



Dave Yost • Auditor of State

OFFICE OF LOAN ADMINISTRATION

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Office of Loan Administration
77 S. High Street, 29th Floor
Columbus, Ohio 43215

To the Office of Loan Administration:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of Loan Administration (the Office), State of Ohio, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Office's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Office's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

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 Loan Administration, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Office's financial statements are intended to present the financial position and the changes in financial position of the Office of Loan Administration. They do not purport to, and do not, present fairly the financial position of the State of Ohio as of June 30, 2013, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the Office's basic financial statements taken as a whole. The financial section's combining statements present additional analysis and are not a required part of the basic financial statements. The statements are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these statements to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling statements directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, these statements are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2013, on our consideration of the Office of Loan Administration's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine 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* in considering the Office's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State
Columbus, Ohio

October 15, 2013

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**OFFICE OF LOAN ADMINISTRATION
MANAGEMENT'S DISCUSSION & ANALYSIS**
For the Year Ended June 30, 2013
(Unaudited)

As management of the Office of Loan Administration (OLA) we are providing this overview of OLA's financial activities for the fiscal year ended June 30, 2013. Please read this overview in conjunction with the OLA's basic financial statements, which follow.

OLA, formerly Office of Financial Incentives, was created as part of the Ohio Development Services Agency (ODSA), formerly the Department of Development, on July 14, 1983, by action of the State of Ohio Legislature. OLA administers the 166 Direct Loan, Loan Guarantee, and Ohio Enterprise Bond Fund programs of the ODSA 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, ODSA 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.

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

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2013 are as follows:

- The assets of the OLA exceeded its liabilities at the close of the most recent fiscal year by approximately \$747.9 million (net position).
- The OLA's total net position decreased by approximately \$11.8 million.
- As of the close of the current fiscal year, the OLA's governmental funds reported combined ending fund balances of \$748.7 million, a decrease of approximately \$11.9 million in comparison with the prior year.
- During the fiscal year, OLA closed twenty-two 166 Direct Loans totaling \$39.8 million, four Research and Development loans totaling \$6.2 million, fourteen Innovation Ohio loans totaling \$13.5 million, and three Logistics and Distribution Infrastructure loans totaling \$5.6 million. OLA also had \$12.9 million in additional disbursements on existing loans.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

**OFFICE OF LOAN ADMINISTRATION
MANAGEMENT'S DISCUSSION & ANALYSIS**
For the Year Ended June 30, 2013
(Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

The statement of activities presents information showing how OLA's net position changed during the most recent fiscal year. All changes in net position 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 OLA, 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 OLA'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 OLA maintains nine 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 three 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 LOAN ADMINISTRATION
MANAGEMENT'S DISCUSSION & ANALYSIS**
For the Year Ended June 30, 2013
(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 19-33 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 35-37 of this report.

FINANCIAL ANALYSIS OF THE OFFICE OF LOAN ADMINISTRATION

Government-wide Financial Analysis

The following is a summary of OLA's net position as of June 30, 2013 compared to June 30, 2012.

	Net Assets at June 30		
	2013	2012	% Change
Assets			
Current and Other Non Current Assets	\$ 777,211,202	\$ 797,600,678	-2.6%
Nondepreciable Capital Assets	231,524	231,524	0.0%
Total Assets	777,442,726	797,832,202	-2.6%
Liabilities			
Current Liabilities	26,788,960	35,088,799	-23.7%
Long-term Liabilities	2,770,601	3,103,934	-10.7%
Total Liabilities	29,559,561	38,192,733	-22.6%
Net Position			
Net Investment in Capital Assets	231,524	231,524	0.0%
Restricted for Community and Economic Development	36,621,115	54,940,094	-33.3%
Unrestricted	711,030,526	704,467,851	0.9%
Total Net Position	\$ 747,883,165	\$ 759,639,469	-1.5%

Current Liabilities decreased approximately \$8.3 million during the fiscal year primarily as a result of a \$8.0 million decrease in Allocated Obligations Under Securities Lending.

Long-term Liabilities decreased \$333,333 during the fiscal year primarily as a result of a \$320,000 decrease in OLA's Ohio Enterprise Bond Fund liability.

Net Position Restricted for Community and Economic Development decreased approximately \$18.3 million during the fiscal year primarily as a result of Logistics and Distribution Infrastructure Grants of approximately \$18.4 million.

**OFFICE OF LOAN ADMINISTRATION
MANAGEMENT'S DISCUSSION & ANALYSIS**
For the Year Ended June 30, 2013
(Unaudited)

FINANCIAL ANALYSIS OF THE OFFICE OF LOAN ADMINISTRATION (CONTINUED)

The following is a summary of OLA's Statement of Activities for the year ending June 30, 2013 compared to the year ending June 30, 2012.

Statement of Activity for the year ending June 30

	<u>2013</u>	<u>2012</u>	<u>% Change</u>
Revenues			
Program Revenues:			
Community and Economic Development	<u>\$ 14,707,506</u>	<u>\$ 13,875,900</u>	6.0%
General Revenues			
Bond Proceeds received from the State of Ohio	-	44,658,035	-100.0%
Investment Income	599,336	556,023	7.8%
Miscellaneous Revenues	<u>276,622</u>	<u>375,959</u>	-26.4%
Total General Revenues	<u>875,958</u>	<u>45,590,017</u>	-98.1%
Program Expenses			
Community and Economic Development	<u>(29,417,378)</u>	<u>(36,303,238)</u>	-19.0%
Distributions to Other Offices	-	(5,500,000)	-100.0%
Transfers from Other Offices	<u>2,077,610</u>	<u>-</u>	100.0%
Change in Net Position	(11,756,304)	17,662,679	-166.6%
Net Position at Beginning of Year	<u>759,639,469</u>	<u>741,976,790</u>	
Net Position at End of Year	<u>\$ 747,883,165</u>	<u>\$ 759,639,469</u>	

Program revenues consist of loan fees and interest income. In fiscal year 2013, program revenues increased \$831,606 primarily as a result of fees from other sections within Business Services.

Bond Proceeds are received from the State of Ohio as needed to fund OLA's loan and grant programs. OLA did not receive Bond Proceeds in fiscal year 2013.

Program expenses consist primarily of personnel and operating expenditures, grant expenditures and bad debt expense. The total program expenses decreased approximately \$6.9 million, or 19.0%. The key component of this decrease is an approximately \$6.2 million decrease in bad debt expense.

Distributions to Other Offices decreased \$5.5 million in fiscal year 2013. The controlling board did not approve any distributions to other offices in fiscal year 2013.

Transfers from Other Offices increased approximately \$2.1 million in fiscal year 2013. Transfers from Other Offices resulted from a transfer from the Tax Incentive Fund within the ODSA, as a result of reorganization, and a transfer from the Ohio Air Quality Development Authority.

**OFFICE OF LOAN ADMINISTRATION
MANAGEMENT'S DISCUSSION & ANALYSIS**
For the Year Ended June 30, 2013
(Unaudited)

FINANCIAL ANALYSIS OF THE OFFICE OF LOAN ADMINISTRATION (CONTINUED)

Financial Analysis of the Government's Funds

The following is a summary of OLA's fund balances as of June 30, 2013 compared to June 30, 2012.

Fund Balance at June 30

	2013	Restated 2012	% Change
Operating Fund	\$ 5,427,106	\$ 5,082,587	6.8%
Facilities Establishment Fund	463,442,671	459,632,328	0.8%
Regional Agency Fund	65,049,905	64,558,020	0.8%
Ohio Innovation Fund	73,736,721	72,146,735	2.2%
Research and Development Fund	112,553,876	112,366,618	0.2%
Logistics and Distribution Infrastructure Fund	26,621,115	44,940,094	-40.8%
Nonmajor Governmental Funds	1,844,111	1,843,896	0.0%
Total Fund Balance	<u>\$ 748,675,505</u>	<u>\$ 760,570,278</u>	-1.6%

The Logistics and Distribution Infrastructure Fund fund balance decreased approximately \$18.3 million, or 40.8%. This is the amount by which grant expenditures totaling \$18.4 million exceeded investment income during the fiscal year.

BUDGET VARIANCES IN THE GENERAL FUND

Since OLA 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

OLA has \$231,524 invested in net capital assets as of June 30, 2013. There were no acquisitions or dispositions during the fiscal year.

CONTACTING THE OFFICE OF LOAN ADMINISTRATION MANAGEMENT

This financial report is designed to provide an overview of OLA'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.

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OFFICE OF LOAN ADMINISTRATION
STATEMENT OF NET POSITION
June 30, 2013

	Governmental Activities
Assets	
Cash Equity with Treasurer	\$ 224,356,274
Cash and Cash Equivalents	70,303,544
Investments	7,187,250
Allocated Collateral on Lent Securities	26,748,619
Loans Receivable, Net	448,291,866
Leases Receivable	301,049
Other Assets	22,600
Capital Assets, Net	231,524
Total Assets	777,442,726
 Liabilities	
Accrued Liabilities	40,341
Allocated Obligations Under Securities Lending	26,748,619
Long Term Liabilities:	
Due in One Year	369,441
Due in More Than One Year	2,401,160
Total Liabilities	29,559,561
 Net Position	
Net Investment in Capital Assets	231,524
Restricted for Community and Economic Development	36,621,115
Unrestricted	711,030,526
Total Net Position	\$ 747,883,165

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

OFFICE OF LOAN ADMINISTRATION
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2013

Functions/Programs	Expenses	Charges for Services	Net (Expense) Revenue and Changes in Net Position Primary Governmental Activities
Primary Government			
Governmental Activities			
Community and Economic Development	\$ 29,417,378	\$ 14,707,506	\$ (14,709,872)
Total Governmental Activities	29,417,378	14,707,506	(14,709,872)
Total Primary Government	\$ 29,417,378	\$ 14,707,506	\$ (14,709,872)
General Revenues:			
Investment Income			599,336
Miscellaneous Revenue			276,622
Total General Revenues			875,958
Transfers from Other Offices			2,077,610
Change in Net Position			(11,756,304)
Net Position, Beginning of Year			759,639,469
Net Position, End of Year			\$ 747,883,165

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

**OFFICE OF LOAN ADMINISTRATION
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013**

	Operating Fund	Facilities Establishment Fund	Regional Agency Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS:			
Cash Equity with Treasurer	\$ 5,465,753	\$ 124,546,041	\$ -
Cash and Cash Equivalents	-	35,917,192	33,512,231
Investments	-	5,293,488	1,893,762
Allocated Collateral on Lent Securities	652,436	14,848,410	-
Loans Receivable, Net	-	298,767,867	29,758,263
Leases Receivable	-	301,049	-
Other Assets	1,694	13,018	7,888
Due From Other Funds	-	114,351	-
TOTAL ASSETS	<u><u>\$ 6,119,883</u></u>	<u><u>\$ 479,801,416</u></u>	<u><u>\$ 65,172,144</u></u>
LIABILITIES:			
Accrued Liabilities	\$ 40,341	\$ -	\$ -
Allocated Obligations Under Securities Lending	652,436	14,848,410	-
Deferred Revenue	-	1,510,335	7,888
Due To Other Funds	-	-	114,351
TOTAL LIABILITIES	<u><u>692,777</u></u>	<u><u>16,358,745</u></u>	<u><u>122,239</u></u>
FUND BALANCES:			
Restricted for Community and Economic Development	-	10,000,000	-
Committed	-	453,442,671	65,049,905
Assigned	5,427,106	-	-
Unassigned	-	-	-
TOTAL FUND BALANCES	<u><u>5,427,106</u></u>	<u><u>463,442,671</u></u>	<u><u>65,049,905</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 6,119,883</u></u>	<u><u>\$ 479,801,416</u></u>	<u><u>\$ 65,172,144</u></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
\$ 19,984,303	\$ 46,769,072	\$ 26,621,115	\$ 969,990	\$ 224,356,274
-	-	-	874,121	70,303,544
-	-	-	-	7,187,250
2,382,534	5,575,821	3,173,776	115,642	26,748,619
53,980,932	65,784,804	-	-	448,291,866
-	-	-	-	301,049
-	-	-	-	22,600
-	-	-	-	114,351
<u>\$ 76,347,769</u>	<u>\$ 118,129,697</u>	<u>\$ 29,794,891</u>	<u>\$ 1,959,753</u>	<u>\$ 777,325,553</u>
\$ -	\$ -	\$ -	\$ -	\$ 40,341
2,382,534	5,575,821	3,173,776	115,642	26,748,619
228,514	-	-	-	1,746,737
-	-	-	-	114,351
<u>2,611,048</u>	<u>5,575,821</u>	<u>3,173,776</u>	<u>115,642</u>	<u>28,650,048</u>
-	-	26,621,115	-	36,621,115
73,736,721	112,553,876	-	1,359,141	706,142,314
-	-	-	484,970	5,912,076
-	-	-	-	-
<u>73,736,721</u>	<u>112,553,876</u>	<u>26,621,115</u>	<u>1,844,111</u>	<u>748,675,505</u>
<u>\$ 76,347,769</u>	<u>\$ 118,129,697</u>	<u>\$ 29,794,891</u>	<u>\$ 1,959,753</u>	<u>\$ 777,325,553</u>

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

OFFICE OF LOAN ADMINISTRATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2013

Total Fund Balances for Governmental Funds **\$ 748,675,505**

Total net assets reported for governmental activities in the Statement of Net Position 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. 1,746,737

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

Compensated Absences	(60,601)
Ohio Enterprise Bond Fund Liability	<u>(2,710,000)</u>

Total Net Position of Governmental Activities **\$ 747,883,165**

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

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OFFICE OF LOAN ADMINISTRATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2013

	Operating Fund	Facilities Establishment Fund	Regional Agency Fund
REVENUES:			
Fee Revenue	\$ 1,721,325	\$ 914,499	\$ 34,244
Loan Interest Income	-	5,768,645	1,028,572
Investment Income	-	389,800	(8,508)
Miscellaneous	-	200,852	3,890
TOTAL REVENUES	<u>1,721,325</u>	<u>7,273,796</u>	<u>1,058,198</u>
EXPENDITURES:			
Personnel Expenditures	726,867	-	-
Operating Expenditures	1,119,424	125,432	717,728
Grant Expenditures	-	-	-
OEBF Loan Payment Expenditures	-	564,586	-
Bad Debt Expense	-	3,809,793	419,358
Miscellaneous	-	-	994
TOTAL EXPENDITURES	<u>1,846,291</u>	<u>4,499,811</u>	<u>1,138,080</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(124,966)</u>	<u>2,773,985</u>	<u>(79,882)</u>
OTHER FINANCING SOURCES (USES):			
Interfund Transfers	-	(571,767)	571,767
Transfers from Other Offices	469,485	1,608,125	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>469,485</u>	<u>1,036,358</u>	<u>571,767</u>
NET CHANGE IN FUND BALANCES	344,519	3,810,343	491,885
FUND BALANCES, JULY 1 - RESTATED	5,082,587	459,632,328	64,558,020
FUND BALANCES, JUNE 30	<u>\$ 5,427,106</u>	<u>\$ 463,442,671</u>	<u>\$ 65,049,905</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
\$ 1,085,770	\$ 194,617	\$ -	\$ -	\$ 3,950,455
2,848,173	1,279,668	-	-	10,925,058
50,907	111,007	82,340	647	626,193
55,378	16,502	-	-	276,622
<u>4,040,228</u>	<u>1,601,794</u>	<u>82,340</u>	<u>647</u>	<u>15,778,328</u>
-	-	-	-	726,867
120,000	-	-	432	2,083,016
-	-	18,401,319	-	18,401,319
-	-	-	-	564,586
2,330,242	1,414,536	-	-	7,973,929
-	-	-	-	994
<u>2,450,242</u>	<u>1,414,536</u>	<u>18,401,319</u>	<u>432</u>	<u>29,750,711</u>
<u>1,589,986</u>	<u>187,258</u>	<u>(18,318,979)</u>	<u>215</u>	<u>(13,972,383)</u>
-	-	-	-	-
-	-	-	-	2,077,610
-	-	-	-	2,077,610
1,589,986	187,258	(18,318,979)	215	(11,894,773)
72,146,735	112,366,618	44,940,094	1,843,896	760,570,278
<u>\$ 73,736,721</u>	<u>\$ 112,553,876</u>	<u>\$ 26,621,115</u>	<u>\$ 1,844,111</u>	<u>\$ 748,675,505</u>

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

**OFFICE OF LOAN ADMINISTRATION
RECONCILIATION OF THE CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2013**

Net Change in Fund Balances - Total Governmental Funds **\$ (11,894,773)**

The change in net position 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. (194,864)

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	13,333
Change in Ohio Enterprise Bond Fund Liability	<u>320,000</u>

Change in Net Position of Governmental Activities **\$ (11,756,304)**

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

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OFFICE OF LOAN ADMINISTRATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Office of Loan Administration (OLA), as of June 30, 2013, and for the year then ended, conform with accounting principles generally accepted in the United States of America as applied to governments. The OLA is considered a single purpose governmental entity established to promote 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. OLA's significant accounting policies are as follows:

A. Reporting Entity

The Office of Loan Administration, formerly the Office of Financial Incentives, was created as part of the Ohio Development Services Agency (ODSA), formerly the Department of Development, on July 14, 1983, by action of the State of Ohio Legislature. OLA administers the 166 Direct Loan, Loan Guarantee, and Ohio Enterprise Bond Fund (OEBF) programs of the ODSA 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. 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 OLA, 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 ODSA 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 ODSA and not with the OLA.

B. Basis of Presentation

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

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

- The *Net Investment in Capital Assets* component consists of land that OLA acquired.
- The *Restricted Net Position* component represents net position with constraints placed on its 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 Position* component consists of net position that does 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 OLA'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, OLA does not incur expenses for which it has the option of first applying restricted or unrestricted resources for their payment.

**OFFICE OF LOAN ADMINISTRATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

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 OLA'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 OLA 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 OLA from bond sales, fee income, interest income, loan receipts and disbursements for loans made pursuant to Chapter 166 of the Code. Also accounts for OLA's share of family farm loan financing deposited with various financial institutions as a loan guarantee for eligible borrowers. In addition, this fund accounts for the Rural Industrial Park and Urban Redevelopment loan programs. Finally, 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.

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

OFFICE OF LOAN ADMINISTRATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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 OLA 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 Loan Fund loan program was discontinued and the outstanding loans and the majority of cash 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 position 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), OLA 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, OLA 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.
- 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, OLA's investments are stated at fair value (based on quoted market prices) in the accompanying statement of net position and the change in the fair value of the investments is recorded as Investment Income in the Statement of Activities.

**OFFICE OF LOAN ADMINISTRATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

OLA 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 OLA 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"), OLA 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 OLA, because OLA 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 OLA 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 \$1,497,317 and \$228,514, respectively, of deferred inflows of resources relating to capitalized interest.

- H. Leases Receivable** - Lease Receivable includes a 166 Direct Loan to Union County CIC. The State holds title to the asset and leases it back. Total lease receivable at fiscal year-end was \$301,049.
- I. Other Assets** - Other assets includes receivables for Port Authority Bond Reserve service fees and accrued interest receivable. Total other assets at fiscal year-end were \$22,600.
- J. Accounts Payable and Accrued Liabilities** - Accounts payable includes accruals for operating obligations incurred, but not yet paid, as of fiscal year-end. OLA did not have any accounts payable as of June 30, 2013. Accrued liabilities include wages and benefits payable of \$40,341 as of June 30, 2013.

OFFICE OF LOAN ADMINISTRATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- K. Deferred Revenue** – In the fund financial statements, deferred revenue includes accruals for revenue due to OLA at June 30, 2013 but collected after August 31, 2013. Total deferred revenue as of June 30, 2013 was \$1,746,737.
- 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*, OLA 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, 2013 was \$60,601.
- M. Fund Balance/Net Position** - 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, OLA classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. OLA 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 OLA'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.

OLA applies restricted resources first when an expense is incurred for purposes which both restricted and unrestricted net assets are available. OLA 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.

None of OLA's restricted net position at June 30, 2013 was due to enabling legislation.

- 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.

OFFICE OF LOAN ADMINISTRATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- 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 OLA. 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 2013, OLA reported these disbursements as grants based on the high probability of forgiveness.
- R. OEBF Loan Payment Expenditures/Expenses** - The OLA guarantees Ohio Enterprise Bonds and makes loan payments for Bonds that are in default of monthly payments. As of June 30, 2013, there was one OEBF bond in default totaling \$2,710,000 (See Note 5).
- S. Interfund Transfers and Transfers from Other Offices** - The OLA interfund transfers primarily consisted of transfers from the Facilities Establishment Fund to other loan programs and transfers of delinquent loans to the Facilities Establishment Fund. Transfers from Other Offices resulted from a transfer from the Tax Incentive Fund within the ODSA, as a result of reorganization, and a transfer from the Ohio Air Quality Development Authority. These and other transfers are authorized by the General Assembly and require Controlling Board approval. Since the financial statements present only the financial information of OLA and do not present the consolidated financial information of the State of Ohio, taken as a whole, the total transfers from other offices will not reflect offsetting disbursements from state agencies.
- T. Self-Insurance** - The State of Ohio serves as the OLA'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 LOAN ADMINISTRATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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 OLA's deposits was \$449,422 and the bank balance was the same. The entire bank balance was covered by Federal Deposit Insurance.

OFFICE OF LOAN ADMINISTRATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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, OLA’s deposits may not be returned to it. OLA 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, OLA’s deposits were not exposed to custodial credit risk.

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

Investment Type	Fair Value
U.S. Government Obligations	\$ 1,354,959
U.S. Government Agency Obligations	5,579,686
Municipal Bonds	252,605
Money Market Funds	40,855,706
STAR Ohio	28,998,416
Total Investments	<u>\$ 77,041,372</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, OLA’s U.S. Government Obligations and STAR Ohio were rated AAA and OLA’s Municipal Bond was rated AA+. Of OLA’s U.S. Government Agency Obligations at fiscal year-end, \$5,149,495 was rated AAA and \$430,191 was rated AA+. OLA’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, OLA was not exposed to concentration of credit risk because OLA had no positions of 5 percent or more in any one issuer subject to credit risk.

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 OLA’s fixed income assets.

Investment Type	Investment Maturities (in years)		Total Fair Value
	Less than 1	1-5	
U.S. Government Obligations	\$ 81,931	\$ 1,273,028	\$ 1,354,959
U.S Government Agency Obligations	700,539	4,879,147	5,579,686
Municipal Bonds	252,605	-	252,605
STAR Ohio	28,998,416	-	28,998,416
Money Market Funds	40,855,706	-	40,855,706
Total Investments	<u>\$ 70,889,197</u>	<u>\$ 6,152,175</u>	<u>\$ 77,041,372</u>

**OFFICE OF LOAN ADMINISTRATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

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, OLA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. OLA's investments were not exposed to custodial credit risk at year end because all investments were registered in the OLA'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. OLA had no exposure to foreign currency risk at fiscal year-end.

NOTE 3 – SECURITIES LENDING TRANSACTIONS

OLA 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". 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. OLA 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 lent U.S. government and agency obligations. OLA cannot sell securities received as collateral unless the borrower defaults. At fiscal year-end, the collateral OLA 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 3.54 days while the weighted maturity of all collateral was 8.596 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. There were no recoveries during the fiscal year due to prior-period losses.

For the State funds lending program, 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, OLA's Allocated Collateral on Lent Securities and related Allocated Obligations Under Securities Lending at year-end was \$26,748,619.

OFFICE OF LOAN ADMINISTRATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 – LOAN PROGRAM ACTIVITY

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

Fund	Restated Beginning Balance	Loan Additions	Loan Reductions	Interfund Transfers	Ending Balance
Facilities Establishment	\$ 323,582,379	\$ 40,323,051	\$ (34,337,904)	\$ 428,233	\$ 329,995,759
Regional Agency	31,748,687	5,351,657	(6,613,259)	(428,233)	30,058,852
Innovation Ohio	71,449,485	13,718,109	(7,773,700)	-	77,393,894
Research and Development	76,079,432	6,240,780	(8,605,860)	-	73,714,352
Grand Total	<u>\$ 502,859,983</u>	<u>\$ 65,633,597</u>	<u>\$ (57,330,723)</u>	<u>\$ -</u>	<u>\$ 511,162,857</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 \$62,870,991 (Facilities Establishment Fund was \$31,227,891; Regional Agency Fund was \$300,589; Innovation Ohio Fund was \$23,412,962; and Research and Development Fund was \$7,929,549).

NOTE 5 – COMMITMENTS AND CONTINGENCIES

A. Ohio Enterprise Bond Fund - Loans

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, 2013 outstanding loan balances under this program aggregated \$267,485,000 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 OLA. OLA only monitors OEBF activities and does not include the financial transactions within its financial statements.

Of the 60 Ohio Enterprise Bond Fund loans with outstanding principal balances, 59 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 LOAN ADMINISTRATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

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 OLA financial statements. Total leases receivable at fiscal year-end were \$7,015,000. The projects that include leases are as follows:

<u>Issue #</u>	<u>Borrower</u>	<u>Original Amount</u>	<u>Current Balance</u>
2000-1	Union County CIC	6,025,000	3,430,000
2000-2	Western Reserve P.A.	6,185,000	3,585,000
	Grand Total	<u>\$ 12,210,000</u>	<u>\$ 7,015,000</u>

In the event of a lease default, OLA 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, OLA is obligated to make the bond payments using the Facilities Establishment Fund.

C. Loan Commitments

These commitments primary represent Chapter 166 loan commitments that were approved by not yet closed before fiscal year-end. Prior to September 24, 2012, these commitments were approved by the Development Financing Advisory Council (DFAC) and State's Controlling Board. After September 24, 2012, these commitments are approved by the ODSA Director and JobsOhio as part of the terms of services covered under the services agreement. Below is a summary of OLA's loan commitments outstanding at fiscal year-end:

<u>Fund</u>	<u>Commitment</u>
Facilities Establishment	\$ 42,362,614
Innovation Ohio	7,225,250
Research and Development	14,071,053
Logistics and Distribution Infrastructure	22,980,785
Rural Industrial Park	484,970
Rural Development Initiative	484,970
Grand Total	<u>\$ 87,609,642</u>

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

D. Loan Guarantees

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

**OFFICE OF LOAN ADMINISTRATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

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 2013, the contribution rate for OLA employees was 10.0% of covered payroll and the employer contribution rate was 14.0% of covered payroll. OLA's pension contributions to OPERS for the years ended June 30, 2013, 2012, and 2011 were \$58,832, \$75,944, and \$67,357, respectively, equaling the required contributions for each year.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS

OPERS administers three separate pension plans: The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

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

**OFFICE OF LOAN ADMINISTRATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (continued)

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

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

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care coverage 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 coverage.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In fiscal year 2013, 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. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% during calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. 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 OLA's 2013 contributions that was used to fund post-employment benefits was \$12,790.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

**OFFICE OF LOAN ADMINISTRATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 8 – LONG TERM LIABILITIES

Long term liability activity for the year ended June 30, 2013 is as follows:

Type	Beginning Balance	Increase	Decrease	Ending Balance	Amount Due in One Year
Compensated Absences	\$ 73,934	\$ 59,801	\$ (73,134)	\$ 60,601	\$ 19,441
Ohio Enterprise Bond Fund	3,030,000	-	(320,000)	2,710,000	350,000
Total Long Term Liabilities	<u>\$ 3,103,934</u>	<u>\$ 59,801</u>	<u>\$ (393,134)</u>	<u>\$ 2,770,601</u>	<u>\$ 369,441</u>

The compensated absences will be paid from the operating fund.

OLA's Ohio Enterprise Bond Fund liability represents the default of Euclid & Wickliffe. A summary of OLA's future Ohio Enterprise Bond Fund debt service obligations as of June 30, 2013 are as follows:

Fiscal Year	Principal Due
2014	350,000
2015	375,000
2016	410,000
2017	440,000
2018	480,000
2019-2020	655,000
Total	<u>\$ 2,710,000</u>

NOTE 9 – CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2013, OLA has implemented the following:

GASB Statement No. 60 "Accounting and Financial Reporting for Service Concession Arrangements". The implementation of this statement did not have a significant effect on the financial statements of the OLA.

GASB Statement No. 61 "The Financial Reporting Entity: Omnibus (an amendment of GASB Statements No. 14 and No. 34)". The implementation of this statement did not have a significant effect on the financial statements of the OLA.

GASB Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" incorporates certain accounting and financial reporting guidance issued on or before November 30, 1989, into the GASB's authoritative literature that do not conflict with or contradict GASB pronouncements. The implementation of this statement did not have a significant effect on the financial statements of the OLA.

GASB Statement No. 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. The implementation of this statement did not have a significant effect on the financial statements of the OLA.

**OFFICE OF LOAN ADMINISTRATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 10 – RESTATEMENT OF FUND BALANCE

Beginning fund balance adjustments were necessary to correct errors in accounting for Innovation Ohio Fund loans that had been certified for collection to the Attorney General’s Office. These certified loans were transferred to the Facilities Establishment Fund and should have remained in the Innovation Ohio Fund. The correction of this error resulted in changes to beginning of year balances as detailed below:

	Facilities Establishment Fund	Innovation Ohio Fund
	<u> </u>	<u> </u>
Fund Balance, June 30, 2012	\$ 460,294,199	\$ 71,484,864
Adjustments:		
Loans Receivable	(2,647,481)	2,647,481
Allowance for Uncollectible Loans	1,985,610	(1,985,610)
Fund Balance, July 1, 2012 - Restated	<u><u>459,632,328</u></u>	<u><u>72,146,735</u></u>

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**OFFICE OF LOAN ADMINISTRATION
BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2013**

	Loan Guarantee Fund	Rural Industrial Park Loan Fund	Rural Development Initiative Fund	Total Nonmajor Governmental Funds
ASSETS:				
Cash Equity with Treasurer	\$ -	\$ 484,970	\$ 485,020	\$ 969,990
Cash and Cash Equivalents	874,121	-	-	874,121
Allocated Collateral on Lent Securities	-	57,818	57,824	115,642
TOTAL ASSETS	\$ 874,121	\$ 542,788	\$ 542,844	\$ 1,959,753
LIABILITIES:				
Allocated Obligations Under Securities Lending	\$ -	\$ 57,818	57,824	\$ 115,642
TOTAL LIABILITIES	-	57,818	57,824	115,642
FUND BALANCES:				
Committed	874,121	-	485,020	1,359,141
Assigned	-	484,970	-	484,970
TOTAL FUND BALANCES	874,121	484,970	485,020	1,844,111
TOTAL LIABILITIES AND FUND BALANCES	\$ 874,121	\$ 542,788	\$ 542,844	\$ 1,959,753

OFFICE OF LOAN ADMINISTRATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2013

	Loan Guarantee Fund	Rural Industrial Park Loan Fund	Rural Development Initiative Fund	Total Nonmajor Governmental Funds
REVENUES:				
Investment Income	\$ 647	\$ -	\$ -	\$ 647
TOTAL REVENUES	<u>647</u>	<u>-</u>	<u>-</u>	<u>647</u>
EXPENDITURES:				
Operating Expenditures	432	-	-	432
TOTAL EXPENDITURES	<u>432</u>	<u>-</u>	<u>-</u>	<u>432</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>215</u>	<u>-</u>	<u>-</u>	<u>215</u>
NET CHANGE IN FUND BALANCES	215	-	-	215
FUND BALANCES, JULY 1	873,906	484,970	485,020	1,843,896
FUND BALANCES, JUNE 30	<u>\$ 874,121</u>	<u>\$ 484,970</u>	<u>\$ 485,020</u>	<u>\$ 1,844,111</u>



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Office of Loan Administration
77 S. High Street, 29th Floor
Columbus, Ohio 43215

To the Office of Loan Administration:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of Loan Administration (the Office), State of Ohio, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements and have issued our report thereon dated October 15, 2013.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Office's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Office's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Office's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Office's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We noted certain matters not requiring inclusion in this report that we reported to the Office of Loan Administration's management in a separate letter dated October 15, 2013.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Office's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

October 15, 2013



Dave Yost • Auditor of State

OFFICE OF LOAN ADMINISTRATION

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 24, 2013**