services), OFI defers revenue recognition when resources are received in advance of the exchange.

As permitted by GAAP, OFI has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, OFI considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

Significant revenue sources subject to accrual under the modified accrual basis of accounting include investment income (including net increase or decrease in the fair value of investments), loan interest income (including net increase or decrease in allowance for doubtful loans), and fee revenue.

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

**OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- E. Deposits and Investments** - In fiscal year 2005, OBM implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures". In addition, the OBM has adopted provisions of GASB Statement No. 31, "*Accounting and Financial Reporting for Certain Investments and External Investment Pools*" ("GASB 31") of the Governmental Accounting Standards Board ("GASB"). Accordingly, OFI's investments are stated at fair value (based on quoted market prices) in the accompanying statement of net assets and the change in the fair value of the investments is recorded as Net Increase (Decrease) in Fair Value of Investments in the Statement of Activities.

OFI has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's office, which allows governments within the state to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price at which the investment could be sold.

- F. Securities Lending** - In accordance with GASB Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions" ("GASB 28"), OFI reports cash received as collateral on securities lending transactions and any investments made with that cash as assets in the accompanying balance sheet. Liabilities to return the collateral to the borrower are also recognized. Securities received as collateral in connection with securities lending activities are not recorded as assets and liabilities of OFI, because OFI does not have the ability to pledge or sell the securities without borrower default.

- G. Loans Receivable, Net and Allowance for Uncollectible Loans** - Loans receivable includes amounts due OFI for loans and loan guarantees entered into as part of its loan programs. Loans receivable is reported net of the allowance for uncollectible loans (See Note 4), which applies the following allowance methodology:

- 75% of loans certified to the Office of the Attorney General,
- 10% of loans outstanding within the Rural Industrial Park Loan Fund,
- 7% of loans outstanding within the Innovation Ohio Fund,
- 5% of loans outstanding within the Facilities Establishment Fund and Research and Development,
- 0.5% of the loans outstanding within the Regional Agency Fund, Urban Redevelopment Loan Fund and the Family Farm Loan Guarantee Fund, and
- Varying percentages on specific loan balances as deemed necessary.

Direct loan write-offs are reported upon notification from the Attorney General that an account is uncollectible. Direct loan write-offs are charged against the allowance.

The loan receivables are divided into current (60 days) and non-current portions. The following table summarizes the various funds and the breakdown of the receivables.

**OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

<u>Fund</u>	<u>Current</u>	<u>Non-current</u>
Facilities Establishment	\$ 4,422,041	\$ 216,722,714
Regional Agency	1,112,827	34,910,388
Innovation Ohio	214,492	38,175,442
Research and Development	965,311	64,383,783
Rural Industrial Park	544,987	7,866,083
Urban Redevelopment	49,046	19,205,261
Total	<u>\$ 7,308,704</u>	<u>\$ 381,263,671</u>

The Non-current portion of loans receivable shown in the Facilities Establishment fund balance is net of \$2,361,322 of deferred interest associated with this loan portfolio.

- H. Leases Receivable** - Lease Receivable includes a 166 Direct Loan to Union County CIC/Scotts. The State holds title to the asset and leases it back. Total lease receivable as of June 30, 2009 was \$898,889 which is comprised of a current portion (\$23,391) and a non-current portion (\$875,498).
- I. Other Assets** - Other assets includes receivables for Port Authority Bond Reserve service fees and prepaid expenses of healthcare items. Total other assets as of June 30, 2009, were \$32,737.
- J. Accounts Payable and Accrued Liabilities** - Accounts payable includes accruals for operating expenditures/expenses, which are attributable to purchases prior to June 30, 2009. Total accounts payable as of June 30, 2009 was \$75,039. Accrued liabilities include wages payable of \$64,846 and employee and employer share of healthcare funding deficit of \$26,191 as of June 30, 2009.
- K. Deferred Revenue** - In the fund financial statements, deferred revenue includes accruals for revenue due to OFI by June 30, 2009 but collected after August 31, 2009. Total deferred revenue as of June 30, 2009 was \$2,381,113.
- L. Compensated Absences** - 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*, OFI calculated the compensated absences liability on employees' fiscal year-end balances for vacation, sick, and compensatory leaves. The total compensated absences balance for the period ending June 30, 2009 was \$155,486.
- M. Fund Balance/Net Assets**

Reservations of equity represent amounts that are not appropriable or are legally restricted for a specific purpose. The total fund balance for the period ended June 30, 2009 was \$695,553,552.

The fund balance includes \$207,611,084 for encumbrances, \$378,902,349 for non-current loan receivables, \$875,498 for non-current lease receivable, \$10,000,000 for the Ohio Enterprise Bond Fund Program Reserve and \$98,164,621 that is unreserved/undesignated.

The total net assets as of June 30, 2009 were \$694,258,590 which includes \$231,524 invested in capital assets, \$10,000,000 that is restricted for the OEBF Program Reserve, and \$684,027,066 of unrestricted net assets. There were no net assets required to be restricted due to enabling legislation as of June 30, 2009.

**OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- N. Investment and Loan Interest Income** - Investment income includes investment earnings from STAR Ohio investments and the quarterly allocation of investment earnings from cash equity with treasurer and corresponding interest receivables. Loan interest income includes interest earned from the repayment of loans.
- O. 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.
- P. Personnel and Operating Expenditures/Expenses** - Personnel expenditures/expenses include all payroll and fringe benefit costs paid by the OFI. Operating expenditures/expenses include various supplies and maintenance expenditures, equipment purchases, and regional agency trustee and administrative fees.
- Q. Grant Expenditures/Expenses** - The Rural Development Initiative Fund provides grants to eligible applicants who also qualify and receive funding under the Rural Industrial Park Loan program.
- R. OEBF Loan Payment Expenditures/Expenses** - The OFI guarantees Ohio Enterprise Bonds and makes loan payments for Bonds that are in default of monthly payments. As of June 30, 2009, there was one OEBF bond in default totaling \$3,752,113 (See Note 5).
- S. Interfund Transfers and Distributions to Other Offices** - The OFI interfund transfers primarily consisted of transfers from the Facilities Establishment Fund to other loan programs. Distributions to Other Offices resulted from transfers to the Workforce Development Initiative Program, Job Development Initiative Program, and the State General Fund. These and other transfers are provided for in HB No. 95 and require Controlling Board approval unless otherwise specified. Since the financial statements present only the financial information of OFI and do not present the consolidated financial information of the State of Ohio, taken as a whole, the total distributions to other offices will not reflect offsetting receipts from state agencies.
- T. Self-Insurance** - The State of Ohio serves as the OFI'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.

NOTE 2 – DEPOSITS AND INVESTMENTS

The deposit and investment policies of the Treasurer of State and the State Board of Deposit are governed by the Uniform Depository Act, Chapter 135, Ohio Revised Code, which requires state moneys to be maintained in one of the following three classifications:

Active Deposits — Moneys required to be kept in a cash or near-cash status to meet current demands. Such moneys must be maintained either as cash in the State's treasury or in one of the following: a commercial account that is payable or withdrawable, in whole or in part, on demand, a negotiable order of withdrawal account, a money market deposit account, or a designated warrant clearance account.

Inactive Deposits — Those moneys not required for use within the current two-year period of designation of depositories. Inactive moneys may be deposited or invested only in certificates of deposit maturing not later than the end of the current period of designation of depositories.

**OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

Interim Deposits — Those moneys not required for immediate use, but needed before the end of the current period of designation of depositories. Interim deposits may be deposited or invested in the following instruments:

- Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest;
- Bonds, notes, debentures, or other obligations or securities issued by any federal government agency, or the Export-Import Bank of Washington;
- Repurchase agreements in the securities enumerated above;
- Interim deposits in the eligible institutions applying for interim moneys;
- Bonds and other obligations of the State of Ohio;
- The Treasurer of State's investment pool;
- Linked deposits, reduced-rate deposits at financial institutions that provide reduced-rate loans to small businesses, as authorized under Section 135.63, Ohio Revised Code;
- Agricultural linked deposits, reduced-rate deposits at financial institutions that provide reduced-rate loans to agricultural businesses, as authorized under Section 135.74, Ohio Revised Code;
- Reverse repurchase agreements with any eligible financial institution that is a member of the Federal Reserve System or federal home loan bank, or any recognized U.S. government securities dealer;
- Securities lending agreements with any eligible financial institution that is a member of the federal reserve system or federal home loan bank, or any recognized U.S. government securities dealer;
- Commercial paper, rated in one of the two highest rating categories by two nationally recognized rating agencies and not exceeding five percent of the investment portfolio;
- Bankers' acceptances maturing in 270 days or less and not exceeding 10 percent of the investment portfolio;
- Debt of domestic corporations and foreign nations diplomatically recognized by the United States, rated investment grade by nationally recognized rating agencies and, in the aggregate, not exceeding five percent of the investment portfolio; and
- No-load money market funds consisting of U.S. government and agency obligations and repurchase agreements secured by such obligations.

The primary government's deposits must be held in insured depositories approved by the State Board of Deposit and must be fully collateralized.

As of June 30, 2009, OFI's cash and cash equivalents totaled \$67,036,739, consisting of deposits in the amount of \$153,796, money market funds in the amount of \$43,246,754, and STAROhio in the amount of \$23,636,189.

Credit Risk – Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. At year end, OFI indirectly held debt securities through STAROhio and multiple money market funds. STAROhio was rated AAA and OFI's money market funds were not rated.

Concentration of Credit Risk – Concentration of credit risk is the risk of inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification. At year end, OFI was not exposed to concentration of credit risk because OFI had no positions of 5 percent or more in any single issuer.

Interest Rate Risk – Interest rate risk is the risk that an interest rate change could adversely affect an investment's fair value. At year end, all of OFI's investments had an average maturity of less than one year.

**OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits – In the case of deposits, this is the risk that in the event of a bank failure, OFI's deposits may not be returned to it. OFI maintains cash on deposit at a commercial bank and in two custodial accounts with the State Treasurer. Public depositories are required to give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC) or may pledge a pool of government securities, the face value of which is at least 110% of the total value of public moneys on deposit at the institution. At year end, OFI's deposits were not exposed to custodial credit risk.

Custodial Credit Risk - Investments – For an investment, this is the risk that, in the event of the failure of the counterparty, OFI will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. OFI's investments were not exposed to custodial credit risk at year end because all investments were registered in the OFI's name.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates between the U.S. Dollar and foreign currencies could adversely affect an investment's fair value. OFI had no exposure to foreign currency risk at fiscal year end.

NOTE 3 – SECURITIES LENDING TRANSACTIONS

OFI through the Treasurer of State's Investment Department participates in a securities lending program for securities included in the "Equity in State of Ohio common cash and investments" and STAROhio accounts. The State's lending programs, authorized under Sections 135.143, 135.45 and 135.47, Ohio Revised Code, are administered by custodial agent banks, whereby certain securities are transferred to independent broker-dealers (borrowers) in exchange for collateral. OFI has minimized its exposure to credit risk due to borrower default by requiring the custodial agent to ensure that the lent securities are collateralized at no less than 102 percent of the market value at the time of the loan. At no point in time can the value of the collateral be less than 100 percent of the value of the underlying securities on loan.

For loaned contracts the Treasurer executes, not more than 15 percent of the State's cash and investment portfolio can be lent to a single broker-dealer. For State funds on deposit with the Treasurer, the lending agent may not lend more than 75 percent of the total average portfolio. For the STAROhio program, not more than 25 percent of the STAROhio investment pool may be lent at any one time, and not more than 10 percent of the investment pool may be subject to term loans in excess of one business day.

During the fiscal year, the State Treasurer and the STAROhio program lent U.S. government and agency obligations in exchange for collateral consisting of cash and/or U.S. government obligations. OFI cannot sell securities received as collateral unless the borrower defaults. At June 30, 2009 the collateral OFI had received for securities lent consisted entirely of cash, some of which had been temporarily invested by OFI in various securities. For State funds, the State Treasurer invests cash collateral in short-term obligations. At June 30, 2009, the weighted average maturity of all loans was 1 day while the weighted maturity of all collateral was 6.5 days. For STAROhio, the weighted average maturities of all loans and collateral was 1 day.

**OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 3 – SECURITIES LENDING TRANSACTIONS (continued)

For State funds, the securities lending agent shall indemnify the Treasurer of State for any losses resulting from either the default of the borrower or any violations of the securities lending policy. For the STAROhio program, the agent agrees to indemnify the Treasurer for losses resulting from the failure of the borrower to return the loaned securities in accordance with the terms of the loan agreement, provided, however, that the agent's obligation to indemnify the Treasurer shall be limited to an indemnification amount equal to the difference between the market value of the loaned securities on the date that such loaned securities should have been returned to the agent and the greater of (1) the cash collateral received from the borrower or (2) the value of investments of collateral. There were no recoveries during fiscal year 2009 due to prior-period losses.

For both the State funds and STAROhio lending programs, since the lender owes the borrower more than the borrower owes the lender, there is no credit risk to the lender as of June 30, 2009. The State's Office of Budget and Management allocates the State's pooled cash collateral to various funds within the State's Ohio Administrative Knowledge System (OAKS) based on cash balances at June 30, 2009. As a result, OFI's Allocated Collateral on Lent Securities and related Allocated Obligations Under Securities Lending as of June 30, 2009, was \$104,013,829.

NOTE 4 – LOAN PROGRAM ACTIVITY

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

Fund	Beginning Balance	Loan Additions	Loan Reductions	Ending Balance
Facilities Establishment	\$ 222,274,728	\$ 51,618,166	\$ (33,428,713)	\$ 240,464,181
Regional Agency	37,537,653	6,703,595	(8,037,012)	36,204,236
Innovation Ohio	24,361,032	19,689,126	(892,846)	43,157,312
Research and Development	42,859,451	30,283,147	(4,354,078)	68,788,520
Rural Industrial Park	9,118,235	500,000	(272,602)	9,345,633
Urban Redevelopment	24,253,117	130,000	(926,438)	23,456,679
Grand Total	<u>\$ 360,404,216</u>	<u>\$ 108,924,034</u>	<u>\$ (47,911,689)</u>	<u>\$ 421,416,561</u>

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 total allowance for loan losses as of June 30, 2009 was \$32,844,186 (Facilities Establishment Fund was \$19,319,426; Regional Agency Fund was \$181,021; Innovation Ohio was \$4,767,378; Research and Development was \$3,439,426; Rural Industrial Park Loan Fund was \$934,563; and Urban Redevelopment Fund was \$4,202,372).

**OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 5 – COMMITMENTS AND CONTINGENCIES

A. Ohio Enterprise Bond Funds

Ohio Enterprise Bond Fund (OEBF) 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, 2009 outstanding loan balances under this program aggregated \$164,820,000 with original terms up to 20 years at interest ranging from 2.0% to 10.0%. According to the Ohio Enterprise Bond Fund’s official bond statement, the bonds are not general obligations of the State of Ohio or of any political subdivision and are not payable from any tax source, therefore, the rights of holders of the bonds to payments of amounts due there under are limited solely to the Ohio Enterprise Bond Fund Accounts. The scheduled payment of the bonds is, however, guaranteed through OFI. OFI only monitors OEBF activities and does not include the financial transactions within its financial statements.

Of the 45 Ohio Enterprise Bond Fund loans with outstanding principal balances, 44 were current in their repayment as of June 30, 2009. The following schedule identifies the bond in default and shows payments to be made each year from FY2010 through FY2014 and then in 5-year increments.

	<u>Euclid & Wickliffe</u>
FY 2010	370,000
FY 2011	270,000
FY 2012	295,000
FY 2013	320,000
FY 2014	350,000
FY 2015-2019	2,360,000
Total	<u>\$ 3,965,000</u>

At June 30, 2009, OFI’s debt service obligation in regards to this defaulted bond was \$3,752,113, which is recorded as a long term liability on the Statement of Net Assets. The difference between the total bond amount outstanding and OFI’s long term liability amount is net collateral proceeds totaling \$212,887.

B. Ohio Enterprise Bond Fund Leases

Within the OEBF, there are five projects where the State of Ohio holds title to the assets and leases them back to the companies. These lease transactions are OEBF activities and are not part of the OFI financial statements. Total leases receivable as of June 30, 2009 were \$13,310,000. The projects that include leases are as follows:

<u>Issue #</u>	<u>Borrower</u>	<u>Original Amount</u>	<u>Current Balance</u>
1993-5	Foremost Management	8,100,000	2,980,000
1991-1	Kinetics Noise Control	2,270,000	615,000
1994-4	Orlando Baking Company	3,575,000	365,000
2000-1	Scotts/Union County	6,025,000	4,570,000
2000-2	Western Reserve P.A. Timken	6,185,000	4,780,000
	Grand Total	<u>\$ 26,155,000</u>	<u>\$ 13,310,000</u>

**OFFICE OF FINANCIAL INCENTIVES
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009**

NOTE 5 – COMMITMENTS AND CONTINGENCIES (continued)

In case of a lease default, OFI would first draw on the 10% letter of credit to satisfy the bondholders. If the letter of credit is insufficient, the State would then liquidate the assets to which it holds title. Finally, if the bondholders are still not paid in full, OFI is obligated to make the bond payments using the Facilities Establishment Fund.

C. Loan Commitments

These commitments primarily represent Chapter 166 loan commitments, which have been approved by OFI's Development Financing Advisory Council and the State's Controlling Board; however, the loans were not closed as of June 30, 2009. Below is a summary of outstanding commitments of OFI related to the Chapter 166 program:

<u>Fund</u>	<u>Commitment</u>
Facilities Establishment	\$ 122,425,908
Operating Fund	622,655
Innovation Ohio	10,687,541
Research and Development	28,222,627
Logistics and Distribution Infrastructure	34,114,000
Urban Redevelopment	11,538,353
Grand Total	<u>\$ 207,611,084</u>

The encumbrances do not include each individual agency's pollution prevention program. These programs are administered by the local agencies on behalf of OFI.

D. Loan Guarantees

Under the Chapter 166 Loan Guarantee Program, OFI 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, 2009, OFI had no guarantees outstanding.

**OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 6 – PENSION PLAN

All full-time employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans as described below:

1. The Traditional Plan – a cost-sharing multiple-employer defined benefit pension plan.
2. The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3. The Combined Plan – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. For fiscal year 2009, the contribution rate for OFI employees was 10.0% of covered payroll and the employer contribution rate was 14.0% of covered payroll. OFI's contributions to OPERS for the years ended June 30, 2009, 2008, and 2007 were \$151,903, \$106,767, and \$119,266, respectively, equaling the required contributions for each year.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS

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

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

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

**OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (continued)

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling 614-222-5601 or 800-222-7377..

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In fiscal year 2009, state and local employers contributed at a rate of 14.00% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For fiscal year 2009, the employer contribution allocated to the health care plan was 7.0% of covered payroll. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The contribution rates stated above are the actuarially determined contribution requirements for OPERS. The portion of OFI's 2008 contributions that was used to fund post-employment benefits was \$75,952.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

NOTE 8 – LONG TERM LIABILITIES

Long term liability activity for the year ended June 30, 2009 is as follows:

Type	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Amount Due in One Year</u>
Compensated Absences	\$ 161,368	\$ 47,402	\$ (53,284)	\$ 155,486	\$ 53,221
Ohio Enterprise Bond Fund	<u>3,252,122</u>	<u>609,991</u>	<u>(110,000)</u>	<u>3,752,113</u>	<u>157,113</u>
Total Long Term Liabilities	<u>\$ 3,413,490</u>	<u>\$ 657,393</u>	<u>\$ (163,284)</u>	<u>\$ 3,907,599</u>	<u>\$ 210,334</u>

T

he compensated absences will be paid from the operating fund.

**OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 8 – LONG TERM LIABILITIES (continued)

A summary of OFI’s future Ohio Enterprise Bond Fund debt service obligations as of June 30, 2009 are as follows:

<u>Fiscal Year</u>	<u>Principal Due</u>
2010	157,113
2011	270,000
2012	295,000
2013	320,000
2014	350,000
2015-2019	<u>2,360,000</u>
Total	<u><u>3,752,113</u></u>

NOTE 9 – FUND RECLASSIFICATION

In fiscal year 2009, OFI’s Rural Development Initiative Fund did not meet the major fund reporting criteria outlined in Governmental Accounting Standards Board (GASB) Statement No. 34. Since the Rural Development Initiative Fund is not expected to meet the minimum criteria in future periods, OFI has elected to reclassify the Rural Development Initiative Fund as a Nonmajor Governmental Fund. The impact of the fund reclassifications on beginning fund balance is presented below:

	<u>Rural Development Initiative Fund</u>	<u>Nonmajor Governmental Funds</u>
Fund Balance as of June 30, 2008	\$ 500,500	\$ 47,467,322
Fund Reclassifications:		
Rural Development Initiative Fund	(500,500)	500,500
Fund Balance as of July 1, 2009	<u><u>\$ -</u></u>	<u><u>\$ 47,967,822</u></u>

SUPPLEMENTARY COMBINING FINANCIAL STATEMENTS

OFFICE OF FINANCIAL INCENTIVES
BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2009

	Loan Guarantee Fund	Rural Industrial Park Loan Fund	Urban Redevelopment Loan Fund
ASSETS:			
Cash Equity with Treasurer	\$ -	\$ 1,633,166	\$ 9,211,512
Cash and Cash Equivalents	871,331	-	-
Allocated Collateral on Lent Securities	-	703,230	3,966,418
Loans Receivable, Net	-	8,411,070	19,254,307
Due From Other Funds	-	22,764	-
TOTAL ASSETS	<u>\$ 871,331</u>	<u>\$ 10,770,230</u>	<u>\$ 32,432,237</u>
LIABILITIES:			
Allocated Obligations Under Securities Lending	\$ -	\$ 703,230	\$ 3,966,418
TOTAL LIABILITIES	<u>-</u>	<u>703,230</u>	<u>3,966,418</u>
FUND BALANCES:			
Reserved for:			
Encumbrances	-	-	11,538,353
Noncurrent Portion of Loans Receivable	-	7,866,083	19,205,261
Unreserved/Undesignated (Deficits)	871,331	2,200,917	(2,277,795)
TOTAL FUND BALANCES	<u>871,331</u>	<u>10,067,000</u>	<u>28,465,819</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 871,331</u>	<u>\$ 10,770,230</u>	<u>\$ 32,432,237</u>

Family Farm Loan Guarantee Fund	Rural Development Initiative Fund	Total Nonmajor Governmental Funds
\$ -	\$ 500	\$ 10,845,178
-	-	871,331
-	215	4,669,863
-	-	27,665,377
-	-	22,764
<u>\$ -</u>	<u>\$ 715</u>	<u>\$ 44,074,513</u>
<u>\$ -</u>	<u>215</u>	<u>\$ 4,669,863</u>
<u>-</u>	<u>215</u>	<u>4,669,863</u>
-	-	11,538,353
-	-	27,071,344
<u>-</u>	<u>500</u>	<u>794,953</u>
<u>-</u>	<u>500</u>	<u>39,404,650</u>
<u>\$ -</u>	<u>\$ 715</u>	<u>\$ 44,074,513</u>

OFFICE OF FINANCIAL INCENTIVES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2009

	Loan Guarantee Fund	Rural Industrial Park Loan Fund	Urban Redevelopment Loan Fund
REVENUES:			
Fee Revenue	\$ -	\$ 6,713	\$ 63,577
Loan Interest Income	-	50,493	152,547
Investment Income	11,061	-	-
Miscellaneous	-	-	-
TOTAL REVENUES	<u>11,061</u>	<u>57,206</u>	<u>216,124</u>
EXPENDITURES:			
Grant Expenditures	-	-	-
Bad Debt Expense	-	934,563	3,365,831
TOTAL EXPENDITURES	<u>-</u>	<u>934,563</u>	<u>3,365,831</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>11,061</u>	<u>(877,357)</u>	<u>(3,149,707)</u>
OTHER FINANCING SOURCES (USES):			
Interfund Transfers	-	-	-
Distributions to Other Offices	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	11,061	(877,357)	(3,149,707)
FUND BALANCES, JULY 1	<u>860,270</u>	<u>10,944,357</u>	<u>31,615,526</u>
FUND BALANCES, JUNE 30	<u>\$ 871,331</u>	<u>\$ 10,067,000</u>	<u>\$ 28,465,819</u>

Family Farm Loan Guarantee Fund	Rural Development Initiative Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 70,290
21,459	-	224,499
-	-	11,061
<u>4,987</u>	<u>-</u>	<u>4,987</u>
<u>26,446</u>	<u>-</u>	<u>310,837</u>
-	500,000	500,000
<u>(2,236)</u>	<u>-</u>	<u>4,298,158</u>
<u>(2,236)</u>	<u>500,000</u>	<u>4,798,158</u>
<u>28,682</u>	<u>(500,000)</u>	<u>(4,487,321)</u>
(2,106,673)	-	(2,106,673)
<u>(1,969,178)</u>	<u>-</u>	<u>(1,969,178)</u>
<u>(4,075,851)</u>	<u>-</u>	<u>(4,075,851)</u>
(4,047,169)	(500,000)	(8,563,172)
<u>4,047,169</u>	<u>500,500</u>	<u>47,967,822</u>
<u>\$ -</u>	<u>\$ 500</u>	<u>\$ 39,404,650</u>



Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Office of Financial Incentives
State of Ohio

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of Financial Incentives (OFI), State of Ohio, as of and for the year ended June 30, 2009, which collectively comprise OFI's basic financial statements and have issued our report thereon dated the same date as this report. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, of the financial statements of OFI as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered OFI's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OFI's internal control.. Accordingly, we do not express an opinion on the effectiveness of OFI's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Office of Financial Incentives in a separate letter dated October 30, 2009.

This report is intended solely for the information and use of management, OFI's Development Financing Advisory Council, 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.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
October 30, 2009

**OFFICE OF FINANCIAL INCENTIVES
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2009**

There were no findings for the year ended June 30, 2008.



Mary Taylor, CPA
Auditor of State

OFFICE OF FINANCIAL INCENTIVES

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
DECEMBER 8, 2009**