

OFFICE OF CREDIT AND FINANCE

FINANCIAL STATEMENTS

Franklin County

June 30, 2004



**Auditor of State
Betty Montgomery**

Office of Credit and Finance

We have reviewed the Independent Auditor's Report of the Office of Credit and Finance, Franklin County, prepared by Crowe Chizek and Company, LLC for the audit period July 1, 2003 through June 30, 2004. 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 Credit and Finance is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

November 22, 2004

This Page is Intentionally Left Blank.

OFFICE OF CREDIT AND FINANCE

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Auditors	1
FINANCIAL SECTION	
Management's Discussion and Analysis	3
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	9
Statement of Activities	10
Balance Sheet - Governmental Funds	11
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	14
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	15
Reconciliation of the Statement of Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Notes to the Basic Financial Statements	18
SUPPLEMENTARY COMBINING FINANCIAL STATEMENTS	
Combining Balance Sheet - Nonmajor Governmental Funds	34
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	36
Report on Compliance and on Internal Control Required by Government Auditing Standards	38

This Page is Intentionally Left Blank.



Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

To the Office of Credit and Finance
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 Credit and Finance (Office), State of Ohio, as of and for the year ended June 30, 2004, which collectively comprise the Office's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Office'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 Credit and Finance are intended to present the financial position and the changes in net assets, or fund balances thereof of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information that is attributable to the transactions of the Office. They do not purport to, and do not, present fairly the financial position of the State of Ohio as of June 30, 2004, 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 the Office of Credit and Finance, as of June 30 2004, and the respective changes in net assets or fund balances 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 September 29, 2004 on our consideration of the Office'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.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 Credit and Finance's 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 fund 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 Chizek and Company LLC
Crowe Chizek and Company LLC

Columbus, Ohio
September 29, 2004

**OFFICE OF CREDIT AND FINANCE
MANAGEMENT'S DISCUSSION & ANALYSIS**
For the Year Ended June 30, 2004

As management of the Office of Credit and Finance (OCF), formerly the Office of Business Development, we are providing this overview of OCF's financial activities for the fiscal year ended June 30, 2004. Please read this overview in conjunction with the OCF's basic financial statements, which follow.

OCF was created as part of the Ohio Department of Development (ODOD) on July 14, 1983, by action of the State of Ohio Legislature. OCF 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.

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.

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

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2004 are as follows:

- The assets of the OCF exceeded its liabilities at the close of the most recent fiscal year by \$528.4 million (net assets).
- The OCF's total net assets increased by \$100.9 million.
- As of the close of the current fiscal year, the OCF's government funds reported combined ending fund balances of \$528.2 million, an increase of \$100.8 million in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance was \$162 million.
- OCF closed 18 Direct Loans totaling \$33.9 million, 46 Regional loans totaling \$10.8 million, three OEBF's totaling \$26.1 million and two Rural Development grants totaling \$1.4 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to OCF'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 OCF's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the OCF'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 OCF is improving or deteriorating.

**OFFICE OF CREDIT AND FINANCE
MANAGEMENT'S DISCUSSION & ANALYSIS**
For the Year Ended June 30, 2004

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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 9-10 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 OCF, 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 OCF'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 OCF maintains eleven 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, Rural Development Initiative Fund, Ohio Innovation Fund and Research and Development Fund, all of which are considered to be major funds. Data from the other six 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 11-17 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 18-32 of this report.

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.

**OFFICE OF CREDIT AND FINANCE
MANAGEMENT'S DISCUSSION & ANALYSIS**
For the Year Ended June 30, 2004

FINANCIAL ANALYSIS OF THE OFFICE OF CREDIT AND FINANCE

Government-wide Financial Analysis

The following is a summary of OCF's net assets as of June 30, 2004 compared to June 30, 2003.

Net Assets at June 30

	<u>2004</u>	<u>2003</u>	<u>% Change</u>
Assets			
Current and Other Non Current Assets	\$ 613,209,491	\$ 464,643,851	31.97%
Capital Assets, Non-Infrastructure	<u>231,524</u>	<u>231,524</u>	0.00%
Total Assets	<u>613,441,015</u>	<u>464,875,375</u>	
Liabilities			
Current and Other Liabilities	84,984,170	37,252,236	128.13%
Due in More Than One Year	<u>67,869</u>	<u>92,687</u>	-26.78%
Total Liabilities	<u>85,052,039</u>	<u>37,344,923</u>	
Net Assets			
Invested in Capital Assets	231,524	231,524	0.00%
Restricted for the Enterprise Bond Program	10,000,000	10,000,000	0.00%
Unrestricted	<u>518,157,452</u>	<u>417,298,928</u>	24.17%
Total Net Assets	<u>\$ 528,388,976</u>	<u>\$ 427,530,452</u>	

Total Assets

Total Assets of OCF increased by \$148.6 million, or 31.97%, during fiscal year 2004. This increase resulted from a combination of OCF receiving \$100 million in bond proceeds from the new Innovation Ohio and Research and Development Loan Funds and a \$48 million increase in allocated collateral on lent securities, as reported by the Treasurer of State.

Total Liabilities

Total Liabilities of OCF increased by \$47.7 million during fiscal year 2004. This increase is primarily the result of the \$48 million increase in allocated obligations under securities lending, as reported by the Treasurer of State.

Total Net Assets

During fiscal year 2004, OCF's Net Assets increased \$100.9 million, or 23.59%. Net Assets invested in Capital Assets and Restricted Net Assets remained unchanged. The increase in Unrestricted Net Assets is almost entirely attributed to the proceeds from the new loan funds.

**OFFICE OF CREDIT AND FINANCE
MANAGEMENT'S DISCUSSION & ANALYSIS**
For the Year Ended June 30, 2004

FINANCIAL ANALYSIS OF THE OFFICE OF CREDIT AND FINANCE (CONTINUED)

The following is a summary of OCF's Statement of Activities for the year ending June 30, 2004 compared to the year ending June 30, 2003.

Statement of Activity for the year ending June 30

	<u>2004</u>	<u>2003</u>	<u>% Change</u>
Revenues			
Program Revenues:			
Community and Economic Development	<u>\$ 10,413,074</u>	<u>\$ 8,621,565</u>	20.78%
General Revenues			
Bond Proceeds from the State of Ohio	100,000,000	-	100.00%
Investment Income	2,824,185	3,396,850	-16.86%
Net Decrease in Fair Value of Investments	(382,157)	(112,269)	240.39%
Miscellaneous Revenues	<u>152,606</u>	<u>48,364</u>	215.54%
Total General Revenues	<u>102,594,634</u>	<u>3,332,945</u>	
Program Expenses			
Community and Economic Development	<u>(11,934,987)</u>	<u>(10,103,728)</u>	18.12%
Distributions to Other Offices	<u>(214,197)</u>	<u>(910,562)</u>	-76.48%
Change in Net Assets	\$100,858,524	\$ 940,220	

Program revenues consist of loan fee and interest income. Program revenue increased \$1.8 million or 20.78%. This increase was primarily because of increased activity during fiscal year 2004. The 2003 amount reflects the reclassification of bad debt expense from a reduction of program revenue to a program expense to be consistent with the presentation in 2004.

Investment Income decreased \$.6 million, or 16.86%, due to economic conditions and low interest rates.

Program expenses consist primarily of personnel and operating expenditures and bad debt expense. The total program expenses increased \$1.8 million or 18.12%. The increase was from an increase in bad debt expense of \$3.5 million being reduced by decreases in grant expenditures, OEBF loan payment expenditures, and personnel expenditures of \$1.1 million, \$.6 million, and \$.2 million, respectively.

Distributions to Other Offices decreased \$.7 million, or 76.48%. This decrease is due to the phasing-out of the 122 Direct Loan Program.

**OFFICE OF CREDIT AND FINANCE
MANAGEMENT'S DISCUSSION & ANALYSIS**
For the Year Ended June 30, 2004

FINANCIAL ANALYSIS OF THE OFFICE OF CREDIT AND FINANCE (CONTINUED)

Financial Analysis of the Government's Funds

The following is a summary of OCF's fund balances as of June 30, 2004 compared to June 30, 2003.

Fund Balance at June 30

	<u>2004</u>	<u>2003</u>	<u>% Change</u>
Operating Fund	\$ 2,033,310	\$ 2,900,175	-29.89%
Facilities Establishment Fund	339,188,328	337,857,959	0.39%
Regional Agency Fund	61,699,644	63,297,381	-2.52%
Rural Development Initiative Fund	500,000	419,412	19.21%
Ohio Innovation Fund	50,696,486	-	100.00%
Research and Development Fund	50,506,476	-	100.00%
Nonmajor Governmental Funds	<u>23,535,252</u>	<u>22,863,715</u>	2.94%
Total Fund Balance	<u>\$ 528,159,496</u>	<u>\$ 427,338,642</u>	

The Operating Fund balance decreased \$9 million, or 29.89%. In fiscal year 2004, the OCF did not transfers funds from the Facilities Establishment Fund to the Operating Fund, resulting in this decrease.

The Ohio Innovation and Research and Development Funds were established in fiscal year 2004 with the receipt of bond proceeds from the State of Ohio.

BUDGET VARIANCES IN THE GENERAL FUND

Since OCF 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

OCF has \$231,524 invested in net capital assets as of June 30, 2004. There were no acquisitions or dispositions during the fiscal year.

**OFFICE OF CREDIT AND FINANCE
MANAGEMENT'S DISCUSSION & ANALYSIS**
For the Year Ended June 30, 2004

CONDITIONS EXPECTED TO AFFECT FUTURE OPERATIONS

The Innovation Ohio Fund (IOF) is a \$100 million revolving loan fund that was created by the Ohio General Assembly and became law on March 14, 2003. The IOF was created to assist existing Ohio companies develop next generation products or competitive capabilities within certain targeted industry sectors by financing the acquisition, construction and related costs of technology, facilities, and equipment. The IOF was capitalized with an initial \$50 million in July 2003.

The Research & Development Loan Fund (R&D Fund) is a \$200 million revolving loan fund that was created by the Ohio General Assembly and became law on June 26, 2003. The R&D Fund was created to position Ohio to compete aggressively for private-sector Research & Development investments that create high-wage jobs by financing the acquisition, construction, and related costs of technology, facilities, and equipment. The R&D Fund was capitalized with an initial \$50 million in November/December 2003.

The OCF Staff completed the guidelines and procedures to administer the new loan programs. The OCF expects to commence issuing new loans under these programs by the third quarter of calendar year 2004.

CONTACTING THE OFFICE OF CREDIT AND FINANCE'S MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

OFFICE OF CREDIT AND FINANCE
STATEMENT OF NET ASSETS
June 30, 2004

	Governmental Activities
Assets	
Cash Equity with Treasurer	\$ 197,662,755
Cash and Cash Equivalents	50,105,419
Allocated Collateral on Lent Securities	84,741,289
Loans Receivable, Net	279,009,242
Leases Receivable	1,544,900
Other Assets	145,886
Capital Assets, Non-Infrastructure	231,524
Total Assets	<u>613,441,015</u>
Liabilities	
Accounts Payable	197,924
Accrued Liabilities	39,063
Allocated Obligations Under Securities Lending	84,741,289
Compensated Absences:	
Due in One Year	5,894
Due in More Than One Year	67,869
Total Liabilities	<u>85,052,039</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	231,524
Restricted for:	
Enterprise Bond Program	10,000,000
Unrestricted	518,157,452
Total Net Assets	<u>\$ 528,388,976</u>

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

OFFICE OF CREDIT AND FINANCE
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2004

<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	\$ 11,934,987	\$ 10,413,074	\$ (1,521,913)
Total Governmental Activities	<u>11,934,987</u>	<u>10,413,074</u>	<u>(1,521,913)</u>
Total Primary Government	<u>\$ 11,934,987</u>	<u>\$ 10,413,074</u>	<u>\$ (1,521,913)</u>
General Revenues:			
Bond Proceeds received from the State of Ohio			100,000,000
Investment Income			2,824,185
Net Increase (Decrease) in Fair Value of Investments			(382,157)
Miscellaneous Revenue			152,606
Total General Revenues			<u>102,594,634</u>
Distributions to Other Offices			<u>(214,197)</u>
Change in Net Assets			100,858,524
Net Assets, Beginning of Year			<u>427,530,452</u>
Net Assets, End of Year			<u>\$ 528,388,976</u>

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

OFFICE OF CREDIT AND FINANCE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	Operating Fund	Facilities Establishment Fund	Regional Agency Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS:			
Cash Equity with Treasurer	\$ 2,166,139	\$ 89,664,166	\$ -
Cash and Cash Equivalents	940	32,323,472	17,042,011
Allocated Collateral on Lent Securities	873,890	41,002,744	-
Loans Receivable, Net	-	215,603,162	44,736,612
Leases Receivable	-	1,544,900	-
Other Assets	11,848	124,347	9,691
TOTAL ASSETS	<u>\$ 3,052,817</u>	<u>\$ 380,262,791</u>	<u>\$ 61,788,314</u>
LIABILITIES:			
Accounts Payable	\$ 106,554	\$ -	\$ 88,670
Accrued Liabilities	39,063	-	-
Allocated Obligations Under Securities Lending	873,890	41,002,744	-
Deferred Revenue	-	71,719	-
TOTAL LIABILITIES	<u>1,019,507</u>	<u>41,074,463</u>	<u>88,670</u>
FUND BALANCES:			
Reserved for:			
Encumbrances	340,351	61,565,511	4,482,238
Noncurrent Portion of Loans Receivable	-	212,716,684	42,620,018
Noncurrent Portion of Leases Receivable	-	1,524,959	-
Ohio Enterprise Bond Program	-	10,000,000	-
Unreserved/Undesignated (Deficits)	1,692,959	53,381,174	14,597,388
TOTAL FUND BALANCES	<u>2,033,310</u>	<u>339,188,328</u>	<u>61,699,644</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,052,817</u>	<u>\$ 380,262,791</u>	<u>\$ 61,788,314</u>

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

Rural Development Initiative Fund	Ohio Innovation Fund	Research and Development Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 500,000	\$ 50,699,186	\$ 50,506,476	\$ 4,126,788	\$ 197,662,755
-	-	-	738,996	50,105,419
201,716	20,453,690	20,375,945	1,833,304	84,741,289
-	-	-	18,669,468	279,009,242
-	-	-	-	1,544,900
-	-	-	-	145,886
<u>\$ 701,716</u>	<u>\$ 71,152,876</u>	<u>\$ 70,882,421</u>	<u>\$ 25,368,556</u>	<u>\$ 613,209,491</u>
\$ -	\$ 2,700	\$ -	\$ -	\$ 197,924
-	-	-	-	39,063
201,716	20,453,690	20,375,945	1,833,304	84,741,289
-	-	-	-	71,719
<u>201,716</u>	<u>20,456,390</u>	<u>20,375,945</u>	<u>1,833,304</u>	<u>85,049,995</u>
-	844,271	-	13,467,792	80,700,163
-	-	-	18,632,004	273,968,706
-	-	-	-	1,524,959
-	-	-	-	10,000,000
<u>500,000</u>	<u>49,852,215</u>	<u>50,506,476</u>	<u>(8,564,544)</u>	<u>161,965,668</u>
<u>500,000</u>	<u>50,696,486</u>	<u>50,506,476</u>	<u>23,535,252</u>	<u>528,159,496</u>
<u>\$ 701,716</u>	<u>\$ 71,152,876</u>	<u>\$ 70,882,421</u>	<u>\$ 25,368,556</u>	<u>\$ 613,209,491</u>

This page intentionally left blank.

OFFICE OF CREDIT AND FINANCE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2004

Total Fund Balances for Governmental Funds **\$ 528,159,496**

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. 71,719

Compensated absences are not due and payable in the current period, and therefore are not reported in the governmental funds. (73,763)

Total Net Assets of Governmental Activities **\$ 528,388,976**

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

OFFICE OF CREDIT AND FINANCE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2004

	<u>Operating Fund</u>	<u>Facilities Establishment Fund</u>	<u>Regional Agency Fund</u>
REVENUES:			
Fee Revenue	\$ 777,420	\$ 764,871	\$ -
Loan Interest Income	-	6,810,797	2,006,514
Investment Income	-	1,528,050	91,036
Net Increase (Decrease) in Fair Value of Investments	-	(382,157)	-
Miscellaneous	<u>514</u>	<u>54,400</u>	<u>22,166</u>
TOTAL REVENUES	<u>777,934</u>	<u>8,775,961</u>	<u>2,119,716</u>
EXPENDITURES:			
Personnel Expenditures	678,241	-	-
Operating Expenditures	966,558	-	1,648,273
Grant Expenditures	-	-	-
OEBF Loan Payment Expenditures	-	79,638	-
Bad Debt Expense	-	6,474,479	564,595
Miscellaneous	<u>-</u>	<u>129,480</u>	<u>-</u>
TOTAL EXPENDITURES	<u>1,644,799</u>	<u>6,683,597</u>	<u>2,212,868</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(866,865)</u>	<u>2,092,364</u>	<u>(93,152)</u>
OTHER FINANCING SOURCES (USES):			
Interfund Transfers	-	(761,995)	(1,504,585)
Bond Proceeds received from the State of Ohio	-	-	-
Distributions to Other Offices	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(761,995)</u>	<u>(1,504,585)</u>
NET CHANGE IN FUND BALANCES	<u>(866,865)</u>	<u>1,330,369</u>	<u>(1,597,737)</u>
FUND BALANCES, JULY 1	<u>2,900,175</u>	<u>337,857,959</u>	<u>63,297,381</u>
FUND BALANCES, JUNE 30	<u>\$ 2,033,310</u>	<u>\$ 339,188,328</u>	<u>\$ 61,699,644</u>

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

Rural Development Initiative Fund	Ohio Innovation Fund	Research and Development Fund	Nonmajor Governmental Funds	Total
\$ -	\$ -	\$ -	\$ 13,191	\$ 1,555,482
-	-	-	40,281	8,857,592
-	752,215	506,476	7,387	2,885,164
-	-	-	-	(382,157)
-	-	-	3,807	80,887
-	752,215	506,476	64,666	12,996,968
-	-	-	-	678,241
-	55,729	-	-	2,670,560
1,359,412	-	-	-	1,359,412
-	-	-	-	79,638
-	-	-	-	7,039,074
-	-	-	5,512	134,992
1,359,412	55,729	-	5,512	11,961,917
(1,359,412)	696,486	506,476	59,154	1,035,051
1,440,000	-	-	826,580	-
-	50,000,000	50,000,000	-	100,000,000
-	-	-	(214,197)	(214,197)
1,440,000	50,000,000	50,000,000	612,383	99,785,803
80,588	50,696,486	50,506,476	671,537	100,820,854
419,412	-	-	22,863,715	427,338,642
\$ 500,000	\$ 50,696,486	\$ 50,506,476	\$ 23,535,252	\$ 528,159,496

OFFICE OF CREDIT AND FINANCE
RECONCILIATION OF THE CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds **\$ 100,820,854**

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.

10,740

Compensated absences are not due and payable in the current period, and therefore, are not reported in the funds.

This amount represents the change in beginning and end of year compensated absences.

26,930

Change in Net Assets of Governmental Activities **\$ 100,858,524**

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

**OFFICE OF CREDIT AND FINANCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Office of Credit and Finance (OCF), as of June 30, 2004, and for the year then ended, conform with accounting principles generally accepted in the United States of America as applied to governments. The OCF 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. OCF's significant accounting policies are as follows:

A. Reporting Entity

The Office of Credit and Finance, formerly 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. OCF 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 OCF, 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 is the responsibility of the Department of Development and not with the OCF.

B. Basis of Presentation

The Statement of Net Assets and the Statement of Activities display information about OCF. 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. The State 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 OCF 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 OCF'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, OCF does not incur expenses for which it has the option of first applying restricted or unrestricted resources for their payment.

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 OCF'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 OCF 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 (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 OCF 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.

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

Innovation Ohio Loan Fund (Fund 009) – 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 (Fund 010) – created to position Ohio to compete aggressively for private-sector research and development investments that will create high wage jobs.

OFFICE OF CREDIT AND FINANCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

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 OCF due to the default on contractual loan terms by borrowers on loans guaranteed pursuant to Chapter 166 of the Code.

122 Direct Loan Program Fund (GRF) - accounted for the administration of development loans made pursuant to Sections 122.38 to 122.62 of the ORC. The 122 Direct Loan Program, no longer an active program, was replaced by the 166 Direct Loan Program. There are two remaining loans and the last one is due to pay off in May 2005.

Rural Industrial Park Fund (Fund 4Z6) - accounts for designated priority investment areas within Ohio.

Urban Redevelopment Loan Fund (Fund 5D2) - 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 (Fund 5H1) - reports OCF's share of family farm loan financing deposited with various financial institutions as a loan guarantee for eligible borrowers. OCF guarantees up to 40% of the loan project, which should not exceed \$200,000 per project.

Port Authority Bond Reserve Fund (Fund 5D1) - records direct economic development assistance provided to eligible port authorities in the form of grant assistance or direct guarantees.

C. Measurement Focus and Basis of Accounting

OCF reports the Statement of Net Assets and Statement of Activities 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 when the related cash flows take place. For revenues arising from exchange transactions (i.e., charges for goods or services), OCF defers revenue recognition when resources are received in advance of the exchange. Non-exchange transactions, in which OCF gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Resources transmitted in advance of OCF meeting eligibility requirements are reported as deferred revenue.

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

OCF reports governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting. 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. Under the modified accrual basis of accounting, OCF recognizes revenues when susceptible to accrual (i.e., when they are "measurable and available").

**OFFICE OF CREDIT AND FINANCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus and Basis of Accounting (continued)

"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.

OCF considers revenues as available if they are collected within 60 days after year end. For revenue arising from exchange transactions (i.e., loan interest income and fee revenue), OCF defers revenue recognition when resources are received in advance of the exchange. Under the modified accrual basis, OCF records expenditures when it incurs related fund liabilities, except for compensated absences. The governmental funds recognize expenditures for these liabilities to the extent they have matured or will be liquidated with expendable, financial resources.

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)
- 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.

E. Investments

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, OCF'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.

OCF 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"), OCF 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 OCF, because OCF does not have the ability to pledge or sell the securities without borrower default.

**OFFICE OF CREDIT AND FINANCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Loans Receivable, Net and Allowance for Uncollectible Loans

Loans receivable includes amounts due OCF 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 applies the following allowance methodology:

- 75% of loans certified to the Office of the Attorney General,
- 1% of loans outstanding within the Facilities Establishment Fund, and
- 0.5% of the loans outstanding within the Regional Agency Fund, 122 Direct Loan Program Fund and the Family Farm Loan Fund.

The OCF management has determined that an Allowance for Uncollectible Loans is not necessary for the Rural Industrial Loan Fund and the Urban Development Loan Fund based on collection history.

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.

<u>Fund</u>	<u>Current</u>	<u>Non-current</u>
Facilities Establishment	\$ 2,886,478	\$ 212,716,684
Regional Agency	2,116,594	42,620,018
122 Direct Loan Program	18,378	108,174
Rural Industrial Park	12,420	6,818,798
Urban Redevelopment	6,666	8,214,793
Family Farm Loan Guarantee	-	3,490,239
Total	<u>\$ 5,040,536</u>	<u>\$ 273,968,706</u>

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, 2004 was \$1,544,900 which is comprised of a current portion (\$19,941) and a non-current portion (\$1,524,959).

I. Other Assets

Other assets includes receivables for commitment fees, OEBF service fees, OEBF program reserve dividend revenue, and interest revenue, as well as prepaid expenses. Total other assets as of June 30, 2004, were \$145,886.

J. Accounts Payable and Accrued Liabilities

Accounts payable includes accruals for operating expenditures/expenses, which are attributable to purchases prior to June 30, 2004. It also includes trustee fees paid to the regional agency escrow agents. Total accounts payable as of June 30, 2004 was \$197,924. Accrued liabilities include wages payable of \$39,063 as of June 30, 2004.

**OFFICE OF CREDIT AND FINANCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Deferred Revenue

In the fund financial statements, deferred revenue includes accruals for revenue due to OCF by June 30, 2004 but collected after August 31, 2004. Total deferred revenue as of June 30, 2004 was \$71,719.

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*, OCF 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, 2004 was \$73,763.

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, 2004 was \$528,159,496. The fund balance includes \$30,700,163 for encumbrances, \$273,968,706 for non-current loan receivables, \$1,524,959 for non-current lease receivables, \$10,000,000 for the Ohio Enterprise Bond Fund Program Reserve and \$161,965,668 that is unreserved/undesignated. The total net assets as of June 30, 2004 were \$528,388,976 which includes \$231,524 for capital assets, \$518,157,452 of unrestricted net assets and \$10,000,000 that is restricted for the OEBF Program Reserve.

N. Investment and Loan 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. 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 OCF. Operating expenditures/expenses include various supplies and maintenance expenditures, equipment purchases, and regional agency trustee and administrative fees.

Q. Grant Expenditures/Expenses

The Port Authority Bond Reserve Fund provides direct financial assistance in the form of a conditional grant to eligible port authorities for economic development activities. The Port Authority Bond Reserve Fund is used to supplement local matching funds in establishing a bond reserve fund. A port authority is defined under Ohio Revised Code Chapter 4582. Applicants must demonstrate that the State's assistance will foster economic development projects in the areas of manufacturing, distribution and warehousing, research and development, high technology, commerce or service business paying at least the state minimum wage.

**OFFICE OF CREDIT AND FINANCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

R. OEBF Loan Payment Expenditures/Expenses

The OCF guarantees Ohio Enterprise Bonds and makes loan payments for Bonds that are in default of monthly payments. As of June 30, 2004, there were four OEBF bonds in default.

S. Interfund Transfers and Distributions to Other Offices

The OCF interfund transfers primarily consisted of transfers from the Facilities Establishment Fund to other loan programs and the regional agencies. These and other transfers are provided for in HB No. 95 and require Controlling Board approval unless otherwise specified. Transfers out to state agencies resulted from repayment of 122 Direct Loans into the State of Ohio's General Revenue Fund. Since the financial statements present only the financial information of OCF 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 OCF'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.

**OFFICE OF CREDIT AND FINANCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Legal Requirements

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.

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;

OFFICE OF CREDIT AND FINANCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

A. Legal Requirements

- 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.

B. Deposits and Investments

OCF maintains cash on deposit at a commercial bank and in two custodial accounts with the State Treasurer. Public depositories must 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. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States government, and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in OCF's name.

Deposits

As of June 30, 2004 the carrying amount of OCF's deposits was \$185,378 and the bank balance was the same. The entire bank balance was insured, registered, or held by OCF or its agent in OCF's name.

Investments

OCF's investments at June 30, 2004 are detailed below and are categorized to give an indication of the level of credit risk associated with OCF's custodial arrangements at year-end. *Category 1* includes investments that are insured, registered, or held by OCF or its agent in OCF's name. *Category 2* includes uninsured and unregistered investments held by the counterparty's trust department or its agent in OCF's name. *Category 3* includes uninsured and unregistered investments held by the counterparty, its trust department, or its agent, but not in OCF's or State's name.

**OFFICE OF CREDIT AND FINANCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

B. Deposits and Investments (continued)

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
<u>Investments Categorized:</u>				
None	-	-	-	\$ -
<u>Investments Not Categorized:</u>				
Equity in State of Ohio common cash and investments account (including \$79,743,544 of securities lent)				197,662,755
Investment in Treasurer of State investment pool (STAROhio) (including \$4,997,745 of securities lent)				21,927,391
Collateral on loaned securities				84,741,289
Investment in money market mutual funds				27,992,650
Total Investments				<u>\$332,324,085</u>

The “Equity in State of Ohio common cash and investments”, “Investment in Treasurer of State investment pool (STAROhio)”, and “Collateral on loaned securities” have not been categorized because these accounts represent investment pools. Equity in the pools is not evidenced by securities that exist in physical or book entry form. Information regarding the classification of the pools’ investments and deposits by credit risk may be found in the State of Ohio Comprehensive Annual Financial Report, for the fiscal year ended June 30, 2004. Investment in money market mutual funds are also not categorized pursuant to the provisions of GASB 3.

The total carrying amount of deposits and investments, as of June 30, 2004 categorized and disclosed in this note is \$332,509,463. This amount can be reconciled to the statement of net assets as follows:

	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Cash Equity with Treasurer	\$ -	\$ 197,662,755	\$ 197,662,755
Cash and Cash Equivalents	185,378	49,920,041	50,105,419
Collateral on Lent Securities	-	84,741,289	84,741,289
Grant Total	<u>\$ 185,378</u>	<u>\$ 332,324,085</u>	<u>\$ 332,509,463</u>

NOTE 3 – SECURITIES LENDING TRANSACTIONS

OCF 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 lending program, authorized under Section 135.143, Ohio Revised Code, is administered by a custodial agent bank, whereby certain securities are transferred to an independent broker-dealer (borrower) in exchange for collateral. OCF 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.

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 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.

**OFFICE OF CREDIT AND FINANCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 3 – SECURITIES LENDING TRANSACTIONS (Continued)

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. OCF cannot sell securities received as collateral unless the borrower defaults. At June 30, 2004 the collateral OCF had received for securities lent consisted entirely of cash, some of which had been temporarily invested by OCF in various securities. OCF invests cash collateral in short-term obligations, which have a weighted average maturity of 45 days or less and generally match the maturities of securities loans at year-end. Loan contracts do not provide any loss indemnification by securities lending agents in cases of borrower default; however, during fiscal year 2004, OCF had not experienced any losses due to credit or market risk on securities lending activities. OCF did not experience any losses on securities lending transactions resulting from the default of a borrower or lending agent, therefore, there were no recoveries during fiscal year 2004 due to prior-period losses.

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, 2004. As a result, OCF’s Allocated Collateral on Lent Securities and related Allocated Obligations Under Securities Lending as of June 30, 2004, was \$84,741,289.

NOTE 4 – LOAN PROGRAM ACTIVITY

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

<u>Fund</u>	<u>Beginning Balance</u>	<u>Loan Additions</u>	<u>Loan Reductions</u>	<u>Ending Balance</u>
Facilities Establishment	\$ 226,474,242	\$ 40,464,936	\$ (36,347,902)	\$ 230,591,276
Regional Agency	48,800,537	11,097,758	(13,150,179)	46,748,116
122 Direct	334,225	-	(207,037)	127,188
Rural Industrial Park	6,112,707	1,359,413	(640,902)	6,831,218
Urban Redevelopment	7,065,124	1,309,668	(153,333)	8,221,459
Family Farm Loan Guarantee	<u>4,062,203</u>	<u>152,000</u>	<u>(706,425)</u>	<u>3,507,778</u>
Grand Total	<u>\$ 292,849,038</u>	<u>\$ 54,383,775</u>	<u>\$ (51,205,778)</u>	<u>\$ 296,027,035</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, 2004 was \$15,472,893 (Facilities Establishment Fund was \$13,443,214; Regional Agency Fund was \$2,011,504; 122 Direct Loan Fund was \$636 and Family Farm Loan Guarantee Fund was \$17,539).

Under the Family Farm Loan Guarantee Program, OCF’s share of loan financing is in the form of Certificates of Deposit with various financial institutions as a loan guarantee for eligible borrowers. OCF guarantees up to 40% of the loan project, which should not exceed \$200,000 per project. As the borrowers pay down the bank loan, the bank refunds a portion of the Certificate of Deposit to OCF.

**OFFICE OF CREDIT AND FINANCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

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, 2004 outstanding loan balances under this program aggregated \$168,890,000 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 OCF. OCF only monitors OEBF activities and does not include the financial transactions within its financial statements.

Of the 40 Ohio Enterprise Bond Fund bonds with outstanding principal balances, 36 were current in their repayment as of June 30, 2004. The following schedule identifies the four bonds in default and shows payments to be made for FY2005 – FY2008 and then 5-year increments.

	<u>OCHS Industries</u>	<u>Euclid & Wickliffe</u>	<u>General Castings</u>	<u>CIC of Hamilton</u>	<u>Total</u>
FY 2005	\$ 375,000	\$ 165,000	\$ 275,000	\$ 60,000	\$ 875,000
FY 2006	405,000	180,000	-	60,000	645,000
FY 2007	430,000	200,000	-	80,000	710,000
FY 2008	470,000	215,000	-	80,000	765,000
FY 2009-2013	-	1,365,000	-	490,000	1,855,000
FY 2014-2018	-	2,055,000	-	685,000	2,740,000
FY 2019-2023	-	655,000	-	-	655,000
Total	<u>\$ 1,680,000</u>	<u>\$ 4,835,000</u>	<u>\$ 275,000</u>	<u>\$ 1,455,000</u>	<u>\$ 8,245,000</u>

In fiscal year 2004, after OCF made scheduled bond payments totaling \$79,638, the State received \$106,947 from the liquidation of assets from General Castings (\$72,914) and CIC of Hamilton (\$34,033), which will be used to pay future scheduled bond payments for these two bonds. Once these funds are exhausted, OCF will be responsible for any remaining scheduled bond payments.

B. Ohio Enterprise Bond Fund Leases

Within the OEBF, there are nine 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 OCF financial statements. Total leases receivable as of June 30, 2004 were \$28,970,000. The projects that include leases are as follows:

**OFFICE OF CREDIT AND FINANCE
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2004**

NOTE 5 – COMMITMENTS AND CONTINGENCIES (Continued)

<u>Issue #</u>	<u>Borrower</u>	<u>Original Amount</u>	<u>Current Balance</u>
1994-2	Cheryl & Company	\$ 1,455,000	\$ 735,000
1993-5	Foremost Management	8,100,000	5,405,000
1989-4	House of LaRosa	8,255,000	3,875,000
1995-1	JJ & W Partnership	3,425,000	2,495,000
1991-1	Kinetics Noise Control	2,270,000	1,390,000
1994-4	Orlando Baking Company	3,575,000	1,890,000
1991-9	Royal Appliance	3,125,000	1,855,000
2000-3	Scotts/Union County	5,965,000	5,535,000
2002-2	Western Reserve P.A. Timken	<u>6,185,000</u>	<u>5,790,000</u>
	Grand Total	<u>\$ 42,355,000</u>	<u>\$ 28,970,000</u>

In case of a lease default, OCF 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, OCF 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 OCF's Development Financing Advisory Council and the State's Controlling Board; however, the loans were not closed as of June 30, 2004. Below is a summary of outstanding commitments of OCF related to the Chapter 166 program:

<u>Fund</u>	<u>Commitment</u>
Facilities Establishment	\$ 61,565,511
Rural Industrial Park	1,000,000
Urban Redevelopment	12,467,792
Ohio Innovation	<u>750,000</u>
Grand Total	<u>\$ 75,783,303</u>

The Facilities Establishment encumbrance includes \$ 5,923,955 to local agencies. These funds are transferred to the escrow funds of these agencies for eligible project loans based on program requirements. The encumbrances do not include each individual agency's pollution prevention program. These programs are administered by the local agencies on behalf of OCF.

D. Loan Guarantees

Under the Chapter 166 Loan Guarantee Program, OCF 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, 2004, OCF had two loan guarantees with a maximum liability of \$3.1 million. At June 30, 2004, the loans guaranteed by OCF were not in default.

**OFFICE OF CREDIT AND FINANCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

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 (TP) – a cost-sharing multiple-employer defined benefit pension plan.
2. The Member-Directed Plan (MD) – 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 thereon.
3. The Combined Plan (CO) – 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) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2003, member and employer contribution rates were consistent across all three plans (TP, MD and CO).

The 2003 member contribution rate for OCF employees was 8.5% of covered payroll. The 2003 employer contribution rate for OCF was 13.31% of covered payroll. OCF's required contributions to OPERS for the years ended June 30, 2004, 2003, and 2002 were \$67,998, \$93,589, and \$79,169, respectively, equal to 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 Plan (TP) – a cost-sharing multiple-employer defined benefit plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees must have 10 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 Post-employment Benefit (OPEB) as described in GASB Statement No. 12.

OFFICE OF CREDIT AND FINANCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

7. OTHER POST-EMPLOYMENT BENEFITS (Continued)

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2003 employer contribution rate was 13.31% of covered payroll, and 5% was used to fund health care. The assumptions and calculations below were based on the Retirement System's latest Actuarial Review performed as of December 31, 2002.

An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually.

The investment assumption rate for 2002 was 8%. An annual increase of 4%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4% base increase, were assumed to range from .5% to 6.3%. Health care costs were assumed to increase 4% annually.

OPEB's are advance-funded on an actuarially determined basis. At year-end 2003, the number of active contributing participants in the Traditional and Combined Plans totaled 364,881. The contribution rates stated above are the actuarially determined contribution requirements for OPERS. The portion of OCF's 2004 contributions that were used to fund post-employment benefits were \$25,547.

\$10 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2002. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired in an OPERS-covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

In response to the adverse investment returns experienced by OPERS from 2000 through 2002 and the continued staggering rate of health care inflation, the OPERS Board, during 2003, considered extending "Choices" type cost cutting measures to all active members and benefit recipients. As of this date, the Board has not determined the exact changes that will be made to the health care plan.

This Page is Intentionally Left Blank.

**SUPPLEMENTARY COMBINING
FINANCIAL STATEMENTS**

OFFICE OF CREDIT AND FINANCE
BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2004

	Loan Guarantee Fund	122 Direct Loan Fund
	<u> </u>	<u> </u>
ASSETS:		
Cash Equity with Treasurer	\$ -	\$ -
Cash and Cash Equivalents	738,996	-
Allocated Collateral on Lent Securities	168,424	-
Loans Receivable, Net	<u>-</u>	<u>126,552</u>
TOTAL ASSETS	<u><u>907,420</u></u>	<u><u>126,552</u></u>
 LIABILITIES:		
Allocated Obligations Under Securities Lending	<u>168,424</u>	<u>-</u>
TOTAL LIABILITIES	<u><u>168,424</u></u>	<u><u>-</u></u>
 FUND BALANCES:		
Reserved for:		
Encumbrances	-	-
Noncurrent Portion of Loans Receivable	-	108,174
Unreserved/Undesignated (Deficits)	<u>738,996</u>	<u>18,378</u>
TOTAL FUND BALANCES	<u><u>738,996</u></u>	<u><u>126,552</u></u>
 TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 907,420</u></u>	<u><u>\$ 126,552</u></u>

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

Rural Industrial Park Loan Fund	Urban Redevelopment Loan Fund	Family Farm Loan Gaurantee Fund	Port Authority Bond Reserve Fund	Total Nonmajor Governmental Funds
\$ 1,111,850	\$ 2,035,868	\$ 979,070	\$ -	\$ 4,126,788
-	-	-	-	738,996
448,556	821,335	394,989	-	1,833,304
<u>6,831,218</u>	<u>8,221,459</u>	<u>3,490,239</u>	<u>-</u>	<u>18,669,468</u>
<u>8,391,624</u>	<u>11,078,662</u>	<u>4,864,298</u>	<u>-</u>	<u>25,368,556</u>
448,556	821,335	394,989	-	1,833,304
<u>448,556</u>	<u>821,335</u>	<u>394,989</u>	<u>-</u>	<u>1,833,304</u>
1,000,000	12,467,792	-	-	13,467,792
6,818,798	8,214,793	3,490,239	-	18,632,004
<u>124,270</u>	<u>(10,425,258)</u>	<u>979,070</u>	<u>-</u>	<u>(8,564,544)</u>
<u>7,943,068</u>	<u>10,257,327</u>	<u>4,469,309</u>	<u>-</u>	<u>23,535,252</u>
<u>\$ 8,391,624</u>	<u>\$ 11,078,662</u>	<u>\$ 4,864,298</u>	<u>\$ -</u>	<u>\$ 25,368,556</u>

t.

OFFICE OF CREDIT AND FINANCE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2004

	Loan Guarantee Fund	122 Direct Loan Fund	Rural Industrial Park Loan Fund
REVENUES:			
Fee Revenue	\$ -	\$ -	\$ 6,583
Loan Interest Income	-	7,160	11,820
Investment Income	7,387	-	-
Miscellaneous	-	1,035	-
TOTAL REVENUES	<u>7,387</u>	<u>8,195</u>	<u>18,403</u>
EXPENDITURES:			
Bad Debt Expense	-	-	-
Miscellaneous	-	-	5,512
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>5,512</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>7,387</u>	<u>8,195</u>	<u>12,891</u>
OTHER FINANCING SOURCES (USES):			
Interfund Transfers	-	-	1,241,398
Distributions to Other Offices	-	(214,197)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(214,197)</u>	<u>1,241,398</u>
NET CHANGE IN FUND BALANCES	7,387	(206,002)	1,254,289
FUND BALANCES, JULY 1	<u>731,609</u>	<u>332,554</u>	<u>6,688,779</u>
FUND BALANCES, JUNE 30	<u>\$ 738,996</u>	<u>\$ 126,552</u>	<u>\$ 7,943,068</u>

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

Urban Redevelopment Loan Fund	Family Farm Loan Gaurantee Fund	Port Authority Bond Reserve Fund	Total Nonmajor Governmental Funds
\$ 6,608	\$ -	\$ -	\$ 13,191
-	33,895	(12,594)	40,281
-	-	-	7,387
-	<u>2,772</u>	-	<u>3,807</u>
<u>6,608</u>	<u>36,667</u>	<u>(12,594)</u>	<u>64,666</u>
-	-	-	-
-	-	-	<u>5,512</u>
-	-	-	<u>5,512</u>
<u>6,608</u>	<u>36,667</u>	<u>(12,594)</u>	<u>59,154</u>
(133,333)	-	(281,485)	-
-	-	-	826,580
<u>(133,333)</u>	<u>-</u>	<u>(281,485)</u>	<u>(214,197)</u>
(126,725)	36,667	(294,079)	612,383
10,384,052	36,667	(294,079)	671,537
<u>10,384,052</u>	<u>4,432,642</u>	<u>294,079</u>	<u>22,863,715</u>
<u>\$ 10,257,327</u>	<u>\$ 4,469,309</u>	<u>\$ -</u>	<u>\$ 23,535,252</u>



Crowe Chizek and Company LLC
Member Horwath International

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

To the Office of Credit and Finance
State of Ohio

We have audited the financial statements of the Office of Credit and Finance (Office), State of Ohio, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 29, 2004. 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 Office's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 Office's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as item 2004-01.

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 over financial reporting 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 none of the reportable conditions described above is 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 29, 2004.

This report is intended for the information and use of audit committee, management, the Office'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 Chizek and Company LLC
Crowe Chizek and Company LLC

Columbus, Ohio
September 29, 2004

Finding 2004-01 – Reportable Condition

General ledger

In the past, the Office of Credit and Finance (OCF) did not utilize a general ledger system to record its financial activities. Instead, it utilized internal spreadsheets to record the activities of the various funds administered by the Office. Maintaining an integrated general ledger system provides a framework for accurate recording of transactions, appropriate reconciliations of account balances and proper reporting of the financial information. Not maintaining a detailed ledger increases the risk that transactions could be inaccurately recorded and therefore financial statements could be misstated.

The Office began installation and implementation of a general ledger system in fiscal year 2004 and stopped utilizing the internal spreadsheets. However, because the implementation was not complete at year end manual year end adjustments were required. We recommend that OCF continue the implementation process and complete it during the coming year.

This is a repeat finding from the prior year, although as noted the implementation has started.

Management's response and plans

During Fiscal Year 2004 third quarter, the Office of Credit and Finance purchased and began implementation of a new general ledger system to record its financial activities. Staff had to setup and learn how to use the software before information could be entered. This was not fully accomplished by the end of the fiscal year. The Office of Credit and Finance is aware that maintaining an integrated general ledger system provides a framework for accurate recording of transactions, appropriate reconciliation's of account balances and proper reporting of the financial information. Staff have learned to use the software program and it will be fully utilized for Fiscal Year 2005 reporting.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**OFFICE OF CREDIT AND FINANCE
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 7, 2004**