

Office of Financial Incentives

Basic Financial Statements

For the Year Ended June 30, 2012



Dave Yost • Auditor of State

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

We have reviewed the *Report of Independent Auditors* of the Office of Financial Incentives, Franklin County, prepared by Crowe Horwath LLP, for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

November 29, 2012

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OFFICE OF FINANCIAL INCENTIVES
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REPORT OF INDEPENDENT AUDITORS

To the Office of Financial Incentives
State of Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of Financial Incentives (“OFI”), State of Ohio, as of and for the year ended June 30, 2012, which collectively comprise OFI’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of OFI’s management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Office of Financial Incentives are intended to present the financial position and the changes in net assets or fund balances for only that portion of the governmental activities, each major fund, and the aggregate remaining funds information that is attributable to the transactions of OFI. They do not purport to, and do not, present fairly the financial position of the State of Ohio as of June 30, 2012, and the changes in its financial position for the year then 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 funds information of the OFI as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2012 on our consideration of OFI’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

(Continued)

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 3 through 8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by accounting principles generally accepted in the United States of America and is considered to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the OFI's financial statements as a whole. The *combining nonmajor fund financial statements* are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The *combining nonmajor fund financial statements* have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *combining nonmajor fund financial statements* are fairly stated in all material respects in relation to the financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
September 28, 2012

OFFICE OF FINANCIAL INCENTIVES
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Year Ended June 30, 2012
(Unaudited)

As management of the Office of Financial Incentives (OFI) we are providing this overview of OFI's financial activities for the fiscal year ended June 30, 2012. Please read this overview in conjunction with the OFI's basic financial statements, which follow.

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

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

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

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2012 are as follows:

- The assets of the OFI exceeded its liabilities at the close of the most recent fiscal year by approximately \$759.6 million (net assets).
- The OFI's total net assets increased by approximately \$17.7 million.
- As of the close of the current fiscal year, the OFI's governmental funds reported combined ending fund balances of \$760.6 million, an increase of approximately \$17.7 million in comparison with the prior year.
- During the fiscal year, OFI closed twenty-one 166 Direct Loans totaling \$41.4 million, six Research and Development loans totaling \$7.9 million, seventeen Innovation Ohio loans totaling \$15.5 million, and two Logistics and Distribution Infrastructure loans totaling \$3.4 million. OFI also had \$18.7 million in additional disbursements on existing loans.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements.

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

OFFICE OF FINANCIAL INCENTIVES
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Year Ended June 30, 2012
(Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash inflows or outflows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

Fund financial statements

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

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

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

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

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

In addition, GASB Statement No. 54, Fund Balance Reporting, became effective for years beginning after June 15, 2010. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. See Note 1.M. for further discussion of the effect of this pronouncement.

**OFFICE OF FINANCIAL INCENTIVES
MANAGEMENT'S DISCUSSION & ANALYSIS**
For the Year Ended June 30, 2012
(Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Notes to the financial statements

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

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 33-37 of this report.

FINANCIAL ANALYSIS OF THE OFFICE OF FINANCIAL INCENTIVES

Government-wide Financial Analysis

The following is a summary of OFI's net assets as of June 30, 2012 compared to June 30, 2011.

	Net Assets at June 30		
	2012	2011	% Change
Assets			
Current and Other Non Current Assets	\$ 797,600,678	\$ 793,525,797	0.5%
Capital Assets, Net	231,524	231,524	0.0%
Total Assets	797,832,202	793,757,321	0.5%
Liabilities			
Current Liabilities	35,088,799	48,335,389	-27.4%
Long-term Liabilities	3,103,934	3,445,142	-9.9%
Total Liabilities	38,192,733	51,780,531	-26.2%
Net Assets			
Invested in Capital Assets	231,524	231,524	0.0%
Restricted for Community and Economic Development	54,940,094	72,587,077	-24.3%
Unrestricted	704,467,851	669,158,189	5.3%
Total Net Assets	\$ 759,639,469	\$ 741,976,790	2.4%

Current and Other Non Current Assets increased approximately \$4.1 million during the fiscal year. This increase represents an increase in Cash and Investments of approximately \$25.1 million, offset by decreases in Allocated Collateral on Lent Securities of approximately \$13.4 million and Loans Receivable, Net, of approximately \$7.6 million.

Current Liabilities decreased approximately \$13.4 million during the fiscal year primarily as a result of a \$13.3 million decrease in Allocated Obligations Under Securities Lending.

Net Assets Restricted for Community and Economic Development decreased approximately \$17.7 million during the fiscal year as a result of Logistics and Distribution Infrastructure Grants of approximately \$17.8 million.

OFFICE OF FINANCIAL INCENTIVES
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Year Ended June 30, 2012
(Unaudited)

FINANCIAL ANALYSIS OF THE OFFICE OF FINANCIAL INCENTIVES (CONTINUED)

The following is a summary of OFI's Statement of Activities for the year ending June 30, 2012 compared to the year ending June 30, 2011.

Statement of Activity for the year ending June 30

	<u>2012</u>	<u>2011</u>	<u>% Change</u>
Revenues			
Program Revenues:			
Community and Economic Development	<u>\$ 13,875,900</u>	<u>\$ 13,752,809</u>	0.9%
General Revenues			
Bond Proceeds received from the State of Ohio	44,658,035	51,092,966	-12.6%
Investment Income	556,023	764,278	-27.2%
Miscellaneous Revenues	375,959	338,803	11.0%
Total General Revenues	<u>45,590,017</u>	<u>52,196,047</u>	-12.7%
Program Expenses			
Community and Economic Development	<u>(36,303,238)</u>	<u>(38,642,122)</u>	-6.1%
Distributions to Other Offices	<u>(5,500,000)</u>	<u>(13,423,782)</u>	-59.0%
Change in Net Assets	17,662,679	13,882,952	27.2%
Net Assets at Beginning of Year	<u>741,976,790</u>	<u>728,093,838</u>	
Net Assets at End of Year	<u>\$ 759,639,469</u>	<u>\$ 741,976,790</u>	

Program Revenues

Program revenues consist of loan fees and interest income. In fiscal year 2012, program revenues remained relatively consistent with an increase of \$123,091.

General Revenues

Investment income decreased \$208,255, or 27.2%. This decrease is the result of declining investment balances, coupled with a decreased rate of return. Bond Proceeds are received from the State of Ohio as needed to fund OFI's loan and grant programs. Bond Proceeds received are net of applicable bond issuance costs.

Program Expenses

Program expenses consist primarily of personnel and operating expenditures, grant expenditures and bad debt expense. The total program expenses decreased approximately \$2.3 million, or 6.1%. The key components of this decrease are an approximately \$8.1 million decrease in grants in the Logistics and Distribution Infrastructure Fund and an approximately \$6.0 million increase in bad debt expense.

Distributions to Other Offices

Distributions to Other Offices decreased \$7.9 million in fiscal year 2012. In fiscal year 2012, the controlling board approved distributions to the Minority Business Office (\$2.5 million) and the Capital Access Loan Program (\$3 million).

**OFFICE OF FINANCIAL INCENTIVES
MANAGEMENT'S DISCUSSION & ANALYSIS**
For the Year Ended June 30, 2012
(Unaudited)

FINANCIAL ANALYSIS OF THE OFFICE OF FINANCIAL INCENTIVES (CONTINUED)

Financial Analysis of the Government's Funds

The following is a summary of OFI's fund balances as of June 30, 2012 compared to June 30, 2011.

Fund Balance at June 30

	<u>2012</u>	<u>2011</u>	<u>% Change</u>
Operating Fund	\$ 5,082,587	\$ 5,397,855	-5.8%
Facilities Establishment Fund	460,294,199	371,811,549	23.8%
Regional Agency Fund	64,558,020	64,871,646	-0.5%
Ohio Innovation Fund	71,484,864	73,078,826	-2.2%
Research and Development Fund	112,366,618	113,079,946	-0.6%
Logistics and Distribution Infrastructure Fund	44,940,094	62,587,077	-28.2%
Nonmajor Governmental Funds	1,843,896	52,076,884	-96.5%
Total Fund Balance	<u>\$ 760,570,278</u>	<u>\$ 742,903,783</u>	2.4%

The Facilities Establishment Fund fund balance increased approximately \$88.5 million, or 23.8%. This increase is primarily the result of the transfer of approximately \$49.5 million in cash and loan balances from the Rural Industrial Park and Urban Redevelopment Loan Funds and approximately \$39.7 million in bond proceeds received from the State of Ohio.

The Logistics and Distribution Infrastructure Fund fund balance decreased approximately \$17.6 million, or 28.2%. This is the amount by which grant expenditures totaling \$17.8 million exceeded investment income during the fiscal year.

The Nonmajor Governmental Funds fund balance decreased approximately \$50.2 million, or 96.5%. This decrease is primarily the result of the transfer of approximately \$49.5 million in cash and loan balances from the Rural Industrial Park and Urban Redevelopment Loan Funds to the Facilities Establishment Fund.

BUDGET VARIANCES IN THE GENERAL FUND

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

CAPITAL ASSETS

OFI has \$231,524 invested in net capital assets as of June 30, 2012. There were no acquisitions or dispositions during the fiscal year.

CONDITIONS EXPECTED TO AFFECT FUTURE OPERATIONS

On September 28, 2012, Ohio Department of Development officially became Ohio Development Services Agency. Loan initiations and business assistance functions will be handled via contract with the private nonprofit organization JobsOhio. All loan servicing functions will be monitored by the Ohio Development Services Agency.

**OFFICE OF FINANCIAL INCENTIVES
MANAGEMENT'S DISCUSSION & ANALYSIS**
For the Year Ended June 30, 2012
(Unaudited)

CONTACTING THE OFFICE OF FINANCIAL INCENTIVES MANAGEMENT

This financial report is designed to provide an overview of OFI's finances and its accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sharon Anthony, Senior Servicing Officer, Finance and Internal Services Division, Ohio Development Services Agency, Office of Loan Administration, 77 South High Street, 28th Floor, Columbus, Ohio 43216-1001.

BASIC FINANCIAL STATEMENTS

OFFICE OF FINANCIAL INCENTIVES
STATEMENT OF NET ASSETS
June 30, 2012

	Governmental Activities
Assets	
Cash Equity with Treasurer	\$ 246,397,243
Cash and Cash Equivalents	60,329,762
Investments	10,507,415
Allocated Collateral on Lent Securities	34,724,178
Loans Receivable, Net	445,119,959
Leases Receivable	457,863
Other Assets	64,258
Capital Assets, Net	231,524
Total Assets	797,832,202
 Liabilities	
Accounts Payable	338,847
Accrued Liabilities	25,774
Allocated Obligations Under Securities Lending	34,724,178
Long Term Liabilities:	
Due in One Year	354,896
Due in More Than One Year	2,749,038
Total Liabilities	38,192,733
 Net Assets	
Invested in Capital Assets	231,524
Restricted for Community and Economic Development	54,940,094
Unrestricted	704,467,851
Total Net Assets	\$ 759,639,469

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

OFFICE OF FINANCIAL INCENTIVES
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012

<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	\$ 36,303,238	\$ 13,875,900	\$ (22,427,338)
Total Governmental Activities	<u>36,303,238</u>	<u>13,875,900</u>	<u>(22,427,338)</u>
Total Primary Government	<u>\$ 36,303,238</u>	<u>\$ 13,875,900</u>	<u>\$ (22,427,338)</u>

General Revenues:

Bond Proceeds received from the State of Ohio	44,658,035
Investment Income	556,023
Miscellaneous Revenue	375,959
Total General Revenues	<u>45,590,017</u>
Distributions to Other Offices	<u>(5,500,000)</u>
Change in Net Assets	17,662,679
Net Assets, Beginning of Year	<u>741,976,790</u>
Net Assets, End of Year	<u>\$ 759,639,469</u>

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

OFFICE OF FINANCIAL INCENTIVES
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	Operating Fund	Facilities Establishment Fund	Regional Agency Fund
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>
ASSETS:			
Cash Equity with Treasurer	\$ 5,428,894	\$ 130,054,032	\$ -
Cash and Cash Equivalents	-	28,166,730	31,289,126
Investments	-	8,565,551	1,941,864
Allocated Collateral on Lent Securities	765,081	18,328,205	-
Loans Receivable, Net	-	294,570,251	31,431,200
Leases Receivable	-	457,863	-
Other Assets	6,314	39,371	18,573
Due From Other Funds	-	114,351	-
TOTAL ASSETS	<u>\$ 6,200,289</u>	<u>\$ 480,296,354</u>	<u>\$ 64,680,763</u>
LIABILITIES:			
Accounts Payable	\$ 326,847	\$ -	\$ -
Accrued Liabilities	25,774	-	-
Allocated Obligations Under Securities Lending	765,081	18,328,205	-
Deferred Revenue	-	1,673,950	8,392
Due To Other Funds	-	-	114,351
TOTAL LIABILITIES	<u>1,117,702</u>	<u>20,002,155</u>	<u>122,743</u>
FUND BALANCES:			
Nonspendable - Not in Spendable Form	6,314	-	-
Restricted for Community and Economic Development	-	10,000,000	-
Committed	-	450,294,199	64,558,020
Assigned	5,076,273	-	-
TOTAL FUND BALANCES	<u>5,082,587</u>	<u>460,294,199</u>	<u>64,558,020</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 6,200,289</u>	<u>\$ 480,296,354</u>	<u>\$ 64,680,763</u>

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

Innovation Ohio Fund	Research and Development Fund	Logistics and Distribution Infrastructure Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 22,048,136	\$ 42,956,097	\$ 44,940,094	\$ 969,990	\$ 246,397,243
-	-	-	873,906	60,329,762
-	-	-	-	10,507,415
3,107,191	6,053,701	6,333,301	136,699	34,724,178
49,707,987	69,410,521	-	-	445,119,959
-	-	-	-	457,863
-	-	-	-	64,258
-	-	-	-	114,351
<u>\$ 74,863,314</u>	<u>\$ 118,420,319</u>	<u>\$ 51,273,395</u>	<u>\$ 1,980,595</u>	<u>\$ 797,715,029</u>
\$ 12,000	\$ -	\$ -	\$ -	\$ 338,847
-	-	-	-	25,774
3,107,191	6,053,701	6,333,301	136,699	34,724,178
259,259	-	-	-	1,941,601
-	-	-	-	114,351
<u>3,378,450</u>	<u>6,053,701</u>	<u>6,333,301</u>	<u>136,699</u>	<u>37,144,751</u>
-	-	-	-	6,314
-	-	44,940,094	-	54,940,094
71,484,864	112,366,618	-	1,358,926	700,062,627
-	-	-	484,970	5,561,243
<u>71,484,864</u>	<u>112,366,618</u>	<u>44,940,094</u>	<u>1,843,896</u>	<u>760,570,278</u>
<u>\$ 74,863,314</u>	<u>\$ 118,420,319</u>	<u>\$ 51,273,395</u>	<u>\$ 1,980,595</u>	<u>\$ 797,715,029</u>

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

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OFFICE OF FINANCIAL INCENTIVES
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2012

Total Fund Balances for Governmental Funds **\$ 760,570,278**

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. 1,941,601

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

Compensated Absences	(73,934)
Ohio Enterprise Bond Fund Liability	(3,030,000)
	<hr/>

Total Net Assets of Governmental Activities **\$ 759,639,469**

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

OFFICE OF FINANCIAL INCENTIVES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012

	Operating Fund	Facilities Establishment Fund	Regional Agency Fund
REVENUES:			
Fee Revenue	\$ 1,153,660	\$ 1,053,641	\$ 35,013
Loan Interest Income	-	5,839,107	1,027,497
Investment Income	-	317,819	(5,031)
Miscellaneous	-	214,760	-
TOTAL REVENUES	<u>1,153,660</u>	<u>7,425,327</u>	<u>1,057,479</u>
EXPENDITURES:			
Personnel Expenditures	1,013,690	-	-
Operating Expenditures	1,455,238	24,137	672,699
Grant Expenditures	-	-	-
OEBF Loan Payment Expenditures	-	565,326	-
Bad Debt Expense	-	1,997,007	(301,594)
Miscellaneous	-	38,786	-
TOTAL EXPENDITURES	<u>2,468,928</u>	<u>2,625,256</u>	<u>371,105</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,315,268)</u>	<u>4,800,071</u>	<u>686,374</u>
OTHER FINANCING SOURCES (USES):			
Interfund Transfers	1,000,000	49,461,955	(1,000,000)
Bond Proceeds received from the State of Ohio	-	39,720,624	-
Distributions to Other Offices	-	(5,500,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,000,000</u>	<u>83,682,579</u>	<u>(1,000,000)</u>
NET CHANGE IN FUND BALANCES	(315,268)	88,482,650	(313,626)
FUND BALANCES - JULY 1	5,397,855	371,811,549	64,871,646
FUND BALANCES, JUNE 30	<u>\$ 5,082,587</u>	<u>\$ 460,294,199</u>	<u>\$ 64,558,020</u>

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

Innovation Ohio Fund	Research and Development Fund	Logistics and Distribution Infrastructure Fund	Nonmajor Governmental Funds	Total
\$ 975,964	\$ 206,849	\$ -	\$ -	\$ 3,425,127
2,513,939	1,422,151	-	-	10,802,694
38,450	79,189	117,857	842	549,126
-	161,199	-	-	375,959
<u>3,528,353</u>	<u>1,869,388</u>	<u>117,857</u>	<u>842</u>	<u>15,152,906</u>
-	-	-	-	1,013,690
135,409	-	-	-	2,287,483
-	-	17,764,840	771,875	18,536,715
-	-	-	-	565,326
9,924,317	2,582,716	-	-	14,202,446
-	-	-	-	38,786
<u>10,059,726</u>	<u>2,582,716</u>	<u>17,764,840</u>	<u>771,875</u>	<u>36,644,446</u>
<u>(6,531,373)</u>	<u>(713,328)</u>	<u>(17,646,983)</u>	<u>(771,033)</u>	<u>(21,491,540)</u>
-	-	-	(49,461,955)	-
4,937,411	-	-	-	44,658,035
-	-	-	-	(5,500,000)
<u>4,937,411</u>	<u>-</u>	<u>-</u>	<u>(49,461,955)</u>	<u>39,158,035</u>
(1,593,962)	(713,328)	(17,646,983)	(50,232,988)	17,666,495
73,078,826	113,079,946	62,587,077	52,076,884	742,903,783
<u>\$ 71,484,864</u>	<u>\$ 112,366,618</u>	<u>\$ 44,940,094</u>	<u>\$ 1,843,896</u>	<u>\$ 760,570,278</u>

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

OFFICE OF FINANCIAL INCENTIVES
RECONCILIATION OF THE CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds **\$ 17,666,495**

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. (345,024)

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

Change in Compensated Absences	46,208
Change in Ohio Enterprise Bond Fund Liability	<u>295,000</u>

Change in Net Assets of Governmental Activities **\$ 17,662,679**

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

OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Office of Financial Incentives (OFI), as of June 30, 2012, and for the year then ended, conform with accounting principles generally accepted in the United States of America as applied to governments. The OFI is considered a single purpose governmental entity reported as Community and Economic Development. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The GASB's *Codification of Governmental Accounting and Financial Reporting Standards* documents these principles. OFI's significant accounting policies are as follows:

A. Reporting Entity

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

B. Basis of Presentation

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

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

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

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

**OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

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

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

1. Major Governmental Funds

Operating Fund (OAKS Fund 4510) – records operating expenditures related to the administration of the loans and loan guarantees made pursuant to Revised Code Sections 122.39 to 122.62 and Chapter 166. Operations are primarily funded through transfers from the Facilities Establishment Fund.

Facilities Establishment Fund (OAKS Fund 7037) - accounts for proceeds deposited by the Treasurer of the State of Ohio with OFI from bond sales, fee income, interest income, loan receipts and disbursements for loans made pursuant to Chapter 166 of the Code. Also accounts for OFI's share of family farm loan financing deposited with various financial institutions as a loan guarantee for eligible borrowers. OFI guarantees up to 40% of the loan project, which should not exceed \$200,000 per project. In addition, this fund accounts for the Rural Industrial Park and Urban Redevelopment loan programs. 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. Funds are held in the account for a six month period to provide a secondary reserve in the event the OEBF Program Reserve Account exceeds the \$10,000,000 available balance.

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

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

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

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

OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

B. Basis of Presentation (continued)

2. Non-major Governmental Funds

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

Rural Industrial Park Fund (OAKS Fund 4Z60) – provides loans to designated priority investment areas within Ohio. During fiscal year 2012, the Rural Industrial Park Fund loans, and majority of cash, were transferred to the Facilities Establishment Fund.

Urban Redevelopment Loan Fund (OAKS Fund 5D20) - accounts for activity which aides in the development of eligible communities within the State of Ohio, which are designated as “Central Cities” as defined by the U.S. Office of Management and Budget. During fiscal year 2012, all Urban Redevelopment Fund cash and loans were transferred to the Facilities Establishment Fund.

Rural Development Initiative Fund (OAKS Fund 5S80) – provides grants to eligible applicants who also qualify and receive funding under the Rural Industrial Park Loan program.

C. Measurement Focus and Basis of Accounting

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

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

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

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

OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Investments with an original maturity of three months or less at the time they are purchased by OFI are presented on the financial statements as Cash and Cash Equivalents. Investments with an initial maturity of more than three months are reported as Investments.

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

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

- 75% of loans certified to the Office of the Attorney General,
- 15% of loans outstanding within the Innovation Ohio Fund,
- 10% of loans outstanding Rural Industrial Park loans within the Facilities Establishment Fund,
- 6% of loans outstanding 166 Direct loans within the Facilities Establishment Fund
- 5% of loans outstanding within the Research and Development Fund,
- 1.5% of loans outstanding Urban Redevelopment loans within the Facilities Establishment Fund,
- 1% of loans outstanding within the Regional Agency Fund,
- 0.5% of the family farm loan guarantees outstanding within the Facilities Establishment Fund, and
- Varying percentages on specific loan balances as deemed necessary.

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

The loans receivable shown in the Facilities Establishment Fund and Innovation Ohio Fund balances include \$1,634,579 and \$259,259, respectively, of deferred capitalized interest.

- 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 at fiscal year-end was \$457,863.

OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- I. **Other Assets** - Other assets includes receivables for Port Authority Bond Reserve service fees, accrued interest receivable, and prepaid assets. Total other assets at fiscal year-end were \$64,258.
- J. **Accounts Payable and Accrued Liabilities** - Accounts payable includes accruals for operating expenditures/expenses, which are attributable to purchases prior to June 30, 2012, as well as application and commitment fee transfers to JobsOhio, which are attributable to loans closed prior to June 30, 2012. Total accounts payable as of June 30, 2012 was \$338,847. Accrued liabilities include wages payable of \$25,774 as of June 30, 2012.
- K. **Deferred Revenue** - In the fund financial statements, deferred revenue includes accruals for revenue due to OFI by June 30, 2012 but collected after August 31, 2012. Total deferred revenue as of June 30, 2011 was \$1,941,601.
- L. **Compensated Absences** - The State of Ohio, which governs employee leave benefits and policies, pays compensation to separated employees for leave balances accumulated during the employee's term of service. In accordance with Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*, OFI calculated the compensated absences liability on employees' fiscal year-end balances for vacation, sick, and compensatory leaves. The total compensated absences balance for the period ending June 30, 2011 was \$73,934.
- M. **Fund Balance/Net Assets**

GASB Statement No. 54, *Fund Balance Reporting* became effective for years beginning after June 15, 2010. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

In accordance with this guidance, OFI classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. OFI may use the following categories:

Nonspendable – resources that cannot be spent because they are either (a) not in spendable form; or (b) legally or contractually required to be maintained intact.

Restricted – resources with constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – resources with constraints imposed by formal action (House or Senate Bill) of OFI's highest level of decision making authority (General Assembly).

Assigned – resources that are provided at the discretion of the Director of the Ohio Office of Budget and Management, as authorized by the General Assembly, but are neither restricted nor committed.

Unassigned – resources that are available for further appropriation and expenditure for general government purposes.

OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

OFI applies restricted resources first when an expense is incurred for purposes which both restricted and unrestricted net assets are available. OFI considers committed and assigned balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

The total fund balance for the period ended June 30, 2012 was \$760,570,278. This balance includes \$6,314 that is Nonspendable - Not in Spendable Form, \$54,940,094 that is Restricted, \$700,062,627 that is Committed, and \$5,561,243 that is Assigned.

The total net assets as of June 30, 2012 were \$759,639,469 which includes \$231,524 invested in capital assets, \$54,940,094 that is Restricted for Community and Economic Development, and \$704,467,851 that is Unrestricted. There were no net assets required to be restricted due to enabling legislation as of June 30, 2012.

- N. Investment and Loan Interest Income** - Investment income includes investment earnings from investments and the quarterly allocation of investment earnings from cash equity with treasurer and corresponding interest receivables. Loan interest income includes interest earned from the repayment of loans.
- O. Fee Revenue and Miscellaneous Revenue** - Fees include service fees for the administration of the loan processing and commitment and application fees paid by the borrower.
- P. Personnel and Operating Expenditures/Expenses** - Personnel expenditures/expenses include all payroll and fringe benefit costs paid by the OFI. Operating expenditures/expenses include various supplies and maintenance expenditures, equipment purchases, and regional agency trustee and administrative fees.
- Q. Grant Expenditures/Expenses** - The Rural Development Initiative Fund provides grants to eligible applicants who also qualify and receive funding under the Rural Industrial Park Loan program. In addition, the Logistics and Distribution Infrastructure Fund provides loans with opportunities to earn forgiveness of principal and accrued interest based on attainment of defined performance measures and use of loan proceeds for construction financing. In fiscal year 2012, OFI reported these disbursements as grants based on the high probability of forgiveness.
- R. OEBF Loan Payment Expenditures/Expenses** - The OFI guarantees Ohio Enterprise Bonds and makes loan payments for Bonds that are in default of monthly payments. As of June 30, 2012, there was one OEBF bond in default totaling \$3,030,000 (See Note 5).
- S. Interfund Transfers and Distributions to Other Offices** - The OFI interfund transfers primarily consisted of transfers from the Facilities Establishment Fund to other loan programs. Distributions to Other Offices resulted from transfers to the Minority Business Office and Capital Access Loan Program. These and other transfers are provided for in HB No. 95 and require Controlling Board approval unless otherwise specified. Since the financial statements present only the financial information of OFI and do not present the consolidated financial information of the State of Ohio, taken as a whole, the total distributions to other offices will not reflect offsetting receipts from state agencies.
- T. Self-Insurance** - The State of Ohio serves as the OFI's primary government and is self-insured for claims covered under its traditional healthcare plan, vehicle liability, public fidelity blanket bonds, property losses, and tort liability. Additionally, the State of Ohio participates in a public entity risk pool which covers liabilities associated with claims submitted to the Bureau of Workers' Compensation.

OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 – DEPOSITS AND INVESTMENTS

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

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

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

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

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

Deposits - The primary government's deposits must be held in insured depositories approved by the State Board of Deposit and must be fully collateralized. At fiscal year-end, the carrying amount of OFI's deposits was \$362,528 and the bank balance was the same. The entire bank balance was covered by Federal Deposit Insurance.

OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

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

Investments - At fiscal year-end, the fair values of investments were as follows:

Investment Type	Fair Value
U.S. Government Obligations	\$ 1,218,370
U.S. Government Agency Obligations	8,530,275
Municipal Bonds	758,770
Money Market Funds	35,386,893
STAR Ohio	24,580,341
Total Investments	<u>\$ 70,474,649</u>

Credit Risk – Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. At fiscal year-end, OFI's U.S. Government Obligations, Municipal Bonds, and STAR Ohio were rated AAA and OFI's U.S. Government Agency Obligations were rated AA+. OFI's money market funds were not rated.

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

Interest Rate Risk – Interest rate risk is the risk that an interest rate change could adversely affect an investment's fair value. The reporting of effective duration in the table below quantifies, to the fullest extent possible, the interest rate risk of OFI's fixed income assets.

Investment Type	Investment Maturities (in years)		Total Fair Value
	Less than 1	1-5	
U.S. Government Obligations	\$ 121,181	\$ 1,097,189	\$ 1,218,370
U.S Government Agency Obligations	1,464,305	7,065,970	8,530,275
Municipal Bonds	503,270	255,500	758,770
STAR Ohio	24,580,341	-	24,580,341
Money Market Funds	35,386,893	-	35,386,893
Total Investments	<u>\$ 62,055,990</u>	<u>\$ 8,418,659</u>	<u>\$ 70,474,649</u>

OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

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

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

NOTE 3 – SECURITIES LENDING TRANSACTIONS

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

There are currently no restrictions on the amount of loan contracts that can be made.

During the fiscal year, the State Treasurer and the STAROhio program lent U.S. government and agency obligations. OFI cannot sell securities received as collateral unless the borrower defaults. At fiscal year-end, the collateral OFI had received for securities lent consisted entirely of cash. For State funds, the State Treasurer invests cash collateral in short-term obligations. At fiscal year-end, the weighted average maturity of all loans was 7.58 days while the weighted maturity of all collateral was 16.34 days.

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

For both the State funds and STAROhio lending programs, since the lender owes the borrower more than the borrower owes the lender, there is no credit risk to the lender at year-end. The State's Office of Budget and Management allocates the State's pooled cash collateral to various funds within the State's Ohio Administrative Knowledge System (OAKS) based on cash balances at year-end. As a result, OFI's Allocated Collateral on Lent Securities and related Allocated Obligations Under Securities Lending at year-end was \$34,724,178.

**OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 – LOAN PROGRAM ACTIVITY

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

Fund	Beginning Balance	Loan Additions	Loan Reductions	Interfund Transfers	Ending Balance
Facilities Establishment	\$273,324,299	\$ 44,490,516	\$ (40,968,003)	\$ 49,383,048	\$326,229,860
Regional Agency	31,372,114	8,164,866	(7,788,293)		31,748,687
Innovation Ohio	63,901,023	16,501,000	(11,600,019)		68,802,004
Research and Development	82,224,926	7,962,730	(14,108,224)		76,079,432
Rural Industrial Park	6,352,657	953,125	-	(7,305,782)	-
Urban Redevelopment	42,077,266	-	-	(42,077,266)	-
Grand Total	<u>\$499,252,285</u>	<u>\$ 78,072,237</u>	<u>\$ (74,464,539)</u>	<u>\$ -</u>	<u>\$502,859,983</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 at fiscal year-end was \$57,740,024 (Facilities Establishment Fund was \$31,659,609; Regional Agency Fund was \$317,487; Innovation Ohio Fund was \$19,094,017; and Research and Development Fund was \$6,668,911).

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, 2012 outstanding loan balances under this program aggregated \$223,065,000 with original terms up to 20 years at interest ranging from 2.0% to 10.0%. According to the Ohio Enterprise Bond Fund's official bond statement, the bonds are not general obligations of the State of Ohio or of any political subdivision and are not payable from any tax source, therefore, the rights of holders of the bonds to payments of amounts due there under are limited solely to the Ohio Enterprise Bond Fund Accounts. The scheduled payment of the bonds is, however, guaranteed through OFI. OFI only monitors OEBF activities and does not include the financial transactions within its financial statements.

Of the 55 Ohio Enterprise Bond Fund loans with outstanding principal balances, 54 were current in their repayment as of fiscal year-end and one was in default. For more information regarding OEBF loans in default, see Note 8.

**OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 – COMMITMENTS AND CONTINGENCIES (continued)

B. Ohio Enterprise Bond Fund Leases

Within the OEBF, there are two projects where the State of Ohio holds title to the assets and leases them back to the companies. These lease transactions are OEBF activities and are not part of the OFI financial statements. Total leases receivable at fiscal year-end were \$7,520,000. The projects that include leases are as follows:

<u>Issue #</u>	<u>Borrower</u>	<u>Original Amount</u>	<u>Current Balance</u>
2000-1	Scotts/Union County	6,025,000	3,675,000
2000-2	Western Reserve P.A. Timken	6,185,000	3,845,000
	Grand Total	<u>\$ 12,210,000</u>	<u>\$ 7,520,000</u>

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

C. Loan Commitments

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

<u>Fund</u>	<u>Commitment</u>
Facilities Establishment	\$ 66,725,179
Innovation Ohio	11,119,375
Logistics and Distribution Infrastructure	41,311,092
Grand Total	<u>\$ 119,155,646</u>

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

D. Loan Guarantees

Under the Chapter 166 Loan Guarantee Program, OFI guarantees up to 75% of certain qualifying loans made by various financial institutions. The bonds issued by the State of Ohio to fund the loan and loan guarantee programs under 166 of the Code are to be repaid initially from revenue of the State from the sale of liquor. Repayment would come from the Facilities Establishment Fund only if such revenues were inadequate to service the debt. At fiscal year-end, OFI had no guarantees outstanding.

**OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 6 – PENSION PLAN

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

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

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

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

The Ohio Revised Code provides statutory authority for employee and employer contributions. For fiscal year 2012, the contribution rate for OFI employees was 10.0% of covered payroll and the employer contribution rate was 14.0% of covered payroll. OFI's contributions to OPERS for the years ended June 30, 2012, 2011, and 2010 were \$145,454, \$142,158, and \$142,830, respectively, equaling the required contributions for each year.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS

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

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

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

OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (continued)

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

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In fiscal year 2012, state and local employers contributed at a rate of 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For fiscal year 2012, the employer contribution allocated to the health care for members in the Traditional Plan was 4.0% of covered payroll. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05%. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The contribution rates stated above are the actuarially determined contribution requirements for OPERS. The portion of OFI's 2012 contributions that was used to fund post-employment benefits was \$41,556.

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

**OFFICE OF FINANCIAL INCENTIVES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 8 – LONG TERM LIABILITIES

Long term liability activity for the year ended June 30, 2012 is as follows:

Type	Beginning Balance	Increase	Decrease	Ending Balance	Amount Due in One Year
Compensated Absences	\$ 120,142	\$ 51,917	\$ (98,125)	\$ 73,934	\$ 34,896
Ohio Enterprise Bond Fund	3,325,000	-	(295,000)	3,030,000	320,000
Total Long Term Liabilities	<u>\$ 3,445,142</u>	<u>\$ 51,917</u>	<u>\$ (393,125)</u>	<u>\$ 3,103,934</u>	<u>\$ 354,896</u>

The compensated absences will be paid from the operating fund.

A summary of OFI's future Ohio Enterprise Bond Fund debt service obligations as of June 30, 2012 are as follows:

Fiscal Year	Principal Due
2013	320,000
2014	350,000
2015	375,000
2016	410,000
2017	445,000
2018-2020	1,130,000
Total	<u>\$ 3,030,000</u>

NOTE 9 – CONDITIONS EXPECTED TO AFFECT FUTURE OPERATIONS

On September 28, 2012, Ohio Department of Development officially became Ohio Development Services Agency. Loan initiations and business assistance functions will be handled via contract with the private nonprofit organization JobsOhio. All loan servicing functions will be monitored by the Ohio Development Services Agency.

SUPPLEMENTARY COMBINING FINANCIAL STATEMENTS

**OFFICE OF FINANCIAL INCENTIVES
BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2012**

	Loan Guarantee Fund	Rural Industrial Park Loan Fund	Urban Redevelopment Loan Fund
ASSETS:			
Cash Equity with Treasurer	\$ -	\$ 484,970	\$ -
Cash and Cash Equivalents	873,906	-	-
Allocated Collateral on Lent Securities	-	68,346	-
TOTAL ASSETS	\$ 873,906	\$ 553,316	\$ -
LIABILITIES:			
Allocated Obligations Under Securities Lending	\$ -	\$ 68,346	\$ -
TOTAL LIABILITIES	-	68,346	-
FUND BALANCES:			
Committed	873,906	-	-
Assigned	-	484,970	-
TOTAL FUND BALANCES	873,906	484,970	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 873,906	\$ 553,316	\$ -

Rural Development Initiative Fund	Total Nonmajor Governmental Funds
\$ 485,020	\$ 969,990
-	873,906
68,353	136,699
<u>\$ 553,373</u>	<u>\$ 1,980,595</u>
<u>68,353</u>	<u>\$ 136,699</u>
<u>68,353</u>	<u>136,699</u>
485,020	1,358,926
-	484,970
<u>485,020</u>	<u>1,843,896</u>
<u>\$ 553,373</u>	<u>\$ 1,980,595</u>

OFFICE OF FINANCIAL INCENTIVES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012

	Loan Guarantee Fund	Rural Industrial Park Loan Fund	Urban Redevelopment Loan Fund
	<u> </u>	<u> </u>	<u> </u>
REVENUES:			
Investment Income	\$ 842	\$ -	\$ -
TOTAL REVENUES	<u>842</u>	<u>-</u>	<u>-</u>
EXPENDITURES:			
Grant Expenditures	-	-	-
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>842</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):			
Interfund Transfers	-	(8,686,279)	(40,775,676)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(8,686,279)</u>	<u>(40,775,676)</u>
NET CHANGE IN FUND BALANCES	842	(8,686,279)	(40,775,676)
FUND BALANCES, JULY 1	<u>873,064</u>	<u>9,171,249</u>	<u>40,775,676</u>
FUND BALANCES, JUNE 30	<u>\$ 873,906</u>	<u>\$ 484,970</u>	<u>\$ -</u>

Rural Development Initiative Fund	Total Nonmajor Governmental Funds
\$ -	\$ 842
<u>-</u>	<u>842</u>
<u>771,875</u>	<u>771,875</u>
<u>771,875</u>	<u>771,875</u>
<u>(771,875)</u>	<u>(771,033)</u>
<u>-</u>	<u>(49,461,955)</u>
<u>-</u>	<u>(49,461,955)</u>
<u>(771,875)</u>	<u>(50,232,988)</u>
<u>1,256,895</u>	<u>52,076,884</u>
<u>\$ 485,020</u>	<u>\$ 1,843,896</u>

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

To the Office of Financial Incentives
State of Ohio

We have audited the financial statements of Office of Financial Incentives ("OFI") as of and for the year ended June 30, 2012 and have issued our report thereon dated September 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of OFI is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered OFI's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OFI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OFI's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of OFI in a separate letter dated September 28, 2012.

(Continued)

This report is intended solely for the information and use of management, OFI's Development and Financing Advisory Council, others within the entity, and management of the State of Ohio and the Ohio Legislature and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
September 28, 2012

**OFFICE OF FINANCIAL INCENTIVES
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2012**

There were no findings for the year ended June 30, 2011.



Dave Yost • Auditor of State

OFFICE OF FINANCIAL INCENTIVES

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 11, 2012