

**OFFICE OF BUSINESS DEVELOPMENT
FRANKLIN COUNTY**

GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2003



**Auditor of State
Betty Montgomery**

Office of Business Development
77 South High Street, 29th Floor
Columbus, Ohio 43215

We have reviewed the Independent Auditor's Report of the Office of Business Development, Franklin County, prepared by Crowe Chizek and Company LLC, for the audit period July 1, 2002 to June 30, 2003. 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 Business Development is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

February 9, 2004

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OFFICE OF BUSINESS DEVELOPMENT

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REPORT OF INDEPENDENT AUDITORS

To the Office of Business Development
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 Business Development (Office), State of Ohio, as of and for the year ended June 30, 2003, 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.

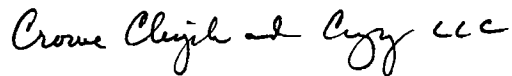
As discussed in Note 1, the financial statements of the Office of Business Development are intended to present the financial position and the changes in net assets or fund balances thereof of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information 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, 2003, 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 Business Development, as of June 30 2003, 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 October 10, 2003 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 Business Development'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

Columbus, Ohio
October 29, 2003

FINANCIAL SECTION

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**OFFICE OF BUSINESS DEVELOPMENT
MANAGEMENT'S DISCUSSION & ANALYSIS**
For the Year Ended June 30, 2003

As management of the Office of Business Development (OBD), we are providing this overview of OBD's financial activities for the fiscal year ended June 30, 2003. Please read this overview in conjunction with the OBD's basic financial statements, which follow.

OBD was created as part of the Ohio Department of Development (ODOD) on July 14, 1983, by action of the State of Ohio Legislature. OBD 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 total project amount. The OEBF has achieved an investment grade rating of "A-" 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.

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

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2003 are as follows:

- The assets of the OBD exceeded its liabilities at the close of the most recent fiscal year by \$427.5 million (net assets).
- The OBD's total net assets increased by \$.9 million.
- As of the close of the current fiscal year, the OBD's government funds reported combined ending fund balances of \$427.3 million, an increase of \$1.2 million in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance was \$63.8 million.
- OBD closed 32 Direct Loans totaling \$49.7 million, 47 Regional loans totaling \$12.1 million, eight OEBF's totaling \$51.4 million and one Port Authority Bond Grant totaling \$2 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

**OFFICE OF BUSINESS DEVELOPMENT
MANAGEMENT'S DISCUSSION & ANALYSIS**
For the Year Ended June 30, 2003

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 OBD, 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 OBD'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 OBD 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 and Port Authority Bond Reserve Program Fund, all of which are considered to be major funds. Data from the other seven 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 basic governmental fund financial statements can be found on pages 11-16 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 18-31 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 32-35 of this report.

**OFFICE OF BUSINESS DEVELOPMENT
MANAGEMENT'S DISCUSSION & ANALYSIS**
For the Year Ended June 30, 2003

FINANCIAL ANALYSIS OF THE OFFICE OF BUSINESS DEVELOPMENT

Government-wide Financial Analysis

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

<i>Net Assets at June 30</i>			
	<u>2003</u>	<u>2002</u>	<u>% Change</u>
Assets			
Current and Other Non Current Assets	\$464,643,851	\$462,618,040	0.44%
Capital Assets, Non-Infrastructure	231,524	231,524	0%
Total Assets	<u>464,875,375</u>	<u>462,849,564</u>	0.44%
Liabilities			
Current and Other Liabilities	37,252,236	36,173,234	2.98%
Due in More Than One Year	92,687	86,098	7.65%
Total Liabilities	<u>37,344,923</u>	<u>36,259,332</u>	2.99%
Net Assets			
Invested in Capital Assets	231,524	231,524	0%
Restricted for the Enterprise Bond Program	10,000,000	10,000,000	0%
Unrestricted	417,298,928	416,358,708	0.23%
Total Net Assets	<u>427,530,452</u>	<u>\$426,590,232</u>	0.22%

Total Assets

Total Assets of the OBD increased by approximately \$2.3 million during fiscal year 2003. This increase was due to a combination of factors including: 1) general and program revenues exceeded program expenditures by \$.9 million and 2) Allocated Collateral on Lent Securities, as reported by the Treasurer of State, increased \$1.9 million (See Note 3). Capital Assets include land owned by the State.

Total Liabilities

Total Liabilities of the OBD increased by approximately \$1 million during fiscal year 2003. This increase is mainly the result of two factors: 1) Obligations Under Securities Lending, as reported by the Treasurer of State, increased \$1.9 million (See Note 3), and 2) Accounts Payable decreased \$831,899, primarily due to a \$684,000 borrower refund outstanding at June 30, 2002.

Total Net Assets

During fiscal year 2003, OBD's Net Assets increased \$1.3 million, or 0.29%. Net Assets invested in Capital Assets and Restricted Net Assets remained unchanged, therefore, the entire increase is attributed to the change in Unrestricted Net Assets.

**OFFICE OF BUSINESS DEVELOPMENT
MANAGEMENT'S DISCUSSION & ANALYSIS**
For the Year Ended June 30, 2003

FINANCIAL ANALYSIS OF THE OFFICE OF BUSINESS DEVELOPMENT (CONTINUED)

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

Statement of Activity for the year ending June 30

	<u>2003</u>	<u>2002</u>	<u>% Change</u>
Revenues			
Program Revenues:			
Community and Economic Development	5,066,636	5,665,077	10.56%
Total Program Revenues	<u>5,066,636</u>	<u>5,665,077</u>	10.56%
General Revenues:			
Investment Income	3,396,850	5,853,059	(41.96%)
Net Increase (Decrease) in Fair Value of Investments	(112,269)	(258,765)	(56.61%)
Miscellaneous Revenues	48,364	256,194	(81.12%)
Total General Revenues	<u>3,332,945</u>	<u>5,850,488</u>	(43.03%)
Expenses			
Community and Economic Development	6,548,799	5,279,146	24.05%
Total Expenses	<u>6,548,799</u>	<u>5,279,146</u>	24.05%
Distributions to Other Offices	<u>(910,562)</u>	<u>(3,374,241)</u>	(73.01%)
Net Assets			
Excess (Deficiency) Before Special Items	940,220	2,862,178	(67.15%)
Special Item – Loss on Loan Restructuring	-	(150,844)	
Change in Net Assets	<u>940,220</u>	<u>2,711,334</u>	(1.72%)

Investment Income decreased \$2.5 million, or 41.96%, due to economic conditions and low interest rates.

Program expenses increased \$1.3 million, or 24%, primarily as a result of a \$1.5 million increase in grant awards.

Distributions to Other Offices decreased \$2.4 million, or 73%. This decrease was due to a combination of factors including: 1) the Minority Business Development Division elected not to request a transfer for the Capital Access Program's \$3 million allotment from the Facilities Establishment fund in fiscal year 2003, and 2) distributions from the 122 Direct Loan fund to the General Revenue fund increased by \$.5 million as a result of accelerated loan pay-offs in fiscal year 2003.

**OFFICE OF BUSINESS DEVELOPMENT
MANAGEMENT'S DISCUSSION & ANALYSIS**
For the Year Ended June 30, 2003

FINANCIAL ANALYSIS OF THE OFFICE OF BUSINESS DEVELOPMENT (CONTINUED)

Financial Analysis of the Government's Funds

The following is a summary of OBD's fund balances as of June 30, 2003 compared to June 30, 2002.

	<u>Fund Balance June 30, 2003</u>	<u>Fund Balance June 30, 2002</u>	<u>Percent Change</u>
Operating Fund	\$ 2,900,175	\$ 1,631,771	77.73%
Facilities Establishment Fund	337,857,959	340,207,174	(.69%)
Regional Agency Fund	63,297,381	55,843,593	13.35%
Port Authority Reserve	294,079	2,237,686	(86.86%)
Nonmajor Governmental Funds	22,989,048	26,244,481	(12.40%)
Total Fund Balance	<u>\$ 427,338,642</u>	<u>\$ 425,848,343</u>	

The Operating Fund balance increased \$1.3 million, or 77.73%, primarily as a result of a \$1.5 million increase in transfers from other funds. The majority of the increase in transfers from other funds was from the closing of the Premium Income Fund, totaling \$1.1 million.

Program revenues in the Facilities Establishment Fund exceeded program expenditures by \$5.8 million. This increase was offset by \$8.1 million in interfund transfers, primarily to the Regional Agency Fund, for a net decrease in fund balance of \$2.3 million.

The Regional Agency Fund balance increased \$7.5 million, or 13.35%. The majority of this increase is a result of a \$6.8 million increase in transfers from the Facilities Establishment Fund for the issuance of loans.

The Port Authority Bond Reserve Program Fund balance decreased \$1.9 million, or 86.86%, primarily as a result of spending down resources earmarked for grant awards and the absence of any new transfers from other funds.

BUDGET VARIANCES IN THE GENERAL FUND

Since OBD operates as a single Special Revenue Fund, an analysis of variations between original and final budget amounts for the General Fund has not been presented.

CAPITAL ASSETS

OBD has \$231,524 invested in net capital assets as of June 30, 2003. There were no acquisitions or dispositions during the fiscal year.

**OFFICE OF BUSINESS DEVELOPMENT
MANAGEMENT'S DISCUSSION & ANALYSIS**
For the Year Ended June 30, 2003

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&DLF) is a \$200 million revolving loan fund that was created by the Ohio General Assembly and became law on June 26, 2003. The R&DLF 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&DLF is expected to be capitalized with an initial \$50 million in November/December 2003.

The OBD Staff is currently developing guidelines and procedures to administer the new loan programs. The OBD expects to commence issuing new loans under these programs by the second quarter of calendar year 2004.

CONTACTING THE OFFICE OF BUSINESS DEVELOPMENT'S MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

OFFICE OF BUSINESS DEVELOPMENT
STATEMENT OF NET ASSETS
June 30, 2003

	<u>Governmental</u> <u>Activities</u>
Assets	
Cash Equity with Treasurer	\$ 98,129,926
Cash and Cash Equivalents	46,242,860
Allocated Collateral on Lent Securities	37,139,986
Loans Receivable, Net	281,215,229
Leases Receivable	1,661,991
Other Receivables	253,859
Capital Assets, Non-Infrastructure	<u>231,524</u>
Total Assets	<u>464,875,375</u>
Liabilities	
Accounts Payable	71,305
Accrued Liabilities	32,939
Allocated Obligations Under Securities Lending	37,139,986
Compensated Absences:	
Due in One Year	8,006
Due in More Than One Year	<u>92,687</u>
Total Liabilities	<u>37,344,923</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	231,524
Restricted for:	
Enterprise Bond Program	10,000,000
Unrestricted	<u>417,298,928</u>
Total Net Assets	<u>\$ 427,530,452</u>

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

OFFICE OF BUSINESS DEVELOPMENT
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2003

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets Primary Government Governmental Activities</u>
Primary Government			
Governmental Activities			
Community and Economic Development	\$ 6,548,799	\$5,066,636	\$ (1,482,163)
Total Governmental Activities	<u>6,548,799</u>	<u>5,066,636</u>	<u>(1,482,163)</u>
Total Primary Government	<u>6,548,799</u>	<u>5,066,636</u>	<u>(1,482,163)</u>
General Revenues:			
Investment Income			3,396,850
Net Increase (Decrease) in Fair Value of Investmen			(112,269)
Miscellaneous Revenue			48,364
Total General Revenues			<u>3,332,945</u>
Distributions to Other Offices			<u>(910,562)</u>
Change in Net Assets			<u>940,220</u>
Net Assets, Beginning of Year			<u>426,590,232</u>
Net Assets, End of Year			<u>\$ 427,530,452</u>

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

**OFFICE OF BUSINESS DEVELOPMENT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2003**

	Operating Fund	Facilities Establishment Fund	Regional Agency Fund
ASSETS:			
Cash Equity with Treasurer	\$ 2,990,930	\$ 90,414,996	\$ -
Cash and Cash Equivalents	931	29,562,159	15,948,161
Allocated Collateral on Lent Securities	1,008,065	34,381,547	-
Loans Receivable, Net	-	216,309,324	47,353,628
Leases Receivable	-	1,661,991	-
Other Receivables	-	188,774	8,150
Due From Other Funds	-	-	-
TOTAL ASSETS	\$ 3,999,926	\$372,518,791	\$ 63,309,939
LIABILITIES:			
Accounts Payable	\$ 58,747	\$ -	\$ 12,558
Accrued Liabilities	32,939	-	-
Allocated Obligations Under Securities Lending	1,008,065	34,381,547	-
Deferred Revenue	-	16,638	-
Due To Other Funds	-	262,647	-
TOTAL LIABILITIES	1,099,751	34,660,832	12,558
FUND BALANCES:			
Reserved for:			
Encumbrances	446,833	57,729,627	10,993,955
Noncurrent Portion of Loans Receivable	-	209,957,650	44,553,246
Noncurrent Portion of Leases Receivable	-	1,642,739	-
Ohio Enterprise Bond Program	-	10,000,000	-
Unreserved/Undesignated (Deficits)	2,453,342	58,527,943	7,750,180
TOTAL FUND BALANCES	2,900,175	337,857,959	63,297,381
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,999,926	\$372,518,791	\$ 63,309,939

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

Port Authority Bond Reserve Program Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 169,514	\$ 4,554,486	\$ 98,129,926
-	731,609	46,242,860
57,134	1,693,240	37,139,986
-	17,552,277	281,215,229
-	-	1,661,991
56,935	-	253,859
111,971	150,676	262,647
<u>\$ 395,554</u>	<u>\$ 24,682,288</u>	<u>\$464,906,498</u>
\$ -	\$ -	\$ 71,305
-	-	32,939
57,134	1,693,240	37,139,986
44,341	-	60,979
-	-	262,647
<u>101,475</u>	<u>1,693,240</u>	<u>37,567,856</u>
-	10,947,595	80,118,010
-	17,313,164	271,824,060
-	-	1,642,739
-	-	10,000,000
294,079	(5,271,711)	63,753,833
<u>294,079</u>	<u>22,989,048</u>	<u>427,338,642</u>
<u>\$ 395,554</u>	<u>\$ 24,682,288</u>	<u>\$464,906,498</u>

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**OFFICE OF BUSINESS DEVELOPMENT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2003**

Total Fund Balances for Governmental Funds **\$ 427,338,642**

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. 60,979

Compensated absences are not due and payable in the current period, and therefore are not reported in the governmental funds. (100,693)

Total Net Assets of Governmental Activities **\$ 427,530,452**

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

OFFICE OF BUSINESS DEVELOPMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2003

	Operating Fund	Facilities Establishment Fund
REVENUES:		
Fee Revenue	\$ 610,344	\$ 636,794
Loan Interest Income	-	2,708,451
Investment Income	-	3,158,246
Net Increase (Decrease) in Fair Value of Investments	-	(112,269)
Miscellaneous	3,652	35,228
TOTAL REVENUES	<u>613,996</u>	<u>6,426,450</u>
EXPENDITURES:		
Personnel Expenditures	919,167	-
Operating Expenditures	977,131	-
Grant Expenditures	-	-
OEBF Loan Payment Expenditures	-	637,140
Miscellaneous	-	28,687
TOTAL EXPENDITURES	<u>1,896,298</u>	<u>665,827</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,282,302)</u>	<u>5,760,623</u>
OTHER FINANCING SOURCES (USES):		
Interfund Transfers	2,550,706	(8,109,838)
Distributions to Other Offices	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>2,550,706</u>	<u>(8,109,838)</u>
NET CHANGE IN FUND BALANCES	<u>1,268,404</u>	<u>(2,349,215)</u>
FUND BALANCES, JULY 1	<u>1,631,771</u>	<u>340,207,174</u>
FUND BALANCES, JUNE 30	<u>\$ 2,900,175</u>	<u>\$ 337,857,959</u>

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

<u>Regional Agency Fund</u>	<u>Port Authority Bond Reserve Program Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
\$ -	\$ -	\$ 72,827	\$ 1,319,965
1,042,360	-	227,772	3,978,583
119,556	56,393	58,641	3,392,836
-	-	-	(112,269)
9,484	-	-	48,364
<u>1,171,400</u>	<u>56,393</u>	<u>359,240</u>	<u>8,627,479</u>
-	-	-	919,167
1,480,855	-	-	2,457,986
-	2,000,000	500,000	2,500,000
-	-	-	637,140
-	-	-	28,687
<u>1,480,855</u>	<u>2,000,000</u>	<u>500,000</u>	<u>6,542,980</u>
<u>(309,455)</u>	<u>(1,943,607)</u>	<u>(140,760)</u>	<u>2,084,499</u>
7,763,243	-	(2,204,111)	-
-	-	(910,562)	(910,562)
<u>7,763,243</u>	<u>-</u>	<u>(3,114,673)</u>	<u>(910,562)</u>
<u>7,453,788</u>	<u>(1,943,607)</u>	<u>(3,255,433)</u>	<u>1,173,937</u>
<u>55,843,593</u>	<u>2,237,686</u>	<u>26,244,481</u>	<u>426,164,705</u>
<u>\$ 63,297,381</u>	<u>\$ 294,079</u>	<u>\$ 22,989,048</u>	<u>\$ 427,338,642</u>

**OFFICE OF BUSINESS DEVELOPMENT
RECONCILIATION OF THE CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
*For the Fiscal Year Ended June 30, 2003***

Net Change in Fund Balances - Total Governmental Funds **\$ 1,173,937**

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. (227,898)

Compensated absences are not due and payable in the current period, and therefore, are not reported in the funds. (5,819)

Change in Net Assets of Governmental Activities **\$ 940,220**

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

**OFFICE OF BUSINESS DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Office of Business Development (OBD), as of June 30, 2003, and for the year then ended, conform with accounting principles generally accepted in the United States of America as applied to governments. The OBD 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. OBD's significant accounting policies are as follows:

A. Reporting Entity

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

B. Basis of Presentation

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

OFFICE OF BUSINESS DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

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, the net increase (decrease) in fair value of investments, and miscellaneous revenue.

The fund financial statements provide information about OBD'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 OBD 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 OBD from bond sales, fee income, interest income, loan receipts and disbursements for loans made pursuant to Chapter 166 of the Code. Also, this Fund provides a reserve for the Ohio Enterprise Bond Fund in the event of bondholder default.

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.

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.

OFFICE OF BUSINESS DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

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 OBD 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 is no longer an active program. The 166 Direct Loan Program replaced it. The repayments from the existing loans are deposited into the State of Ohio General Revenue Fund. There are seven remaining loans and the last one is due to pay off in May 2005.

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

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

C. Measurement Focus and Basis of Accounting

OBD 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), OBD defers revenue recognition when resources are received in advance of the exchange. Non-exchange transactions, in which OBD 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 OBD meeting eligibility requirements are reported as deferred revenue.

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

OBD 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, OBD recognizes revenues when susceptible to accrual (i.e., when they are "measurable and available").

**OFFICE OF BUSINESS DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

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.

OBD 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), OBD defers revenue recognition when resources are received in advance of the exchange. Under the modified accrual basis, OBD 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. Accounts and Policies

1. 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, OBD'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.

OBD 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.

**OFFICE OF BUSINESS DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Accounts and Policies (continued)

2. Securities Lending

In accordance with GASB Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions" ("GASB 28"), OBD 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 OBD, because OBD does not have the ability to pledge or sell the securities without borrower default.

3. Loans Receivable, Net and Allowance for Uncollectible Loans

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

- 100% of loans certified to the Office of the Attorney General in prior periods,
- 75% of loans certified to the Office of the Attorney General in the current period,
- 1% of loans outstanding within the Facilities Establishment Fund, and
- 0.5% of the loans outstanding within the Regional Agency Fund, 122 Direct Loan Program Fund and the Family Farm Loan Fund,

The OBD 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.

Bad debt expense is not used in governmental accounting; therefore, OBD has recognized this expense by reducing loan interest income in an amount equal to the bad debt.

The loan receivables are divided into current (one year) 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	\$ 6,351,674	\$ 209,957,650
Regional Agency	2,800,382	44,553,246
122 Direct Loan	34,018	298,536
Rural Industrial Park Loan	18,238	6,094,469
Urban Redevelopment Loan	-	7,065,124
Family Farm Loan	186,857	3,855,035
Totals	\$ 9,391,169	\$ 271,824,060

4. Lease 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, 2003 was \$1,661,991 which is comprised of a current portion (\$19,252) and a non-current portion (\$1,642,739).

**OFFICE OF BUSINESS DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Accounts and Policies (continued)

5. Other Receivables

Accounts receivable includes receivables for commitment fees, OEBF service fees, OEBF program reserve dividend revenue, and interest revenue. It also includes receivables for investment earnings received from CAS Fund 608 and interest as determined by the Office of Budget and Management. Total other receivables as of June 30, 2003, were \$253,859.

6. Accounts Payable and Accrued Liabilities

Accounts payable includes accruals for operating expenditures/expenses, which are attributable to purchases prior to June 30, 2003. It also includes trustee fees paid to the regional agency escrow agents. Total accounts payable as of June 30, 2003 was \$71,305. Accrued liabilities include wages payable of \$32,939 as of June 30, 2003.

7. Deferred Revenue

In the fund financial statements, deferred revenue includes accruals for revenue due to OBD by June 30, 2003 but collected after August 31, 2003. Total deferred revenue as of June 30, 2003 was \$60,979.

8. 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*, OBD 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, 2003 was \$100,693.

9. 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, 2003 was \$427,338,642. The fund balance includes \$80,118,010 for encumbrances, \$271,824,060 for non-current loan receivables, \$1,642,739 for non-current lease receivables, \$10,000,000 for the Ohio Enterprise Bond Fund Program Reserve and \$63,753,833 that is unreserved/undesignated. The total net assets as of June 30, 2003 were \$427,530,452 which includes \$231,524 for capital assets, \$417,298,928 of unrestricted net assets and \$10,000,000 that is restricted for the OEBF Program Reserve.

10. 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.

**OFFICE OF BUSINESS DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Accounts and Policies (continued)

11. 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.

12. Personnel and Operating Expenditures/Expenses

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

13. 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.

14. OEBF Loan Payment Expenditures/Expenses

The OBD guarantees Ohio Enterprise Bonds and makes loan payments for Bonds that are in default of monthly payments. During fiscal year 2003, there were two bonds in default.

15. Interfund Transfers and Distribution to Other Offices

The OBD interfund transfers primarily consisted of transfers from the Facilities Establishment Fund to other loan programs and the regional agencies. Transfers out to state agencies resulted from repayment of 122 Direct Loans into the State of Ohio's General Revenue Fund and other transfers to the Department of Development. Since the financial statements present only the financial information of OBD and do not present the consolidated financial information of the State of Ohio, taken as a whole, the total distributions to other offices will not reflect offsetting receipts from state agencies.

16. Self-Insurance

The State of Ohio serves as the OBD's primary government and is self-insured for claims covered under its traditional healthcare plan, vehicle liability, public fidelity blanket bonds, property losses, and tort liability. Additionally, the State of Ohio participates in a public entity risk pool which covers liabilities associated with claims submitted to the Bureau of Workers' Compensation.

**OFFICE OF BUSINESS DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

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 BUSINESS DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

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

OBD 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 OBD's name.

Deposits

As of June 30, 2003 the carrying amount of OBD's deposits was \$51,431 and the bank balance was the same. Of the bank balance \$50,931 was insured, registered, or held by OBD or its agent in OBD's name. The remaining \$500 was uninsured and uncollateralized as defined by the Governmental Accounting Standards Board.

Investments

OBD's investments at June 30, 2003 are detailed below and are categorized to give an indication of the level of credit risk associated with OBD's custodial arrangements at year-end. *Category 1* includes investments that are insured, registered, or held by OBD or its agent in OBD's name. *Category 2* includes uninsured and unregistered investments held by the counterparty's trust department or its agent in OBD's name. *Category 3* includes uninsured and unregistered investments held by the counterparty, its trust department, or its agent, but not in OBD's or State's name.

OFFICE OF BUSINESS DEVELOPMENT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2003

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 \$32,958,269 of securities lent)				98,129,926
Investment in Treasurer of State investment pool (STAROhio) (including \$4,181,717 of securities lent)				19,328,015
Collateral on loaned securities				37,139,986
Investment in money market mutual funds				26,863,414
Total Investments				<u>\$181,461,341</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, 2003. 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, 2003 categorized and disclosed in this note is \$181,512,772. 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	\$ -	\$ 98,129,926	\$ 98,129,926
Cash and Cash Equivalents	51,431	46,191,429	46,242,860
Collateral on Lent Securities	-	37,139,986	37,139,986
Total	<u>\$ 51,431</u>	<u>\$ 181,461,341</u>	<u>\$ 181,512,772</u>

**OFFICE OF BUSINESS DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 3 – SECURITIES LENDING TRANSACTIONS

OBD 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. OBD 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.

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. OBD cannot sell securities received as collateral unless the borrower defaults. At June 30, 2003 the collateral OBD had received for securities lent consisted entirely of cash, some of which had been temporarily invested by OBD in various securities. OBD 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 2003, OBD had not experienced any losses due to credit or market risk on securities lending activities. OBD 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 2003 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, 2003. As a result, OBD's Allocated Collateral on Lent Securities and related Allocated Obligations Under Securities Lending as of June 30, 2003, was \$37,139,986

NOTE 4 – LOAN PROGRAM ACTIVITY

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

Loan Program Activity for the Year Ended June 30, 2003				
	Adj. Balance 7/01/02	New Loan Activity	Principal Repayments	Balance 6/30/03
Facilities Establishment	\$224,274,309	\$44,605,968	(\$31,773,067)	\$237,107,210
Regional Agency	45,937,018	12,127,919	(9,264,400)	48,800,537
122 Direct Loan Program	1,067,015	0	(732,790)	334,225
Rural Industrial Park Program	4,965,065	1,200,000	(52,358)	6,112,707
Urban Redevelopment Loan Program	4,006,249	3,210,540	(151,665)	7,065,124
Family Farm Loan Guarantee Program	4,300,072	639,554	(877,423)	4,062,203
Total	\$284,549,728	\$61,783,981	(\$42,851,703)	\$303,482,006

**OFFICE OF BUSINESS DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 4 – LOAN PROGRAM ACTIVITY (Continued)

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, 2003 was \$22,266,777 (Facilities Establishment Fund was \$20,797,886; Regional Agency Fund was \$1,446,909; 122 Direct Loan Fund was \$1,671 and Family Farm Loan Guarantee Fund was \$20,311).

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

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, 2003 outstanding loan balances under this program aggregated \$148,195,000 with original terms up to 20 years at interest ranging from 5.6% 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 OBD. OBD only monitors OEBF activities and does not include the financial transactions within its financial statements.

Of the forty-two Ohio Enterprise Bond Fund bonds with outstanding principal balances, forty were current in their repayment as of June 30, 2003. The two bonds in default of monthly payments are OCHS Industries and Euclid & Wickliffe Services, Inc. The following schedule shows payments to be made for FY2004 – FY2008 and then 5-year increments.

	<u>OCHS Industries</u>	<u>Euclid & Wickliffe</u>	<u>Total</u>
FY 2004	345,000	155,000	500,000
FY 2005	375,000	165,000	540,000
FY 2006	405,000	180,000	585,000
FY 2007	430,000	200,000	630,000
FY 2008	470,000	215,000	685,000
FY 2009-2013	-	1,365,000	1,365,000
FY 2014-2018	-	2,055,000	2,055,000
FY 2019-2023	-	655,000	655,000
Total	<u>\$2,025,000</u>	<u>\$4,990,000</u>	<u>\$7,015,000</u>

In fiscal year 2003, after the OBD made scheduled bond payments totaling \$637,140, the State received \$5,734,563 from the liquidation of assets, which will be used to pay future scheduled bond payments for these two bonds. Once these funds are exhausted, the OBD will be responsible for any remaining scheduled bond payments.

**OFFICE OF BUSINESS DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 5 – COMMITMENTS AND CONTINGENCIES (Continued)

B. Ohio Enterprise Bond Fund Leases

Within the Ohio Enterprise Bond Fund, there are ten projects where the State of Ohio holds title to the asset and leases it back to the company. Total lease receivable as of June 30, 2003 was \$27,715,000. The projects that include leases are as follows:

<u>Issue#</u>	<u>Borrower</u>	<u>Original Bond Amount</u>	<u>Current Bond Balance</u>
1993-3	Bowling Green Investors	1,830,000	1,265,000
2003-4	Burrows Paper II	9,000,000	9,000,000
1994-1	CR/PL Ltd. Partnership	3,060,000	200,000
1994-2	Cheryl & Company	1,455,000	785,000
1995-1	JJ & W Partnership	3,425,000	2,565,000
1991-1	Kinetics Noise Control	2,270,000	1,480,000
1994-4	Orlando Baking Company	3,575,000	2,015,000
1991-5	Royal Appliance	4,145,000	2,560,000
1991-9	Royal Appliance	3,125,000	1,935,000
2000-2	Western Reserve P.A./Timken	6,185,000	5,910,000
	Totals	38,070,000	27,715,000

In case of a lease default, the OBD 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 that it holds title to. Finally, if the bondholders are still not paid in full, OBD 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 OBD's Development Financing Advisory Council and the State's Controlling Board; however, the loans were not closed as of June 30, 2003. Below is a summary of outstanding commitments of OBD related to the Chapter 166 program:

<u>Fund</u>	<u>Commitment</u>
Facilities Establishment	\$57,729,627
Rural Industrial Park	419,413
Urban Redevelopment	10,107,460
Total	\$68,256,500

The Facilities Establishment encumbrance includes \$6,326,455 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 OBD.

D. Loan Guarantees

Under the Chapter 166 Loan Guarantee Program, OBD guarantees up to 75% of certain qualifying loans made by various financial institutions. The bonds issued by the State of Ohio to fund the loan and loan guarantee programs under 166 of the Code are to be repaid initially from revenue of the State from the sale of liquor. Repayment would come from the Facilities Establishment Fund only if such revenues were inadequate to service the debt. At June 30, 2003, OBD had two loan guarantees with a maximum liability of \$3.1 million. At June 30, 2003, the loans guaranteed by OBD were not in default.

**OFFICE OF BUSINESS DEVELOPMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 6 – PENSION PLAN

All full-time employees participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report, which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Required employee and employer contributions to PERS are established under the Ohio Revised Code and are based on percentages of covered employees' gross salaries, with the contribution rate percentages being calculated annually by the Retirement Board's actuaries. The employee contribution rate is 8.5 percent of covered payroll costs; the employer contribution rate was 13.55 percent of the covered payroll costs. The OBD's required contributions to PERS for the years ended June 30, 2003, 2002, and 2001 were \$93,589, \$79,169, and \$60,605, respectively, equal to the required contributions for each year.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS

The Public Employees Retirement System of Ohio (PERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post employment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post-retirement health care based on authority granted by State statute. The 2002 employer contribution rate was 13.55 percent of covered payroll; 5.0 percent was the portion that was used to fund health care for the year.

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

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

The number of active contributing participants was 402,041. OBD's actual contributions for state fiscal year 2003 which were used to fund other post employment benefits were \$34,535 (assuming a rate of 5.0 percent during the period). PERS's net assets available for payment of benefits at December 31, 2001 (the latest information available) were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$16.4 billion and \$4.8 billion, respectively.

For 2000 and later, PERS elected to return to an actuarially pre-funded type of disclosure because it is a better presentation of PERS's actual funding methodology. Since 1997, disclosures had been based on a pay-as-you-go funding basis.

**SUPPLEMENTARY COMBINING
FINANCIAL STATEMENTS**

**OFFICE OF BUSINESS DEVELOPMENT
BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2003**

	Loan Guarantee Fund	122 Direct Loan Fund	Premium Income Fund
ASSETS:			
Cash Equity with Treasurer	\$ -	\$ -	\$ -
Cash and Cash Equivalents	731,609	-	-
Allocated Collateral on Lent Securities	158,179	-	-
Loans Receivable, Net	-	332,554	-
Leases Receivable	-	-	-
Other Receivables	-	-	-
Due From Other Funds	-	-	-
TOTAL ASSETS	<u>889,788</u>	<u>332,554</u>	<u>-</u>
LIABILITIES:			
Accounts Payable	-	-	-
Accrued Liabilities	-	-	-
Allocated Obligations Under Securities Lending	158,179	-	-
Deferred Revenue	-	-	-
TOTAL LIABILITIES	<u>158,179</u>	<u>-</u>	<u>-</u>
FUND BALANCES:			
Reserved for:			
Encumbrances	-	-	-
Noncurrent Portion of Loans Receivable	-	298,536	-
Noncurrent Portion of Leases Receivable	-	-	-
Ohio Enterprise Bond Program	-	-	-
Unreserved/Undesignated (Deficits)	731,609	34,018	-
TOTAL FUND BALANCES	<u>731,609</u>	<u>332,554</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 889,788</u>	<u>\$ 332,554</u>	<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	Rural Development Initiative Fund	Total Nonmajor Governmental Funds
\$ 558,729	\$ 3,185,595	\$ 390,750	\$ 419,412	\$ 4,554,486
-	-	-	-	731,609
188,316	1,073,685	131,700	141,360	1,693,240
6,112,707	7,065,124	4,041,892	-	17,552,277
-	-	-	-	-
-	-	-	-	-
17,343	133,333	-	-	150,676
<u>6,877,095</u>	<u>11,457,737</u>	<u>4,564,342</u>	<u>560,772</u>	<u>24,682,288</u>
-	-	-	-	-
-	-	-	-	-
188,316	1,073,685	131,700	141,360	1,693,240
-	-	-	-	-
<u>188,316</u>	<u>1,073,685</u>	<u>131,700</u>	<u>141,360</u>	<u>1,693,240</u>
419,413	10,107,460	1,310	419,412	10,947,595
6,094,469	7,065,124	3,855,035	-	17,313,164
-	-	-	-	-
-	-	-	-	-
174,897	(6,788,532)	576,297	-	(5,271,711)
<u>6,688,779</u>	<u>10,384,052</u>	<u>4,432,642</u>	<u>419,412</u>	<u>22,989,048</u>
<u>\$ 6,877,095</u>	<u>\$ 11,457,737</u>	<u>\$ 4,564,342</u>	<u>\$ 560,772</u>	<u>\$ 24,682,288</u>

OFFICE OF BUSINESS DEVELOPMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2003

	Loan Guarantee Fund	122 Direct Loan Fund	Premium Income Fund
REVENUES:			
Fee Revenue	\$ -	\$ -	\$ 62,652
Loan Interest Income	-	181,436	-
Investment Income	10,401	-	48,240
Net Increase(Decrease) in Fair Value of Investments	-	-	-
Miscellaneous	-	-	-
TOTAL REVENUES	<u>10,401</u>	<u>181,436</u>	<u>110,892</u>
EXPENDITURES:			
Personnel Expenditures	-	-	-
Operating Expenditures	-	-	-
Grant Expenditures	-	-	-
OEBF Loan Payment Expenditures	-	-	-
Miscellaneous	-	-	-
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>10,401</u>	<u>181,436</u>	<u>110,892</u>
OTHER FINANCING SOURCES (USES):			
Interfund Transfers	-	-	(4,042,936)
Distributions to Other Offices	-	(910,562)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(910,562)</u>	<u>(4,042,936)</u>
NET CHANGE IN FUND BALANCES	<u>10,401</u>	<u>(729,126)</u>	<u>(3,932,044)</u>
FUND BALANCES, JULY 1	<u>721,208</u>	<u>1,061,680</u>	<u>3,932,044</u>
FUND BALANCES, JUNE 30	<u>\$ 731,609</u>	<u>\$ 332,554</u>	<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	Rural Development Initiative Fund	Total Nonmajor Governmental Funds
\$ 4,898	\$ 5,277	\$ -	\$ -	\$ 72,827
5,259	-	41,077	-	227,772
-	-	-	-	58,641
-	-	-	-	-
-	-	-	-	-
<u>10,157</u>	<u>5,277</u>	<u>41,077</u>	<u>-</u>	<u>359,240</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	500,000	500,000
-	-	-	-	-
-	-	-	-	-
-	-	-	500,000	500,000
<u>10,157</u>	<u>5,277</u>	<u>41,077</u>	<u>(500,000)</u>	<u>(140,760)</u>
919,413	-	-	919,412	(2,204,111)
-	-	-	-	(910,562)
<u>919,413</u>	<u>-</u>	<u>-</u>	<u>919,412</u>	<u>(3,114,673)</u>
<u>929,570</u>	<u>5,277</u>	<u>41,077</u>	<u>419,412</u>	<u>(3,255,433)</u>
<u>5,759,209</u>	<u>10,378,775</u>	<u>4,391,565</u>	<u>-</u>	<u>26,244,481</u>
<u>\$ 6,688,779</u>	<u>\$ 10,384,052</u>	<u>\$ 4,432,642</u>	<u>\$ 419,412</u>	<u>\$ 22,989,048</u>



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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 Business Development
State of Ohio

We have audited the financial statements of the Office of Business Development (Office), State of Ohio, as of and for the year ended June 30, 2003, and have issued our report thereon dated October 29, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether 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 items 2003-01 and 2003-02.

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 October 29, 2003.

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
October 29, 2003

Finding 2003-01 - Reportable Condition

General ledger

The Office of Business Development currently does not utilize a general ledger system to record its financial activities. Instead, it utilizes 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.

We understand the Office management has been considering a new loan servicing program and is in the process of implementing the new program. Once this has been implemented, it is their intent to address the general ledger package. We encourage this and recommend that the Office establish a general ledger system as soon as practical.

Finding 2003-02 - Reportable Condition

Policies and procedures

The Office currently does not have formal, written policies or procedures documenting financial reporting and internal control procedures. This increases the risk that transactions could be improperly recorded and financial information reported inaccurately. Formal, written policies and procedures promote consistency and accuracy. They also provide valuable information whenever new personnel are hired.

We understand that this documentation process will require significant time and effort on the part of the Office personnel. However, because of its importance, we recommend that the Office management work to implement written internal accounting policies and procedures which specifically identify responsibilities for activities, procedures to be followed in each cycle of activities and required reviews and oversight responsibilities.

Both of the findings noted above were repeat findings from the prior year.



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OFFICE OF BUSINESS DEVELOPMENT

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 4, 2004**