

LOAN SERVICING OFFICE
FRANKLIN COUNTY, OHIO

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2025





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Columbus, Ohio 43215
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Ohio Department of Development
Loan Servicing Office
77 S. High Street, 27th Floor
Columbus, Ohio 43215

We have reviewed the *Independent Auditor's Report* of the Loan Servicing Office, Franklin County, prepared by Rea & Associates, Inc., for the audit period July 1, 2024 through June 30, 2025. 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 Loan Servicing Office is responsible for compliance with these laws and regulations.

KEITH FABER
Ohio Auditor of State

Tiffany L. Ridenbaugh, CPA, CFE, CGFM
Chief Deputy Auditor

January 13, 2026

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**LOAN SERVICING OFFICE
FRANKLIN COUNTY, OHIO
JUNE 30, 2025**

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INDEPENDENT AUDITOR'S REPORT

To the Loan Servicing Office
Ohio Department of Development
Franklin County, Ohio
77 S. High Street, 27th Floor
Columbus, Ohio 43215

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Loan Servicing Office, Franklin County, Ohio (the Office), an office within a department of the State of Ohio, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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 Loan Servicing Office of the State of Ohio as of June 30, 2025, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Office, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Loan Servicing Office of the State of Ohio are intended to present the financial position and changes in financial position of only that portion of the governmental activities, general fund of the State of Ohio that is attributable to the transactions of the Loan Servicing Office. They do not purport to, and do not present the financial position of the State of Ohio as of June 30, 2025, or the changes in the financial position of the State of Ohio for the year then ended in accordance with the accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Office's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Office's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension and other post-employment benefit schedules, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2025 on our consideration of the Office'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Office's 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 Office's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Rea & Associates, Inc.
Dublin, Ohio
September 30, 2025

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Loan Servicing Office
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2025
(Unaudited)

As management of the Loan Servicing Office (LSO) we are providing this overview of LSO's financial activities for the fiscal year ended June 30, 2025. Please read this overview in conjunction with the LSO's basic financial statements, which follow.

LSO, formerly the Office of Loan Administration, was created as part of the Ohio Department of Development (ODOD), on July 14, 1983, by action of the State of Ohio Legislature. LSO 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 Park, Research and Development, and Innovation Ohio loan programs.

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

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

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2025 are as follows:

- The assets and deferred outflows of resources of the LSO exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by approximately \$581.7 million (net position).
- The LSO's total net position decreased by approximately \$19.8 million during the fiscal year.
- As of the close of the current fiscal year, the LSO's governmental funds reported combined ending fund balances of approximately \$582.2 million, a decrease of approximately \$19.7 million in comparison with the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to LSO'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.

Loan Servicing Office
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2025
(Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Government-wide financial statements

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

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

The statement of activities presents information showing how LSO'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.

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 LSO, 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 LSO'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 LSO maintains six 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, and Research and Development Fund, all of which are considered to be major funds. Data from the other governmental fund is also presented separately, by default.

Loan Servicing Office
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2025
(Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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.

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.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning LSO's progress in funding its obligation to provide pension and other postemployment benefits to its employees.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements.

Loan Servicing Office
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2025
(Unaudited)

FINANCIAL ANALYSIS OF THE LOAN SERVICING OFFICE

Government-wide Financial Analysis

The following is a summary of LSO's net position as of June 30, 2025 compared to June 30, 2024.

	Net Position at June 30		
	2025	2024	Change
Assets			
Current and Other Non-Current Assets	\$ 614,897,919	\$ 642,617,527	\$ (27,719,608)
Capital Assets	231,524	231,524	-
Total Assets	615,129,443	642,849,051	(27,719,608)
Deferred Outflows of Resources	249,145	391,802	(142,657)
Liabilities			
Current Liabilities	32,622,925	40,677,027	(8,054,102)
Long-term Liabilities	1,073,338	1,035,874	37,464
Total Liabilities	33,696,263	41,712,901	(8,016,638)
Deferred Inflows of Resources	22,925	26,880	(3,955)
Net Position			
Investment in Capital Assets	231,524	231,524	-
Restricted for Community and Economic Development	10,000,000	10,000,000	-
Restricted for OPEB	96,555	42,193	54,362
Unrestricted	571,331,321	591,227,355	(19,896,034)
Total Net Position	\$ 581,659,400	\$ 601,501,072	\$ (19,841,672)

Current and Other Non-Current Assets decreased significantly in comparison with the prior fiscal year-end. This decrease is primarily the result of decreases in cash, related to transfers to other offices, and allocated collateral on lent securities.

Current Liabilities decreased significantly in comparison with the prior fiscal year. This decrease is primarily the result of decreases in allocated obligations under securities lending.

LSO's restricted net position balance represents both unspent bond proceeds related to the Ohio Enterprise Bond Fund Program as well as restrictions related to LSO's net OPEB asset.

Loan Servicing Office
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2025
(Unaudited)

FINANCIAL ANALYSIS OF THE LOAN SERVICING OFFICE (continued)

The net pension liability and net OPEB asset and related deferred outflows and inflows of resources all fluctuated significantly in comparison with the prior fiscal year-end. These fluctuations are due to changes in the actuarial liabilities and related accruals that are passed through to LSO's financial statements. The net pension liability and net OPEB asset are described in more detail in their respective notes.

The following is a summary of LSO's Statement of Activities for the year ending June 30, 2025 compared to the year ending June 30, 2024.

Statement of Activity for the year ending June 30

	<u>2025</u>	<u>2024</u>	<u>Change</u>
Revenues			
Program Revenues:			
Community and Economic Development	\$ 4,236,456	\$ 3,666,672	\$ 569,784
General Revenues			
Investment Income	8,130,248	10,589,748	(2,459,500)
Miscellaneous Revenues	127,884	152,653	(24,769)
Total General Revenues	<u>8,258,132</u>	<u>10,742,401</u>	<u>(2,484,269)</u>
Program Expenses			
Community and Economic Development	<u>12,086,260</u>	<u>9,528,812</u>	<u>2,557,448</u>
Transfers (to) and from Other Offices	<u>(20,250,000)</u>	<u>(30,647,801)</u>	<u>10,397,801</u>
Change in Net Position	(19,841,672)	(25,767,540)	5,925,868
Net Position at Beginning of Year	<u>601,501,072</u>	<u>627,268,612</u>	
Net Position at End of Year	<u>\$ 581,659,400</u>	<u>\$ 601,501,072</u>	

Investment income decreased significantly in comparison with the prior fiscal year. This decrease is primarily the result of a decrease in cash available for investment.

Transfers to other offices decreased significantly in comparison with the prior fiscal year. Transfers to other offices represent monies that will not be paid back and that are a result of controlling board decisions to reallocate funds to various other programs.

**Loan Servicing Office
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2025
(Unaudited)**

FINANCIAL ANALYSIS OF THE LOAN SERVICING OFFICE (continued)

Financial Analysis of the Government's Funds

The following is a summary of LSO's fund balances as of June 30, 2025 compared to June 30, 2024.

Fund Balance at June 30

	2025	2024	Increase (Decrease)
Operating Fund	\$ 895,469	\$ 2,377,695	\$ (1,482,226)
Facilities Establishment Fund	408,617,384	425,676,883	(17,059,499)
Regional Agency Fund	59,469,752	58,362,556	1,107,196
Innovation Ohio Fund	23,628,775	26,701,773	(3,072,998)
Research and Development Fund	75,394,702	75,270,550	124,152

The Operating Fund fund balance decreased significantly during fiscal year 2025. This decrease represents the amount in which personnel and operating expenditures exceeded fee revenue.

The Facilities Establishment Fund fund balance decreased significantly in comparison with the prior fiscal year. This decrease is mainly due to transfers to other offices during the fiscal year.

The Innovation Ohio Fund fund balance decreased significantly in comparison with the previous fiscal year. This decrease is primarily the result of transfers to other funds during the fiscal year.

BUDGET VARIANCES IN THE GENERAL FUND

Since LSO 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

LSO has \$231,524 invested in capital assets as of June 30, 2025. There were no acquisitions or dispositions during the fiscal year.

CONTACTING THE LOAN SERVICING OFFICE MANAGEMENT

This financial report is designed to provide an overview of LSO's finances and its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Division, Ohio Department of Development, Loan Servicing Office, 77 South High Street, 27th Floor, Columbus, Ohio 43216-1001.

BASIC FINANCIAL STATEMENTS

Loan Servicing Office
Statement of Net Position
June 30, 2025

	Governmental Activities
Assets	
Cash Equity with Treasurer	\$ 134,806,191
Cash and Cash Equivalents	68,669,237
Investments	7,078,670
Allocated Collateral on Lent Securities	32,569,782
Loans Receivable, Net	371,628,205
Other Assets	49,279
Capital Assets	231,524
Net OPEB Asset	96,555
Total Assets	615,129,443
Deferred Outflows of Resources	
Pension	247,157
OPEB	1,988
Total Deferred Outflows of Resources	249,145
Liabilities	
Accounts Payable	17,402
Accrued Liabilities	35,741
Allocated Obligations Under Securities Lending	32,569,782
Long Term Liabilities:	
Due in More Than One Year:	
Net Pension Liability	980,998
Other Amounts Due in More Than One Year	92,340
Total Liabilities	33,696,263
Deferred Inflows of Resources	
OPEB	22,925
Total Deferred Inflows of Resources	22,925
Net Position	
Investment in Capital Assets	231,524
Restricted for Community and Economic Development	10,000,000
Restricted for OPEB	96,555
Unrestricted	571,331,321
Total Net Position	\$ 581,659,400

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

Loan Servicing Office
Statement of Activities
For the Fiscal Year Ended June 30, 2025

Functions/Programs	Expenses	Charges for Services	Net (Expense) Revenue and Changes in Net Position Primary Government Governmental Activities
Primary Government			
Governmental Activities			
Community and Economic Development	\$ 12,086,260	\$ 4,236,456	\$ (7,849,804)
Total Governmental Activities	12,086,260	4,236,456	(7,849,804)
Total Primary Government	\$ 12,086,260	\$ 4,236,456	\$ (7,849,804)
	General Revenues:		
	Investment Income		8,130,248
	Miscellaneous Revenue		127,884
	Total General Revenues		8,258,132
	Transfers to Other Offices		(20,250,000)
	Change in Net Position		(19,841,672)
	Net Position, Beginning of Year		601,501,072
	Net Position, End of Year		\$ 581,659,400

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

Loan Servicing Office
Balance Sheet
Governmental Funds
June 30, 2025

	Operating Fund	Facilities Establishment Fund	Regional Agency Fund
ASSETS:			
Cash Equity with Treasurer	\$ 948,612	\$ 76,435,519	\$ -
Cash and Cash Equivalents	-	36,463,038	18,060,201
Investments	-	7,078,670	-
Allocated Collateral on Lent Securities	229,189	18,467,165	-
Loans Receivable, Net	-	288,617,237	41,409,551
Other Assets	-	49,279	-
TOTAL ASSETS	<u><u>\$ 1,177,801</u></u>	<u><u>\$ 427,110,908</u></u>	<u><u>\$ 59,469,752</u></u>
LIABILITIES:			
Accounts Payable	\$ 17,402	\$ -	\$ -
Accrued Liabilities	35,741	-	-
Allocated Obligations Under Securities Lending	229,189	18,467,165	-
TOTAL LIABILITIES	<u><u>282,332</u></u>	<u><u>18,467,165</u></u>	<u><u>-</u></u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	-	26,359	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u><u>-</u></u>	<u><u>26,359</u></u>	<u><u>-</u></u>
FUND BALANCES:			
Restricted for Community and Economic Development	-	10,000,000	-
Committed	-	398,617,384	59,469,752
Assigned	895,469	-	-
TOTAL FUND BALANCES	<u><u>895,469</u></u>	<u><u>408,617,384</u></u>	<u><u>59,469,752</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 1,177,801</u></u>	<u><u>\$ 427,110,908</u></u>	<u><u>\$ 59,469,752</u></u>

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

Innovation Ohio Fund	Research and Development Fund	Nonmajor Loan Guarantee Fund	Total Governmental Funds
\$ 18,679,184	\$ 38,742,876	\$ -	\$ 134,806,191
-	-	14,145,998	68,669,237
-	-	-	7,078,670
4,512,975	9,360,453	-	32,569,782
4,949,591	36,651,826	-	371,628,205
-	-	-	49,279
<u>\$ 28,141,750</u>	<u>\$ 84,755,155</u>	<u>\$ 14,145,998</u>	<u>\$ 614,801,364</u>
\$ -	\$ -	\$ -	\$ 17,402
-	-	-	35,741
4,512,975	9,360,453	-	32,569,782
<u>4,512,975</u>	<u>9,360,453</u>	<u>-</u>	<u>32,622,925</u>
-	-	-	26,359
<u>-</u>	<u>-</u>	<u>-</u>	<u>26,359</u>
-	-	-	10,000,000
23,628,775	75,394,702	14,145,998	571,256,611
-	-	-	895,469
<u>23,628,775</u>	<u>75,394,702</u>	<u>14,145,998</u>	<u>582,152,080</u>
<u>\$ 28,141,750</u>	<u>\$ 84,755,155</u>	<u>\$ 14,145,998</u>	<u>\$ 614,801,364</u>

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

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Loan Servicing Office
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2025

Total Fund Balances for Governmental Funds	\$	582,152,080
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Total net position 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
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Some of LSO'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 reported as deferred in the funds.		26,359
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The net pension liability (asset) and net OPEB asset are not due and payable in the current period; therefore, the liability (asset) and related deferred inflows/outflows are not reported in governmental funds.		
Deferred Outflows - Pension		247,157
Net Pension Liability		(980,998)
Deferred Outflows - OPEB		1,988
Deferred Inflows - OPEB		(22,925)
Net OPEB Asset		96,555

Long term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Compensated Absences	_____	(92,340)

Total Net Position of Governmental Activities	\$	581,659,400
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The notes to the financial statements are an integral part of this statement.

Loan Servicing Office
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2025

	Operating Fund	Facilities Establishment Fund	Regional Agency Fund
REVENUES:			
Fee Revenue	\$ 45,500	\$ 635,801	\$ 40,524
Loan Interest Income	-	1,742,988	1,227,314
Investment Income	-	4,271,340	894,480
Miscellaneous	-	10,000	-
TOTAL REVENUES	<u>45,500</u>	<u>6,660,129</u>	<u>2,162,318</u>
EXPENDITURES:			
Personnel	1,027,671	-	-
Operating	500,055	102,800	805,297
Grants	-	6,027,117	-
Bad Debts	-	2,339,711	249,825
Miscellaneous	-	-	-
TOTAL EXPENDITURES	<u>1,527,726</u>	<u>8,469,628</u>	<u>1,055,122</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,482,226)</u>	<u>(1,809,499)</u>	<u>1,107,196</u>
OTHER FINANCING SOURCES (USES):			
Transfers In	-	5,000,000	-
Transfers Out	-	-	-
Transfers to Other Offices	-	(20,250,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(15,250,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(1,482,226)	(17,059,499)	1,107,196
FUND BALANCES, JULY 1	2,377,695	425,676,883	58,362,556
FUND BALANCES, JUNE 30	<u>\$ 895,469</u>	<u>\$ 408,617,384</u>	<u>\$ 59,469,752</u>

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

Innovation Ohio Fund	Research and Development Fund	Nonmajor Loan Guarantee Fund	Total
\$ 86,937	\$ 12,956	\$ -	\$ 821,718
366,959	77,477	-	3,414,738
745,594	1,555,327	662,013	8,128,754
117,884	-	-	127,884
1,317,374	1,645,760	662,013	12,493,094
-	-	-	1,027,671
197,308	-	-	1,605,460
-	1,550,000	-	7,577,117
(806,936)	(39,377)	-	1,743,223
-	10,985	-	10,985
(609,628)	1,521,608	-	11,964,456
1,927,002	124,152	662,013	528,638
-	-	-	5,000,000
(5,000,000)	-	-	(5,000,000)
-	-	-	(20,250,000)
(5,000,000)	-	-	(20,250,000)
(3,072,998)	124,152	662,013	(19,721,362)
26,701,773	75,270,550	13,483,985	601,873,442
\$ 23,628,775	\$ 75,394,702	\$ 14,145,998	\$ 582,152,080

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

Loan Servicing Office
Reconciliation of Change in Fund Balances of
Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2025

Net Change in Fund Balances - Total Governmental Funds **\$ (19,721,362)**

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

Some of LSO'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.

Accrued Interest Receivable 1,494

Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.

45,131

Except for amounts reported as deferred inflows/outflows, changes in the net pension asset and net pension liability are reported as pension expense in the statement of activities.

(184,533)

Except for amounts reported as deferred inflows/outflows, changes in the net OPEB asset are reported as OPEB expense in the statement of activities.

36,888

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 (19,290)

Change in Net Position of Governmental Activities **\$ (19,841,672)**

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

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Loan Servicing Office (LSO), as of June 30, 2025, and for the fiscal year then ended, conform with accounting principles generally accepted in the United States of America as applied to governments. The LSO 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. LSO's significant accounting policies are as follows:

A. Reporting Entity

The Loan Servicing Office, formerly the Office of Loan Administration, was created as part of the Ohio Department of Development (ODOD), on July 14, 1983, by action of the State of Ohio Legislature. LSO administers the 166 Direct Loan, Loan Guarantee, and Ohio Enterprise Bond Fund (OEBF) programs of the ODOD under Chapter 122 and 166 of the Ohio Revised Code, as well as the Urban Redevelopment, Rural Industrial Park, Research and Development, and Innovation Ohio loan 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 LSO, 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 ODOD taken as a whole. The Annual Comprehensive 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 ODOD and not with the LSO.

B. Basis of Presentation

The Statement of Net Position and the Statement of Activities display information about LSO. 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. LSO presents the statement in a format that displays assets and deferred outflows of resources less liabilities and deferred inflows of resources equal net position. Net Position are displayed in three components:

- The *Investment in Capital Assets* component consists of land that LSO acquired, which is not depreciated.
- 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.

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of LSO'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, LSO does not incur expenses for which it has the option of first applying restricted or unrestricted resources for their payment.

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

Major Governmental Funds

Operating Fund (OAKS Fund 4510) – Accounts for operating activities related to the administration of several ODOT programs, including operating activities related to 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 Funds 7037 and 4Z60) – Accounts for proceeds deposited by the Treasurer of the State of Ohio with LSO from bond sales, fee income, interest income, loan receipts and disbursements for loans made pursuant to Chapter 166 of the Code. 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.

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.

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

Non-major Governmental Fund

Loan Guarantee Fund - Records funds deposited with the Treasurer of the State of Ohio and accounts for payments made by LSO due to the default on contractual loan terms by borrowers on loans guaranteed pursuant to Chapter 166 of the Code. No payments were made during the fiscal year.

- 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), LSO 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, LSO considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

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

- D. Estimates** – The preparation of the financial statements in conformity with 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.

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- E. Deposits and Investments** – LSO’s investments are stated at fair value 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.

During fiscal year 2025, LSO invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, *Certain External Investment Pools and Pool Participants*. LSO measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2025, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$100 million. STAR Ohio reserves the right to limit the transaction to \$250 million, requiring the excess amount to be transacted the following business day(s), but only to the \$250 million limit. All accounts of the participant will be combined for these purposes.

Investments with an original maturity of three months or less at the time they are purchased by LSO 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”), LSO 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 LSO, because LSO 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 LSO 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:
- 80% of loans certified to the Office of the Attorney General,
 - 5% of loans outstanding within the Innovation Ohio Fund,
 - 3% of loans outstanding 166 Direct loans within the Facilities Establishment Fund,
 - 3% of loans outstanding within the Research and Development Fund,
 - 2% of loans outstanding within the Regional Agency Fund,
 - 2% of Rural Industrial Park loans outstanding within the Facilities Establishment Fund,
 - 0% of Urban Redevelopment loans outstanding within the Facilities Establishment Fund, and
 - Varying percentages on specific loan balances as deemed necessary.

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Loans Receivable, Net and Allowance for Uncollectible Loans (continued)

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.

H. Other Assets – Other assets represents accrued interest receivable.

I. Accrued Liabilities – Accrued liabilities include wages payable as of fiscal year-end.

J. Deferred Outflows/Inflows of Resources – In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the LSO, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB are explained in Notes 6 and 7.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to a future period and will not be recognized until that time. For LSO, deferred inflows of resources include unavailable revenue, pension and OPEB. Unavailable revenue is reported only on the governmental funds balance sheet and represents receivables which will not be collected within the available period. For LSO, unavailable revenue includes accrued interest receivable. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB are reported on the government-wide statement of net position. (See Notes 6 and 7).

K. Pensions/Other Postemployment Benefits (OPEB) – For purposes of measuring the net pension/OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

L. Compensated Absences – The State of Ohio recognizes a liability for compensated absences for the leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled during or upon separation from employment under the last-in-first-out flows assumption. The liability for compensated absences is reported as incurred in the government-wide financial statements. A liability for compensated absences is recorded in the governmental funds only if the liability has matured because of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- M. Fund Balance/Net Position** – GASB Statement No. 54, *Fund Balance Reporting* became effective for fiscal 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, LSO classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. LSO 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 LSO'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.

LSO applies restricted resources first when an expense is incurred for purposes which both restricted and unrestricted net position is available. LSO 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 LSO's restricted net position at June 30, 2025 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.
- 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.

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- P. Personnel and Operating Expenditures/Expenses** – Personnel expenditures/expenses include all payroll and fringe benefit costs paid by the LSO. Operating expenditures/expenses include various supplies and maintenance expenditures, equipment purchases, and regional agency trustee and administrative fees.
- Q. Grant Expenditures/Expenses** – The Facilities Establishment Fund and Research and Development 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. LSO reported these disbursements as grants based on the high probability of forgiveness.
- R. Interfund Transfers and Transfers from Other Offices** –Transfers from Other Offices represent transfers from the State’s General Fund. 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 LSO and do not present the consolidated financial information of the State of Ohio, taken as a whole, the total transfers to other offices would not reflect offsetting disbursements from state agencies.
- S. Self-Insurance** – The State of Ohio serves as the LSO’s primary government and is self-insured for claims covered under its traditional healthcare plan, vehicle liability, public fidelity blanket bonds, property losses, and tort liability. Additionally, the State of Ohio participates in a public entity risk pool which covers liabilities associated with claims submitted to the Bureau of Workers’ Compensation.

NOTE 2 – DEPOSITS AND INVESTMENTS

State statutes classify monies held by LSO into three categories.

Active deposits are public deposits necessary to meet the current demands on the treasury. Such monies must be maintained either as cash in the State Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that LSO has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts. Interim deposits may be deposited or invested in the following instruments:

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

- 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. At fiscal year-end, the bank balance of LSO's deposits was \$106,430.

Custodial Credit Risk – Deposits – In the case of deposits, this is the risk that in the event of a bank failure, LSO's deposits may not be returned to it. LSO maintains cash on deposit in two custodial accounts with the State Treasurer. The State Treasurer's office administers the Ohio Pooled Collateral System (OPCS) that allows eligible financial institutions to pool collateral to secure Ohio's public deposits. The total market value of pledged securities is 102 percent of all uninsured public deposits or at a percentage determined by the Treasurer's rules. At year end, LSO's deposits were not exposed to custodial credit risk.

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

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

	Measurement	Percentage	Credit Rating	Investment Maturities (in Years)		
	Value	of Total		less than 1	1 - 3	greater than 3
STAR Ohio	\$ 50,583,639	67%	AAAm	\$ 50,583,639	\$ -	\$ -
FFCB Bonds	498,943	1%	AA	498,943	-	-
FHLB Bonds	1,116,617	1%	AA	246,523	870,094	-
FNMA Bonds	497,116	1%	AA	497,116	-	-
US Treasury	3,528,601	5%	N/A	249,658	2,726,396	552,547
Money Market Fund	17,979,168	24%	AAAm	17,979,168	-	-
Municipal Bonds	847,583	1%	A	557,081	290,502	-
Municipal Bonds	589,810	1%	AA	512,284	77,526	-
Total Investments	<u>\$ 75,641,477</u>	<u>100%</u>		<u>\$ 71,124,412</u>	<u>\$ 3,964,518</u>	<u>\$ 552,547</u>

LSO categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table, except for STAR Ohio and money market funds, identifies LSO’s recurring fair value measurements as of June 30, 2025. All LSO’s fair value measurements are Level 2 since they are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications. Market indicators and industry and economic events are also monitored which could require the need to acquire further market data. LSO measures their investments in STAR Ohio and money market funds at the net asset value (NAV) per share provided by STAR Ohio and the money market fund managers. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

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 LSO’s fixed income assets.

Credit Risk – Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2025, is 30 days.

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.

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

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

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. LSO had no exposure to foreign currency risk at fiscal year-end.

NOTE 3 – SECURITIES LENDING TRANSACTIONS

LSO 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. LSO 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. The market value of loaned securities shall not represent more than fifty percent (45%) of the Total Average Portfolio (TAP). TAP excludes all certificates of deposit and is equal to the numerical average of the five highest end-of-business day balances, based on market value, within the 12 month period immediately preceding the calculation date.

During the fiscal year, the State Treasurer lent Corporate Bonds and Notes, U.S. Agency Obligations (excluding strips), and U.S. Treasury Obligations (excluding strips). LSO cannot sell securities received as collateral unless the borrower defaults. At fiscal year-end, the collateral LSO 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 9.41 days while the weighted maturity of all collateral was 9.60 days.

For State funds, the securities lending agent shall indemnify the Treasurer of State for any losses resulting from the insolvency default of the lending or repurchase agreement counterparty. 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, LSO’s Allocated Collateral on Lent Securities and related Allocated Obligations Under Securities Lending at year-end was \$32,569,782.

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 4 – LOAN PROGRAM ACTIVITY

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

Fund	Beginning Balance	Loan Additions	Loan Reductions	Ending Balance
Facilities Establishment	\$ 282,221,792	\$ 48,044,542	\$ (14,919,625)	\$ 315,346,709
Regional Agency	29,788,381	16,783,742	(4,317,479)	42,254,644
Innovation Ohio	25,549,784	-	(1,143,220)	24,406,564
Research and Development	42,477,588	1,500,000	(2,444,560)	41,533,028
Grand Total	<u>\$ 380,037,545</u>	<u>\$ 66,328,284</u>	<u>\$ (22,824,884)</u>	<u>\$ 423,540,945</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 \$51,912,740 (Facilities Establishment Fund was \$26,729,472; Regional Agency Fund was \$845,093; Innovation Ohio Fund was \$19,456,973; and Research and Development Fund was \$4,881,202).

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, 2025, outstanding loan balances under this program aggregated \$135,620,000 with original terms up to 25 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 LSO. LSO only monitors OEBF activities and does not include the financial transactions within its financial statements.

All 13 Ohio Enterprise Bond Fund loans with outstanding principal balances were current in their repayment as of fiscal year-end.

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 5 – COMMITMENTS AND CONTINGENCIES (continued)

B. Loan Commitments

These commitments primarily represent Chapter 166 loan commitments that were approved but 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 ODOD Director and JobsOhio as part of the terms of services covered under the services agreement. Below is a summary of LSO's loan commitments outstanding at fiscal year-end:

Fund	Commitment
Operating	\$ 123,772
Facilities Establishment	20,000,000
Research and Development	2,875,000
Grand Total	<u>\$ 22,998,772</u>

NOTE 6 – DEFINED BENEFIT PENSION PLAN

The employees of LSO are covered by the Ohio Public Employees Retirement System. The State of Ohio accounts for the activities of the retirement systems and the amounts of these funds are not reflected in the accompanying financial statements.

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents LSO's proportionate share of the pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of the pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits LSO's obligation for this liability to annually required payments. LSO cannot control benefit terms or the manner in which pensions are financed; however, LSO does receive the benefit of employees' services in exchange for compensation including pension.

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 6 – DEFINED BENEFIT PENSION PLAN (continued)

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of the pension plan's unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the fiscal year would be included in accrued liabilities on both the accrual and modified accrual bases of accounting. LSO had no such liability at fiscal year-end.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - LSO employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers two separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan and the member-directed plan is a defined contribution plan. The traditional pension plan also includes members of the legacy combined pension plan. Prior to January 1, 2024, the combined pension plan was a separate pension plan. Effective January 1, 2022, the combined pension plan is no longer available for member selection.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 6 – DEFINED BENEFIT PENSION PLAN (continued)

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS Annual Comprehensive Financial Report referenced above for additional information including requirements for reduced and unreduced benefits):

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	Group B 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Group C Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 5 years of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 5 years of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent. A death benefit of \$500 to \$2,500 determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient.

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 6 – DEFINED BENEFIT PENSION PLAN (continued)

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

2025 Statutory Maximum Contribution Rates

Employer	14.0	%
Employee	10.0	%

2025 Actual Contribution Rates

Employer

Pension	14.0	%
Post-employment Health Care Benefits	0.0	
Total Employer	<u>14.0</u>	%
Employee	<u>10.0</u>	%

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. LSO's contractually required pension contribution was \$100,388 for fiscal year 2025. The entire amount was used to fund pension benefits.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2024, and the total pension asset and liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. LSO's proportion of the net pension liability was based on LSO's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>Traditional Plan</u>
Proportionate Share of the Net Pension Liability	\$980,998
2024 Proportion of the Net Pension Liability	0.004002%
2023 Proportion of the Net Pension Liability	<u>0.003678%</u>
2024 Change in Proportionate Share	<u>0.000324%</u>
Pension Expense	\$174,067

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 6 – DEFINED BENEFIT PENSION PLAN (continued)

At fiscal year-end, LSO reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Traditional Plan
Deferred Outflows of Resources	
Differences between expected and actual experience	\$18,770
Net difference between projected and actual earnings on pension plan investments	115,728
Changes of assumptions	0
Changes in proportionate share	67,528
LSO contributions subsequent to the measurement date	45,131
Total Deferred Outflows of Resources	\$247,157

LSO contributions subsequent to the measurement date of \$45,131 are reported as deferred outflows of resources. The contributions will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	Traditional Plan
2026	\$ 122,260
2027	138,964
2028	(44,655)
2029	(14,543)
Total	\$ 202,026

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 6 – DEFINED BENEFIT PENSION PLAN (continued)

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2024, using the following actuarial assumptions and methods applied to all periods included in the measurement:

Wage Inflation	2.75 percent
Projected Salary Increases	2.75 to 10.75 percent including wage inflation at 2.75 percent
COLA or Ad Hoc COLA	Pre-1/7/13 Retirees: 3% Simple; Post 1/7/13 Retirees: 2.90% Simple for 2025, then 2.05% Simple
Investment Rate of Return	6.90 percent
Actuarial Cost Method	Individual entry age normal

The most recent experience study was for the 5-year period ended December 31, 2020.

Pre-retirement mortality rates are based on 130 percent of the Pub-2010 General Employee Mortality tables for males and females. Post-retirement mortality rates are based on 115 percent of the Pub-2010 Retiree Mortality Tables for males and females. Post-retirement mortality rates for disabled retirees are based on the PubNS-2010 Disabled Retiree Mortality Tables for males and females. For all of the previously described tables, the base year is 2010 and mortality rates for a particular calendar year are determined by applying the MP-2020 mortality improvement scales for males and females to these tables.

Discount Rate The discount rate used to measure the total pension liability was 6.9 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 6 – DEFINED BENEFIT PENSION PLAN (continued)

The allocation of investment assets with the Defined Benefit portfolio is approved by the OPERS Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The long-term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage, adjusted for inflation. Best estimates of arithmetic rates of return were provided by the Board's investment consultant. For each major asset class that is included in the Defined Benefit portfolio's target asset allocation as of December 31, 2024, these best estimates are summaries in the following table:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Geometric)
Fixed Income	24.00 %	2.42 %
Domestic Equities	21.00	5.70
Real Estate	13.00	4.17
Private Equity	15.00	8.40
International Equities	20.00	6.10
Risk Parity	2.00	4.40
Other investments	5.00	2.54
Total	<u>100.00 %</u>	

Sensitivity of LSO's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents LSO's proportionate share of the net pension liability calculated using the current period discount rate assumption of 6.9 percent, as well as what LSO's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (5.9 percent) or one-percentage-point higher (7.9 percent) than the current rate:

	1% Decrease (5.90%)	Current Discount Rate (6.90%)	1% Increase (7.90%)
LSO's proportionate share of the net pension liability			
Traditional Plan	\$ 1,604,856	\$ 980,998	\$ 462,578

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 7 – DEFINED BENEFIT OPEB PLAN

The employees of LSO are covered by the Ohio Public Employees Retirement System. The State of Ohio accounts for the activities of the retirement systems and the amounts of these funds are not reflected in the accompanying financial statements.

Net OPEB Asset

The net OPEB asset reported on the statement of net position represents an asset for employees for other post-employment benefits (OPEB). OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net OPEB asset represents LSO’s proportionate share of the OPEB plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan’s fiduciary net position. The net OPEB asset calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

Ohio Revised Code limits LSO’s obligation for this liability to annually required payments. LSO cannot control benefit terms or the manner in which OPEB are financed; however, LSO does receive the benefit of employees’ services in exchange for compensation including OPEB.

GASB 75 assumes the asset is solely the right of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits but does not require the retirement system to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB asset. Resulting adjustments to the net OPEB asset would be effective when the changes are legally enforceable. The retirement system may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of the plan’s unfunded benefits is presented as a net OPEB asset on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the fiscal year would be included in accrued liabilities on both the accrual and modified accrual bases of accounting. LSO had no such liability at fiscal year-end.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Health Care Plan Description - The Ohio Public Employees Retirement System (OPERS). OPERS administers two separate plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit plan and the member-directed plan is a defined contribution plan. The traditional pension plan also includes members of the legacy combined pension plan. Prior to January 1, 2024, the combined pension plan was a separate pension plan. Effective January 1, 2022, the combined pension plan is no longer available for member selection.

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 7 – DEFINED BENEFIT OPEB PLAN (continued)

The OPERS health care plans are reported as cost-sharing, multiple employer other post-employment benefit plans (OPEB) based on the criteria established by the Governmental Accounting Standards Board (GASB). OPERS maintains one health care trust, the 115 Health Care Trust (115 Trust), which was established in 2014. Health care coverage is neither guaranteed nor statutorily required.

Periodically, OPERS modifies the health care program design to improve the ongoing solvency of the plans. Eligibility requirements for access to the OPERS health care options have changed over the history of the program for Traditional Pension Plan and Combined Plan members. Prior to January 1, 2015, 10 or more years of service were required to qualify for health care coverage. Beginning January 1, 2015, generally, members must be at least age 60 with 20 years of qualifying service credit to qualify for health care coverage or 30 years of qualifying service at any age. Effective January 1, 2022, retirees must generally be at least age 65 with a minimum of 20 years of qualifying service credit, or a minimum of 30 years of qualifying service credit at any age, to qualify for health care benefits.

Beginning 2016 for Medicare retirees enrolled in Medicare A and B, and beginning 2022 for non-Medicare retirees, eligible retirees were able to participate in the OPERS Connector (Connector) in lieu of comprehensive health care coverage. The Connector, a vendor selected by OPERS, assists eligible retirees in the evaluation, selection and purchase of a health care plan on the open market. Eligible retirees may receive a monthly allowance in their health care reimbursement arrangement (HRA) account that can be used to reimburse eligible health care expenses.

The Ohio Revised Code permits, but does not require, OPERS to provide OPEB benefits to its eligible benefit recipients. Authority to establish and amend health care coverage is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml#CAFR>, by writing OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 1-800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In fiscal year 2025, LSO contributed at a rate of 14 percent of earnable salary. The Ohio Revised Code currently limits the employer contribution rate not to exceed 14 percent of covered payroll. A portion of each employer contribution may be set aside for the funding of post-employment health care coverage. The portion of employer contributions allocated to health care was zero for 2025.

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 7 – DEFINED BENEFIT OPEB PLAN (continued)

OPEB Asset, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB asset for OPERS was measured as of December 31, 2024, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of that date. LSO's proportion of the net OPEB asset was based on LSO's share of contributions to the retirement system relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	Health Care Plan
Proportionate Share of the Net OPEB Asset	\$96,555
2024 Proportion of the Net OPEB Asset	0.004119%
2023 Proportion of the Net OPEB Asset	0.003759%
2024 Change in Proportionate Share	0.000360%
OPEB Expense	(\$36,888)

At June 30, 2025, LSO reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Health Care Plan
Deferred Outflows of Resources	
Net difference between projected and actual earnings on pension plan investments	\$1,988
Total Deferred Outflows of Resources	\$1,988
Deferred Inflows of Resources	
Differences between expected and actual experience	\$4,700
Changes of assumptions	13,932
Changes in proportionate share	4,293
Total Deferred Inflows of Resources	\$22,925

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 7 – DEFINED BENEFIT OPEB PLAN (continued)

Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:	Health Care Plan
2026	\$ (13,316)
2027	8,116
2028	(11,636)
2029	(4,101)
Total	<u>\$ (20,937)</u>

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of health care costs for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between the pension system and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2023, rolled forward to the measurement date of December 31, 2024.

The actuarial valuation used the following key actuarial assumptions and methods applied to all periods included in the measurement:

	December 31, 2024	December 31, 2023
Wage Inflation	2.75 percent	2.75 percent
Projected Salary Increases,	2.75 to 10.75 percent including wage inflation at 2.75 percent	2.75 to 10.75 percent including wage inflation at 2.75 percent
Single Discount Rate	6.00 percent	5.70 percent
Investment Rate of Return	6.00 percent	6.00 percent
Municipal Bond Rate	4.08 percent	3.77 percent
Health Care Cost Trend Rate	5.50 percent, initial 3.50 percent, ultimate in 2039	5.50 percent, initial 3.50 percent, ultimate in 2038
Actuarial Cost Method	Individual Entry Age Normal	Individual Entry Age Normal

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 7 – DEFINED BENEFIT OPEB PLAN (continued)

For 2024 and 2023, pre-retirement mortality rates are based on 130 percent of the Pub-2010 General Employee Mortality tables for males and females. Post-retirement mortality rates are based on 115 percent of PubG-2010 Retiree Mortality Tables for males and females. Post-retirement mortality rates for disables retirees are based on the PubNS-2010 Disables Retiree Mortality Tables for males and females. For all of the previously described tables, the base year is 2010 and mortality rates for a particular calendar year are determined by applying MP-2020 mortality improvement scales for males and females to all of these tables.

Discount Rate A single discount rate of 6.00 percent was used to measure the total OPEB liability on the measurement date of December 31, 2024. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). The single discount rate was based on the actuarial assumed rate of return on the health care investment portfolio of 6.00 percent and a municipal bond rate of 4.08 percent. The projection of cash flows used to determine the single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through the year 2124. As a result, the actuarial assumed long-term expected rate of return on health care investments was applied to projected costs through the year 2124, the duration of the projected period through which projected health care payments are fully funded.

The allocation of investment assets within the OPERS Health Care portfolio is approved by the Board as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. The System's primary goal is to achieve and maintain a fully funded status for benefits provided through the defined pension plans. Health care is a discretionary benefit. The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future rates of return by the target asset allocation percentage, adjusted for inflation. Best estimates of arithmetic rates of return were provided by the Board's investment consultant.

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 7 – DEFINED BENEFIT OPEB PLAN (continued)

For each major asset class that is included in the Health Care portfolio's target asset allocation as of December 31, 2024, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Geometric)
Fixed Income	37.00 %	2.37 %
Domestic Equities	26.00	5.70
REITs	5.00	5.00
International Equities	26.00	6.10
Risk Parity	3.00	4.40
Other investments	3.00	2.50
Total	<u>100.00 %</u>	

Sensitivity of LSO's Proportionate Share of the Net OPEB Asset to Changes in the Discount Rate

The following table presents LSO's proportionate share of the net OPEB asset calculated using the single discount rate of 6.00 percent, and the expected net OPEB asset if it were calculated using a discount rate that is 1.0 percent lower or 1.0 percent higher than the current rate:

	1% Decrease (5.00%)	Single Discount Rate (6.00%)	1% Increase (7.00%)
LSO's proportionate share of the net OPEB asset	\$ 47,943	\$ 96,555	\$ 137,115

Changes in the health care cost trend rate may also have a significant impact on the net OPEB asset. The following table presents the net OPEB asset calculated using the assumed trend rates, and the expected net OPEB asset if it were calculated using a health care cost trend rate that is 1.0 percentage point lower or 1.0 percentage point higher than the current rate.

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
LSO's proportionate share of the net OPEB asset	\$ 98,028	\$ 96,555	\$ 94,898

Loan Servicing Office
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2025

NOTE 7 – DEFINED BENEFIT OPEB PLAN (continued)

Retiree health care valuations use a health care cost-trend assumption with changes over several years built into that assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2025 is 5.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is the health care cost trend will decrease at a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.50 percent in the most recent valuation.

NOTE 8 – LONG TERM LIABILITIES

Long term liability activity during the fiscal year was as follows:

Type	Beginning Balance	Increase	Decrease	Ending Balance	Amount Due in One Year
Compensated Absences *	\$ 73,050	\$ 19,290	\$ -	\$ 92,340	\$ -
Net Pension Liability	962,824	18,174	-	980,998	-
Total Long Term Liabilities	<u>\$ 1,035,874</u>	<u>\$ 37,464</u>	<u>\$ -</u>	<u>\$ 1,073,338</u>	<u>\$ -</u>

* The change in the compensated absences liability is presented as a net change.

The compensated absences and pension liability will be paid from the operating fund.

NOTE 9 – CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2025, the LSO has implemented GASB Statement No. 101, *Compensated Absences* and GASB Statement No. 102, *Certain Risk Disclosures*.

GASB Statement No. 101 updates the recognition and measurement guidance for compensated absences to promote consistency and better meet the information needs of financial statement users. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. These changes were incorporated into LSO's fiscal year 2025 financial statements; however, there was no effect on beginning net position.

GASB Statement No. 102 provides users of governmental financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints as concentrations and constraints may limit a government's ability to acquire resources or control spending. The implementation of GASB Statement No. 102 did not have an effect on the financial statements of LSO.

REQUIRED SUPPLEMENTARY INFORMATION

Loan Servicing Office
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability (Asset)
Ohio Public Employees Retirement System

Last Ten Years

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Proportion of the Net Pension Liability (Asset)										
Traditional Plan	0.004002%	0.003678%	0.002891%	0.002861%	0.003414%	0.002861%	0.001936%	0.004575%	0.007213%	0.008662%
Combined Plan (1)	0.000000%	0.002690%	0.002330%	0.002288%	0.002735%	0.002683%	0.001528%	0.003491%	0.005667%	0.011535%
Proportionate Share of the Net Pension Liability (Asset)										
Traditional Plan	\$ 980,998	\$ 962,824	\$ 854,149	\$ 248,883	\$ 505,568	\$ 565,514	\$ 530,304	\$ 717,698	\$ 1,638,013	\$ 1,500,406
Combined Plan (1)	\$ -	\$ (8,268)	\$ (5,492)	\$ (9,015)	\$ (7,894)	\$ (5,594)	\$ (1,709)	\$ (4,752)	\$ (3,154)	\$ (5,613)
Covered Payroll	\$ 742,715	\$ 663,592	\$ 495,770	\$ 465,628	\$ 555,727	\$ 466,910	\$ 307,282	\$ 712,866	\$ 1,112,664	\$ 1,291,037
Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	132.08%	143.85%	171.18%	51.51%	89.55%	119.92%	172.02%	100.01%	146.93%	115.78%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)										
Traditional Plan	80.99%	79.01%	75.74%	92.62%	86.88%	82.17%	74.70%	84.66%	77.25%	81.08%
Combined Plan (1)	0.00%	144.55%	137.14%	169.88%	157.67%	145.28%	126.64%	137.28%	116.55%	116.90%

(1) The Combined Plan was consolidated into the Traditional Plan in 2024.

Amounts presented as of LSO's measurement date, which is December 31.

Loan Servicing Office
Required Supplementary Information
Schedule of Proportionate Share of the Net OPEB Liability (Asset)
Ohio Public Employees Retirement System

Last Nine Years (1)

	2024	2023	2022	2021	2020	2019	2018	2017	2016
Proportion of the Net OPEB Liability (Asset)									
Health Care Plan	0.004119%	0.003759%	0.002979%	0.002986%	0.003627%	0.003090%	0.002118%	0.005033%	0.008051%
Proportionate Share of the Net OPEB Liability (Asset)									
Health Care Plan	\$ (96,555)	\$ (33,925)	\$ 18,781	\$ (93,525)	\$ (64,624)	\$ 426,878	\$ 276,201	\$ 546,531	\$ 813,227
Covered Payroll	\$ 742,715	\$ 663,592	\$ 495,770	\$ 465,628	\$ 555,727	\$ 466,910	\$ 307,282	\$ 712,866	\$ 1,112,664
Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll	-13.00%	-5.11%	3.79%	-20.09%	-11.63%	91.43%	89.89%	76.67%	73.09%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)									
Health Care Plan	121.51%	107.76%	94.79%	128.23%	115.57%	47.80%	46.33%	54.14%	68.52%

(1) Information prior to 2016 is not available.

Amounts presented as of LSO's measurement date, which is December 31.

**Loan Servicing Office
Required Supplementary Information
Schedule of Contributions
Ohio Public Employees System**

Last Ten Fiscal Years

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually Required Contribution										
Pension	\$ 100,388	\$ 102,703	\$ 80,989	\$ 66,500	\$ 71,177	\$ 77,879	\$ 42,755	\$ 62,554	\$ 111,063	\$ 150,749
OPEB	-	-	-	-	-	-	-	2,317	13,328	25,125
Contributions in relation to the contractually required contribution	<u>(100,388)</u>	<u>(102,703)</u>	<u>(80,989)</u>	<u>(66,500)</u>	<u>(71,177)</u>	<u>(77,879)</u>	<u>(42,755)</u>	<u>(64,871)</u>	<u>(124,391)</u>	<u>(175,874)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 717,057	\$ 733,595	\$ 578,490	\$ 475,002	\$ 508,404	\$ 556,409	\$ 305,395	\$ 463,363	\$ 888,501	\$ 1,256,238
Contributions as a percentage of covered payroll										
Pension	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	13.50%	12.50%	12.00%
OPEB	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.50%	1.50%	2.00%

Loan Servicing Office
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2025

NOTE 1 - NET PENSION LIABILITY

Changes in Assumptions – OPERS

Amounts reported beginning in 2022 incorporate changes in assumptions used by OPERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in prior years are presented below:

	2022	2019	2018 and 2017	2016 and prior
Wage Inflation	2.75%	3.25%	2.75%	2.75%
Future Salary Increases, including wage inflation	2.75% to 10.75%	3.25% to 10.75%	3.25% to 10.75%	4.25% to 10.05%
COLA or Ad Hoc COLA				
Pre-January 7, 2013 Retirees	3.00%, simple	3.00%, simple	3.00%, simple	3.00%, simple
Post-January 7, 2013 Retirees	see below	see below	see below	see below
Investment Rate of Return	6.90%	7.20%	7.50%	8.00%
Actuarial Cost Method	Individual	Individual	Individual	Individual
	Entry Age	Entry Age	Entry Age	Entry Age

The assumptions related to COLA or Ad Hoc COLA for Post-January 7, 2013, retirees are as follows:

2024	2.90%, simple through 2025, then 2.05%, simple
2023	2.30%, simple through 2024, then 2.05%, simple
2022	3.00%, simple through 2022, then 2.05%, simple
2021	0.50%, simple through 2021, then 2.15%, simple
2020	1.40%, simple through 2020, then 2.15%, simple
2017-2019	3.00%, simple through 2018, then 2.15%, simple
2016 and prior	3.00%, simple through 2018, then 2.80%, simple

Changes in Benefit Terms – OPERS

There were no significant changes in benefit terms.

Loan Servicing Office
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2025

NOTE 2 - NET OPEB LIABILITY (ASSET)

Changes in Assumptions - OPERS

Amounts reported incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented as follows:

<u>Assumption</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Wage Inflation	2.75%	2.75%	2.75%	2.75%	3.25%	3.25%	3.25%	3.25%
Single Discount Rate	6.00%	5.70%	5.22%	6.00%	6.00%	3.16%	3.96%	3.85%
Municipal Bond Rate	4.08%	3.77%	4.05%	1.84%	2.00%	2.75%	3.71%	3.31%
Health Care Cost Trend Rate	5.50%	5.50%	5.50%	5.50%	8.50%	10.50%	10.00%	7.50%

For calendar year 2019, the investment rate of return decreased from 6.50 percent to 6.00 percent.

Changes in Benefit Terms – OPERS

At the inception of the health care program in 1976, OPERS provided comprehensive health care coverage to retirees with five or more years of qualifying service credit. In 1986, the years of service requirement changed to 10 or more years. Beginning January 1, 2015, the service eligibility criteria for health care coverage increased to 20 years with a minimum age of 60, or, generally, 30 years of qualifying service at any age. Effective January 1, 2022, retirees must generally be at least age 65 with a minimum of 20 years of qualifying service credit, or a minimum of 30 years of qualifying service credit at any age, to qualify for health care benefits.

On January 15, 2020, the Board approved several changes to the health care plan offered to Medicare and non-Medicare retirees in efforts to decrease costs and increase the solvency of the health care plan. These changes are effective January 1, 2022, and include changes to base allowances and eligibility for Medicare retirees, as well as replacing OPERS-sponsored medical plans for non-Medicare retirees with monthly allowances, similar to the program for Medicare retirees. These changes are reflected in 2021.

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

To the Loan Servicing Office
Ohio Department of Development
Franklin County, Ohio
77 S. High Street, 27th Floor
Columbus, Ohio 43215

We have audited, in accordance with the 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 (*Government Auditing Standards*), the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Loan Servicing Office, Franklin County, Ohio (the Office), an office within a department of the State of Ohio, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated September 30, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Office's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Office's financial statements will not be prevented or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office's financial statements are free from 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 financial statements. 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Office's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Rea & Associates, Inc.
Dublin, Ohio
September 30, 2025

OHIO AUDITOR OF STATE KEITH FABER



LOAN SERVICING OFFICE

FRANKLIN COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 1/27/2026

65 East State Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov