OFFICE OF BUSINESS DEVELOPMENT
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2002

Auditor of State
Betty Montgomery

OFFICE OF BUSINESS DEVELOPMENT

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Office of Business Development
77 South High Street, 28th Floor
Columbus, Ohio 43215

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of Business Development, State of Ohio (the Office), as of and for the year ended June 30, 2002, which collectively comprise the Office's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Office's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Office of Business Development are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information that is attributable to the transactions of the Office. They do not purport to, and do not, present fairly the financial position the State of Ohio as of June 30, 2002, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the year ended June 30, 2002, the Office of Business Development adopted Governmental Accounting Standards Board Statements 34, 37 and 38.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of Business Development, State of Ohio, as of June 30, 2002, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2003 on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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The Management's Discussion and Analysis on pages three through nine is not a required part of the Office's financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the Office's basic financial statements. The combining nonmajor fund statements have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

June 30, 2003

FINANCIAL SECTION

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Office of Business Development
Fiscal Year 2002 Auditor of State of Ohio

Management Discussion and Analysis
(unaudited)

Introduction

The Office of Business Development (OBD) was created as part of the Ohio Department of Development (ODOD) on July 14, 1983, by action of the State of Ohio Legislature. The OBD administers the 166 Direct Loan, Loan Guarantee, and Ohio Enterprise Bond Fund programs of the ODOD under Chapter 122 and 166 of the Ohio Revised Code.

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

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

This section of the OBD annual financial report presents management’s discussion and analysis of the OBD’s financial performance during the fiscal year ended June 30, 2002. The management’s discussion and analysis section should be read in conjunction with the financial statements and notes, which follow.

Fiscal year 2002 was the first year for the OBD to implement the new reporting provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements–and Management’s Discussion and Analysis for State and Local Governments. The OBD has not restated financial data for fiscal year 2001 for purposes of providing extensive comparative data in this management’s discussion and analysis because certain prior-year data is unavailable or not equivalent for purposes of comparison. Consequently, the foregoing discussion contains few financial comparisons with the previous year. In future years, however, as prior-year information becomes available, a comparative analysis of the data will be presented.

Financial Highlights

Statement of Net Assets and Statement of Activities

Net assets of the OBD reported in the amount of $426,590,232 as of June 30, 2002. This was an increase of $2,711,334 since the previous year. During fiscal year 2002 OBD closed 44 Direct Loans totaling $39.8 million, 68 Regional loans totaling $8.9 million, four OEBF’s totaling $25.3 million, and one Port Authority Bond Grant totaling $1,000,000. There were two (2) recipients of the OEBF program who failed to pay the trustee bank in FY 2002. As required by the Bond offering statement, the ODOD was obligated to pay $224,109 to the trustee bank for payment to the bondholders. In FY 2003, after the sale of property and liquidation of assets, the State will receive approximately $5.7 million.

Fund Financial Statements

Governmental funds reported combined ending fund balances of $426,164,705 as of June 30, 2002. This was an increase of $2,517,331 since the previous year.

Overview of the Financial Statements

This annual report consists of management's discussion and analysis, basic financial statements, including the accompanying notes to the financial statements and combining statements for the Nonmajor Governmental Funds.

Statement of Net Assets and Statement of Activities

OBD does not prepare Budgetary Required Supplementary Information, the budget is approved on an agency level as a whole not on an office level for OBD. As such, budgetary statements for OBD are not required. OBD follows the accrual basis on accounting and the economic resources focus when preparing the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets includes all of the OBD's assets and liabilities. The Statement of Activities accounts for all of the current year's revenues and expenses regardless of the timing of related cash inflows or outflows.

Fund Financial Statements

The fund financial statements provide more detailed information about OBD's most significant funds. OBD utilizes four major funds, Operating Fund, Facilities Establishment Fund, Regional Agency Fund, Port Authority Bond Reserve Program Fund, and Non Major Governmental Funds to report on its financial position and results of its operations. Fund accounting sets apart funds according to their intended purpose and aids management in demonstrating compliance with finance-related legal and contractual provisions:

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

b. The Facilities Establishment Fund accounts for proceeds deposited by the Treasurer of the State of Ohio with the OBD from bond sales, fee income, interest income, loan receipts, and disbursements for loans made pursuant to Chapter 166 of the Code. Also, this Fund provides a reserve for the Ohio Enterprise Bond Fund in the event of bondholder default.

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

d. The Port Authority Bond Reserve Program Fund records direct economic development assistance provided to eligible port authorities in the form of grant assistance or direct guarantees.

e. Non Major Governmental Funds includes Loan Guarantee Fund, 122 Direct Loan Fund, Premium Income Fund, Rural Industrial Park Fund, Urban Redevelopment Loan Fund, and Family Farm Loan Guarantee Fund.

Because the focus of the fund financial statement is narrower than that of government-wide financial statements, it is useful to compare the information presented on a fund basis with similar information presented on a government-wide basis. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The government-wide and fund financial statements include a reconciliation to facilitate this comparison.

Financial Analysis of the OBD

Governmental Activities

The funds administered by the OBD are all governmental fund types. These funds are to assure the efficient use of resources for the State's economic growth and development.

Statement of Net Assets

Condensed financial information derived from the Statement of Net Assets follows:

	GOVERNMENTAL ACTIVITIES
ASSETS:	
Current and Other Non Current Assets ……………….…………….....	$462,618,040
Capital Assets, Non-Infrastructure ………………………….………..	231,524
TOTAL ASSETS ……………………………………………...............	**$462,849,564**
LIABILITIES:	
Current and Other Liabilities …………………………………………..	$36,173,234
Due in More Than One Year …………………………………………..	86,098
TOTAL LIABILITIES …………………………………………………...	**$36,259,332**
NET ASSETS:	
Invested in Capital Assets ……………………. ……………………….	$231,524
Restricted for the Enterprise Bond Program ……………………………	10,000,000
Unrestricted ………………………………………………………………..	416,358,708
TOTAL NET ASSETS ……………………………………………………	**$426,590,232**

Total Assets

At the end of fiscal year 2002, total assets decreased $6 million due to poor economic conditions, loan payoffs, and a decrease in revenue from Allocated Collateral on Lent Securities.

Total Liabilities

During fiscal year 2002, Allocated Collateral on Lent Securities/Obligations Under Securities Lending decreased $11.8 million as reported by the Treasurer of State. The decrease was due to poor economic conditions causing the Treasurer of State to lend less. This function is administered solely by the Treasurer of State and is reported to OBD by the Office of Budget & Management (OBM) at fiscal year end.

Total Net Assets

During fiscal year 2002, the OBD's Net Assets increased $2.7 million or 0.64%. As of June 30, 2001, $413 million was unrestricted and $10 million was restricted for the OEBF. As of June 30, 2002, $416 million was unrestricted; $10 million restricted for the OEBF, and $232 thousand was restricted for capital assets. Capital Assets and Leases Receivable represents land owned by the State ($231,524) and leases ($1.7 million), in which the State holds title to the land and subsequently leases to the borrower.

Statement of Activities

Condensed financial information derived from the Statement of Activities follows:

REVENUES:	
PROGRAM REVENUES:	
Community and Economic Development ……………………………………..	$5,665,077
TOTAL PROGRAM REVENUES ………………………………………	**$5,665,077**
GENERAL REVENUES:	
Investment Income ……………………………………………………………	$5,853,059
Net Increase (Decrease) in Fair Value of Investments ………………………	(258,765)
Transfers to Other State Agencies …………………………………………….	(3,374,241)
Miscellaneous Revenue …………………………………………………………	256,194
TOTAL GENERAL REVENUES ………………………………………..	**$2,476,247**
EXPENSES:	
Community and Economic Development ……………………………………..	$(5,279,146)
TOTAL EXPENSES ………………………………………………………..	$(5,279,146)
NET ASSETS:	
Excess (Deficiency) Before Special Items …………………………………….	$2,862,178
Special Item - Loss on Loan Restructuring ……………………………………	(150,844)
CHANGE IN NET ASSETS …………………………………………………	**$2,711,334**
Net Assets, July 1 …………………………………………………………….	421,457,971
Prior Period Adjustments …………………………………………………….	2,420,927
NET ASSETS, June 30 ……………………………………………………	**$426,590,232**

The $2.7 million increase in net assets primarily resulted from economic conditions effecting investments, land owned by the State ($231,524) not listed in fiscal year 2001, loan principal and interest payments, and increases in expenditures.

Governmental Funds

Governmental funds reported the following results, for the year ended June 30, 2002.

	OPERATING FUND	FACILITIES EST. FUND	REGIONAL AGENCY FUND	PORT AUTHORITY BOND RESERVE PROGRAM FUND	NONMAJOR GOV'T FUNDS	TOTAL
REVENUES:						
Fee Revenue ………………………..	$1,001,500	$465,715	$27,127	$-	$114,340	$1,608,682
Loan Interest Income ………………	-	2,203,636	1,574,993	-	45,857	3,824,486
Investment Income …………………	-	5,350,320	210,819	125,716	109,237	5,796,092
Net Increase (Decrease) in Fair Value of Investments ……………….	-	(258,765)	-	-	-	(258,765)
Miscellaneous ……………………….	$11,032	245,162	-	-	-	256,194
TOTAL REVENUES……………….	**$1,012,532**	**$8,006,068**	**$1,812,939**	**$125,716**	**$269,434**	**$11,226,689**
EXPENDITURES:						
Personnel Expenditures…………….	925,455	-	-	-	-	925,455
Operating Expenditures……………	1,307,620	$19,827	$1,626,620	-	-	2,954,067
Grant Expenditures …………………	-	-	-	1,000,000	-	1,000,000
OEBF Loan Payment Expenditure ………………………………….....	-	224,109	-	-	-	224,109
Miscellaneous Expenditures………	-	80,642	-	-	-	80,642
TOTAL EXPENDITURES …………	**2,233,075**	**324,578**	**1,626,620**	**1,000,000**	**-**	**5,184,273**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES …………………..	(1,220,543)	7,681,490	186,319	(874,284)	(269,434)	6,042,416
OTHER FINANCING SOURCES (USES):						
Interfund Transfers …………………	995,290	(6,960,052)	914,762	3,000,000	2,050,000	-
Distributions to Other Offices ……..	-	(3,000,000)	-	-	(374,241)	(3,374,241)
TOTAL OTHER FINANCING SOURCES (USES) …………………	**995,290**	**(9,960,052)**	**914,762**	**3,000,000**	**1,675,759**	**(3,374,241)**
SPECIAL ITEM:						
Loss on Loan Restructuring............	-	(150,844)	-	-	-	(150,844)
NET CHANGE IN FUND BALANCES …………………………	**(225,253)**	**(2,429,406)**	**1,101,081**	**2,125.716**	**1,945,193**	**2,517,331**
Fund Balances, July 1 ……………..	1,857,024	336,407,155	54,771,284	4,111,970	24,310,538	421,457,971
Prior Period Adjustments ………….	-	6,229,425	(28,772)	(4,000,000)	(11,250)	2,189,403
FUND BALANCES, JUNE 30 …….	**$1,631,771**	**$340,207,174**	**$55,843,593**	**$2,237,686**	**$26,244,481**	**$426,164,705**

Operating Fund

During fiscal year 2002, loan activity increased resulting in 56.2% increase in commitment fees. Increases in indirect costs, special counsel fees, and the purchase of loan accounting software resulted in a 60% increase in expenditures.

Facilities Establishment Fund

Loan interest income decreased by $3,974,597 from fiscal year 2001. Allowances for losses increased by $4.6 million and was netted against the loan interest income. Distributions to Other Offices represents a transfer of funds to the Capital Access Program fund. During fiscal year 2002, factors resulting in the decrease in Operating Revenue are attributed to the economy, reduction in interest income due to early loan payoffs, and loan defaults that are netted against gross interest income.

Regional Agency Fund

Loan Interest Income as of 06/30/02 decreased 16.8% due to an increase in allowances for losses netted against the interest income. In FY 2001, OBD reported miscellaneous revenue of $755,250; $750,885, of which, was for principal and interest that was not posted correctly in fiscal year 2000 and $4,364 for capitalization of various filing fees. OBD did not have miscellaneous revenue in FY 2002.

Port Authority Bond Reserve Program Fund

Investment Income as of 6/30/02 increased slightly since the two grants issued in fiscal year 2001 were outstanding the entire fiscal year rather than only a portion of the year. Prior Year Receivables for the Port Authority Bond Reserve Program Fund were removed because grant amounts were corrected and included in the loan receivables. OBD receives only interest payments, not principal repayments, therefore interest from the funds on deposit reverts to OBD.

Non Major Funds

Revenues as of 6/30/02 decreased by 59% due to poor economic conditions and reclassification of commitment fee revenue from the Premium Income Fund to the Operating Fund.

The following is a summary of the OBD's assets of June 30, 2002.

	OPERATING FUND	**FACILITIES EST. FUND**	**REGIONAL AGENCY FUND**	**PORT AUTHORITY BOND RESERVE PROGRAM FUND**	**NONMAJOR GOV'T FUNDS**
Total Assets	$2,391,748	$372,745,839	$55,967,053	$2,931,134	$28,582,266
Total Liabilities	$759,977	$32,538,665	$123,460	$693,448	$2,337,785
Fund Balance Reserved for Encumbrances	$671,503	$68,875,542	$12,525,228	$2,000,000	$13,392,000
Total Fund Balance	$1,631,771	$340,207,174	$55,843,593	$2,237,686	$26,244,481
Allocated Collateral on Lent Securities / Obligations Under Securities Lending	$491,017	$31,729,890	-	$666,684	$2,337,785
Investments	-	$36,727,816	-	-	$4,431,000
Loans/Leases Receivable	-	$206,394,500	$45,452,277	-	$14,311,566
Other receivables	$333,500	$743,618	$20,010	$26,783	$50,518
Deferred revenue	$126,000	$124,775	$11,318	$26,784	-

Allocated Collateral on Lent Securities / Obligations Under Securities Lending

During fiscal year 2002, Allocated Collateral on Lent Securities/Obligations Under Securities Lending decreased $11.8 million as reported by the Treasurer of State. The decrease was due to poor economic conditions causing the Treasurer of State to lend less in fiscal year 2002. This function is administered solely by the Treasurer of State and is reported to OBD by OBM at fiscal year end.

Investments

Total investments increased in fiscal year 2002 due to early loan payoffs totaling $17.8 million, also resulting in a decrease in Loans Receivable.

Encumbrances

Encumbrances increased 100.00% in fiscal year 2002, since they were not included in the reserved fund balances for fiscal year 2001.

Loans/Leases Receivable

This represents the total for loans receivable as well as leases receivable for which the State holds title to the property and subsequently leases back to the borrower. Leases Receivable were not reported in fiscal year 2001.

Other Receivables/Deferred Revenue

All of the OBD loan programs require the borrower to pay a commitment fee. This amount does not always reflect the number of loan applications received during the current fiscal year, but could include commitment fees for prior year approvals.

Conditions Expected to Affect Future Operations

House Bill 405 created the Rural Development Initiative Fund (RDI), which is a new grant program created in fiscal year 2002. The program offers up to $500,000 in grant funds per eligible applicant with a maximum annual liability of $5,000,000. The program receives money from the Facilities Establishment Fund and is eligible to recipients of the Rural Industrial Park Loan program. The Director must give preference to eligible applicants located in Appalachian Counties designated as distressed by the federal Appalachian Regional Commission. The RDI Fund ceases to exist after June 30, 2007, and all moneys remaining in it after that date revert to the Facilities Establishment Fund. In addition, the bill extends the sunset date applicable to the Rural Industrial Park Loan Program and its fund from July 1, 2003, to July 1, 2007. While the program was created in fiscal year, 2002, no grants were awarded until after the fiscal year end.

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BASIC FINANCIAL STATEMENTS

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OFFICE OF BUSINESS DEVELOPMENT
STATEMENT OF NET ASSETS
June 30, 2002

		GOVERNMENTAL ACTIVITIES
ASSETS:		
Cash Equity with Treasurer	$	105,588,818
Cash and Cash Equivalents	$	11,536,638
Investments	$	41,158,816
Allocated Collateral on Lent Securities	$	35,225,356
Loans Receivable, Net	$	266,158,343
Leases Receivable	$	1,775,343
Other Receivables	$	1,174,726
Capital Assets, Non-Infrastructure	$	231,524
TOTAL ASSETS	**$**	**462,849,564**
LIABILITIES:		
Accounts Payable	$	903,204
Accrued Liabilities	$	35,898
Allocated Obligations Under Securities Lending	$	35,225,356
Deferred Revenue	$	-
Compensated Absences:		
Due in One Year	$	8,776
Due in More Than One Year	$	86,098
TOTAL LIABILITIES	**$**	**36,259,332**
NET ASSETS:		
Invested in Capital Assets	$	231,524
Restricted for:		
Enterprise Bond Program	$	10,000,000
Unrestricted	$	416,358,708
TOTAL NET ASSETS	**$**	**426,590,232**

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

OFFICE OF BUSINESS DEVELOPMENT

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2002

FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES
PRIMARY GOVERNMENT		
GOVERNMENTAL ACTIVITIES:		
Community and Economic Development	$ (5,279,146)	$ 5,665,077
TOTAL GOVERNMENTAL ACTIVITIES	**$ (5,279,146)**	**$ 5,665,077**
TOTAL PRIMARY GOVERNMENT	**$ (5,279,146)**	**$ 5,665,077**

GENERAL REVENUES:

Investment Income

Net Increase (Decrease) in Fair Value of Investments

Distributions to Other Offices

Miscellaneous Revenue

TOTAL GENERAL REVENUES

SPECIAL ITEM - Loss on Loan Restructuring

CHANGE IN NET ASSETS

NET ASSETS, July 1

Prior Period Adjustments

NET ASSETS, June 30

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

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS	
PRIMARY GOVERNMENT	
GOVERNMENTAL ACTIVITIES	
$	385,931
$	**385,931**
$	**385,931**
$	5,853,059
$	(258,765)
$	(3,374,241)
$	256,194
$	**2,476,247**
$	(150,844)
$	**2,711,334**
$	**421,457,971**
$	2,420,927
$	**426,590,232**

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

OFFICE OF BUSINESS DEVELOPMENT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2002

	OPERATING FUND		FACILITIES ESTABLISHMENT FUND	
ASSETS:				
Cash Equity with Treasurer	$	1,566,468	$	95,205,000
Cash and Cash Equivalents	$	763	$	169,672
Investments	$	-	$	36,727,816
Allocated Collateral on Lent Securities	$	491,017	$	31,729,890
Loans Receivable, Net	$	-	$	206,394,500
Leases Receivable	$	-	$	1,775,343
Other Receivables	$	333,500	$	743,618
TOTAL ASSETS	**$**	**2,391,748**	**$**	**372,745,839**
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts Payable	$	107,062	$	684,000
Accrued Liabilities	$	35,898	$	-
Allocated Obligations Under Securities Lending	$	491,017	$	31,729,890
Deferred Revenue	$	126,000	$	124,775
TOTAL LIABILITIES	**$**	**759,977**	**$**	**32,538,665**
FUND BALANCES:				
Reserved For:				
Encumbrances	$	671,503	$	63,875,542
Noncurrent Portion of Loans Receivable	$	-	$	202,078,438
Noncurrent Portion of Leases Receivable	$	-	$	1,756,705
Ohio Enterprise Bond Program	$	-	$	10,000,000
Unreserved / Undesignated (Deficits)	$	960,268	$	62,496,489
TOTAL FUND BALANCES	**$**	**1,631,771**	**$**	**340,207,174**
TOTAL LIABILITIES AND FUND BALANCES	**$**	**2,391,748**	**$**	**372,745,839**

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

REGIONAL AGENCY FUND	PORT AUTHORITY BOND RESERVE PROGRAM FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL
$ -	$ 2,237,687	$ 6,579,663	$ 105,588,818
$ 10,494,766	$ -	$ 871,437	$ 11,536,638
$ -	$ -	$ 4,431,000	$ 41,158,816
$ -	$ 666,664	$ 2,337,785	$ 35,225,356
$ 45,452,277	$ -	$ 14,311,566	$ 266,158,343
$ -	$ -	$ -	$ 1,775,343
$ 20,010	$ 26,783	$ 50,815	$ 1,174,726
$ 55,967,053	**$ 2,931,134**	**$ 28,582,266**	**$ 462,618,040**
$ 112,142	$ -	$ -	$ 903,204
$ -	$ -	$ -	$ 35,898
$ -	$ 666,664	$ 2,337,785	$ 35,225,356
$ 11,318	$ 26,784	$ -	$ 288,877
$ 123,460	**$ 693,448**	**$ 2,337,785**	**$ 36,453,335**
$ 12,525,228	$ 2,000,000	$ 13,392,000	$ 92,464,273
$ 43,798,357	$ -	$ 13,841,689	$ 259,718,484
$ -	$ -	$ -	$ 1,756,705
$ -	$ -	$ -	$ 10,000,000
$ (479,992)	$ 237,686	$ (989,208)	$ 62,225,243
$ 55,843,593	**$ 2,237,686**	**$ 26,244,481**	**$ 426,164,705**
$ 55,967,053	**$ 2,931,134**	**$ 28,582,266**	**$ 462,618,040**

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OFFICE OF BUSINESS DEVELOPMENT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

June 30, 2002

Total Fund Balances for Governmental Funds..	**$**	**426,164,705**
Total net assets reported for governmental activities in the Statement of Net Assets is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds........................	$	231,524
Some of the Office's revenues are collected after year-end but are not available soon enough to pay for the current period's (within 60 days of year-end) expenditures, and therefore, are deferred in the funds......................	$	288,877
Compensated absences are not due and payable in the current period, and therefore are not reported in the governmental funds.....................	$	(94,874)
Total Net Assets of Governmental Activities..	**$**	**426,590,232**

OFFICE OF BUSINESS DEVELOPMENT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2002

	OPERATING FUND	FACILITIES ESTABLISHMENT FUND
REVENUES:		
Fee Revenue	$ 1,001,500	$ 465,715
Loan Interest Income	$ -	$ 2,203,636
Investment Income	$ -	$ 5,350,320
Net Increase (Decrease) in Fair Value of Investments	$ -	$ (258,765)
Miscellaneous	$ 11,032	$ 245,162
TOTAL REVENUES	**$ 1,012,532**	**$ 8,006,068**
EXPENDITURES:		
Personnel Expenditures	$ 925,455	$ -
Operating Expenditures	$ 1,307,620	$ 19,827
Grant Expenditures	$ -	$ -
OEBF Loan Payment Expenditure	$ -	$ 224,109
Miscellaneous Expenditures	$ -	$ 80,642
TOTAL EXPENDITURES	**$ 2,233,075**	**$ 324,578**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	**$ (1,220,543)**	**$ 7,681,490**
OTHER FINANCING SOURCES (USES):		
Interfund Transfers	$ 995,290	$ (6,960,052)
Distributions to Other Offices	$ -	$ (3,000,000)
TOTAL OTHER FINANCING SOURCES (USES)	**$ 995,290**	**$ (9,960,052)**
SPECIAL ITEM		
Loss on Loan Restructuring	$ -	$ (150,844)
NET CHANGE IN FUND BALANCES	**$ (225,253)**	**$ (2,429,406)**
FUND BALANCES, JULY 1	**$ 1,857,024**	**$ 336,407,155**
Prior Period Adjustments	$ -	$ 6,229,425
FUND BALANCES, JUNE 30	**$ 1,631,771**	**$ 340,207,174**

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

REGIONAL AGENCY FUND	PORT AUTHORITY BOND RESERVE PROGRAM FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL
$ 27,127	$ -	$ 114,340	$ 1,608,682
$ 1,574,993	$ -	$ 45,857	$ 3,824,486
$ 210,819	$ 125,716	$ 109,237	$ 5,796,092
$ -	$ -	$ -	$ (258,765)
$ -	$ -	$ -	$ 256,194
$ 1,812,939	**$ 125,716**	**$ 269,434**	**$ 11,226,689**
$ -	$ -	$ -	$ 925,455
$ 1,626,620	$ -	$ -	$ 2,954,067
$ -	$ 1,000,000	$ -	$ 1,000,000
$ -	$ -	$ -	$ 224,109
$ -	$ -	$ -	$ 80,642
$ 1,626,620	**$ 1,000,000**	**$ -**	**$ 5,184,273**
$ 186,319	**$ (874,284)**	**$ 269,434**	**$ 6,042,416**
$ 914,762	$ 3,000,000	$ 2,050,000	$ -
$ -	$ -	$ (374,241)	$ (3,374,241)
$ 914,762	**$ 3,000,000**	**$ 1,675,759**	**$ (3,374,241)**
$ -	$ -	$ -	$ (150,844)
$ 1,101,081	**$ 2,125,716**	**$ 1,945,193**	**$ 2,517,331**
$ 54,771,284	**$ 4,111,970**	**$ 24,310,538**	**$ 421,457,971**
$ (28,772)	$ (4,000,000)	$ (11,250)	$ 2,189,403
$ 55,843,593	**$ 2,237,686**	**$ 26,244,481**	**$ 426,164,705**

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

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OFFICE OF BUSINESS DEVELOPMENT
RECONCILIATION OF THE CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2002

Net Change in Fund Balances - Total Governmental Funds..........................	$	2,517,331
The change in net assets reported for governmental activities in the Statement of Activities is different because:		
Some of the Office's revenues are collected after year-end but are not available soon enough to pay for the current period's (within 60 days of year-end) expenditures, and therefore, are deferred in the funds......................	$	288,877
Compensated absences are not due and payable in the current period, and therefore are not reported in the governmental funds.....................	$	(94,874)
Change in Net Assets of Governmental Activities...	$	2,711,334

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Office of Business Development (OBD), as of June 30, 2002, and for the year then ended, conform with the accounting principles generally accepted in the United States of America as applied to governments. 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. The OBD's significant accounting policies are as follows:

A. Reporting Entity

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

B. Basis of Presentation

The Statement of Net Assets and the Statement of Activities display information about the OBD. These statements include the financial activities of the overall government and eliminations have been made to minimize the double counting of interfund transfers.

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

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the OBD's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular program or function. Centralized expenses have been included in direct expenses. Indirect expenses have not been allocated to the programs or functions reported in the Statement of Activities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Basis of Presentation (continued)

Generally, the OBD 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, including all unrestricted investment income, net increase (decrease) in fair value of investments, miscellaneous revenue, and transfers are presented as miscellaneous revenue.

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

1. Major Governmental Funds

Operating Fund (CAS Fund 451) – records operating expenditures related to the administration of the loans and loan guarantees made pursuant to Revised Code Sections 122.39 to 122.62 and Chapter 166. Operations are primarily funded through transfers from the Facilities Establishment Fund.

Facilities Establishment Fund (CAS Fund 037) - accounts for proceeds deposited by the Treasurer of the State of Ohio with the OBD from bond sales, fee income, interest income, loan receipts and disbursements for loans made pursuant to Chapter 166 of the Code. Also, this Fund provides a reserve for the Ohio Enterprise Bond Fund in the event of bondholder default.

Development Enterprise Bond Reserve Account – This account is used to account for the accumulation of payments made on type166 loans from January to June and July to December. Funds are held in the account for a six month period to provide a secondary reserve in the event the OEBF Program Reserve Account exceeds the $10,000,000 available balance.

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

1988-1 Debt Series Fund - This fund accounts for payment of interest and the redemption of 1988-1 bonds. This fund receives investment earnings from the program reserve fund and if additional funds are needed to meet the debt obligations, funds will be provided by net revenues of the Facilities Establishment Fund's Chapter 166 program or from transfers from the OEBF Program Reserve Fund. In December 2000, OBD paid the final debt service payment on these bonds. The account was closed March 7, 2002 and all funds were transferred to the Program Reserve Account per the General Bond Order.

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

Port Authority Bond Reserve Fund (Fund 5D2) - records direct economic development assistance provided to eligible port authorities in the form of grant assistance or direct guarantees.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

2. Non-major Governmental Funds

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

122 Direct Loan Program Fund (GRF) - accounted for the administration of development loans made pursuant to Sections 122.38 to 122.62 of the ORC. The 122 Direct Loan Program is no longer an active program. The 166 Direct Loan Program replaced it. The repayments from the existing loans are deposited into the State of Ohio General Revenue Fund. There are seven remaining loans and the last one is due to pay off in May 2005.

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

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

Urban Redevelopment Loan Fund (Fund 5D1) - accounts for activity which aides in the development of eligible communities within the State of Ohio, which are designated as "Central Cities" as defined by the U.S. Office of Management and Budget.

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

C. Measurement Focus and Basis of Accounting

The Office reports the Statement of Net Assets and Statement of Activities using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. For revenues arising from exchange transactions (i.e., charges for goods or services), the Office defers revenue recognition when resources are received in advance of the exchange. Non-exchange transactions, in which the OBD gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Resources transmitted in advance of the OBD meeting eligibility requirements are reported as deferred revenue.

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

The OBD reports governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available expendable resources. Under the modified accrual basis of accounting, the OBD recognizes revenues when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction is determinable, and "available" means the amount is collectible within the current period or soon enough thereafter to pay liabilities of the current period.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus and Basis of Accounting (continued)

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

Significant revenue sources subject to accrual under the modified accrual basis of accounting include:

- Investment Income (including net increase or decrease in the fair value of investments)
- Loan Interest Income
- Fee Revenue

D. Estimates

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

E. Accounts and Policies

1. Cash Equity with Treasurer, Cash and Cash Equivalents and Investments

Cash equity with Treasurer consists of pooled demand deposits and investments carried at fair value. The OBD's cash pool under the Treasurer of State's administration has the general characteristics of a demand deposit account whereby additional cash can be deposited at any time and can also be effectively withdrawn at any time, within certain budgetary limitations, without prior notice or penalty. Cash and cash equivalents include amounts on deposit with financial institutions and cash on hand. Investments include holdings in the State Treasury Asset Reserve of Ohio (STAROhio) investment pool.

2. Allocated Collateral on Lent Securities / Allocated Obligations Under Securities Lending

The Treasurer of State participates in securities lending programs for securities included in the cash equity with treasurer account and the STAROhio program. The Treasurer of State lending program is administered by a custodial agent bank, whereby certain securities are transferred to an independent broker-dealer (borrower) in exchange for cash collateral. The State requires its custodial agents to ensure OBD's lent securities are collateralized at no less than 102 percent of market value. Consequently, as of June 30, 2002, OBD had no credit exposure since the amount the State owed to borrowers exceeded the amount borrowers owed the State.

For loan contracts the Treasurer executes, not more than 10 percent of the State's cash and investment portfolio, which is reported as cash equity with treasurer, can be lent to a single broker-dealer. For the STAROhio program, not more than 25 percent of the STAROhio investment pool may be lent at any one time, and not more than 10 percent of the investment pool may be subject to term loans in excess of one business day.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Accounts and Policies (continued)

2. Collateral on Lent Securities / Allocated Obligations Under Securities Lending (Continued)

The State cannot sell securities received as collateral unless the borrower defaults. Consequently, these amounts are not reflected in the financial statements. The State invests cash collateral in short-term obligations, which have a weighted average maturity of 45 days or less and generally match the maturities of securities loans

Loan contracts do not provide any loss indemnification by securities lending agents in cases of borrower default; however, during fiscal year 2002, the State had not experienced any losses due to credit or market risk on securities lending activities. During the fiscal year, the Treasurer and the STAROhio program lent U.S. government and agency obligations in exchange for collateral consisting of cash and/or other U.S. government obligations.

The State's Office of Budget and Management allocates the State's pooled cash collateral to various funds within the State's Central Accounting System (CAS) based on cash balances at June 30, 2002. As a result, OBD's Allocated Collateral on Lent Securities and related Allocated Obligations Under Securities Lending as of June 30, 2002, was $35,225,356

3. Loans Receivable, Net and Allowance for Uncollectible Loans

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

- 100% of loans certified to the Office of the Attorney General in prior periods,
- 75% of loans certified to the Office of the Attorney General in the current period,
- 1% of loans outstanding within the Facilities Establishment Fund, and
- 0.5% of the loans outstanding within the Regional Agency Fund, 122 Direct Loan Program Fund and the Family Farm Loan Fund,
- 0% of the loans outstanding within the Rural Industrial Loan Fund and the Urban Development Loan Fund

Bad debt expense is not used in governmental accounting; therefore, a reduction in revenue is taken to offset the expense. OBD had reduced loan interest income to compensate for the bad debt.

The loan receivables, as reported in the Statement of Net Assets, are divided into current (one year) and non-current portions. The following summarizes the various funds and the breakdown of the receivables.

Fund	Current	Non-Current
Facilities Establishment Fund	$26,117,964	$180,276,536
Regional Agency Fund	8,005,996	37,446,281
122 Direct Loan Fund	273,946	787,734
Rural Industrial Park Program Loan Fund	35,400	4,929,665
Urban Redevelopment Loan Fund	133,333	3,872,916
Family Farm Loan Guarantee Fund	724,937	3,553,634
TOTALS	**$33,862,528**	**$232,295,814**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Accounts and Policies (continued)

4. Lease Receivable

Lease Receivable includes a 166 Direct Loan to Union County CIC/Scotts. The State holds title to the asset and leases it back. Total lease receivable as of June 30, 2002 was $1,775,343 which is comprised of a current portion ($18,638) and a non-current portion ($1,756,705).

5. Other Receivable

Accounts receivable includes receivables for commitment fees, OEBF service fees, OEBF program reserve dividend revenue, and interest revenue. It also includes receivables for investment earnings received from CAS Fund 608 and interest as determined by the Office of Budget and Management. Total other receivable as of June 30, 2002, was $1,174,726.

6. Accounts Payable and Accrued Liabilities

Accounts payable includes accruals for operating expenditures/expenses, which are attributable to purchases prior to June 30, 2002. It also includes trustee fees paid to the regional agency escrow agents. Total accounts payable as of June 30, 2002 was $903,204. Accrued liabilities include wages payable, which was $35,898 as of June 30, 2002.

7. Deferred Revenue

Deferred Revenue includes accruals for revenue due to OBD by June 30, 2002 but collected after August 31, 2002. Total deferred revenue as of June 30, 2002 was $288,877.

8. Compensated Absences

The State of Ohio, which governs employee leave benefits and policies, pays compensation to separated employees for leave balances accumulated during the employee's term of service. In accordance with Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences,* the OBD calculated the compensated absences liability on employees' fiscal year-end balances for vacation, sick, and compensatory leaves. The total compensated absences balance for the period ending June 30, 2002 was $94,874.

9. Fund Balance/Net Assets

Reservations of equity represent amounts that are not appropriable or are legally restricted for a specific purpose. The total fund balance for the period ended June 30, 2002 was $426,164,705. The fund balance includes $92,464,273 for encumbrances, $259,718,484 for non-current loan receivables, $1,756,705 for non-current lease receivables, $10,000,000 for the Ohio Enterprise Bond Fund Program Reserve and $62,225,243 that is unreserved/undesignated. The total net assets as of June 30, 2002 was $426,590,232 which includes $231,524 for capital assets, $416,358,708 for unrestricted and $10,000,000 is restricted for the OEBF Program Reserve.

10. Investment and Loan Interest Income

Investment income includes investment earnings from STAROhio investments and the quarterly allocation of investment earnings from cash equity with treasurer and corresponding interest receivables. Loan interest income includes interest earned from the repayment of loans.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Accounts and Policies (continued)

11. Fee Revenue and Miscellaneous Revenue

Fees include service fees for the administration of the loan processing and commitment and application fees paid by the borrower. Total fee revenue for the period ended June 30, 2002, was $1,608,682. Miscellaneous revenue for the period ended June 30, 2002, was $256,194.

12. Personnel and Operating Expenditures/Expenses

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

13. Grants Expenditures/Expenses

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

14. Interfund Transfers and Distribution to Other Offices

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

15. Self-Insurance

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

NOTE 2 RESTATEMENTS AND CHANGES IN ACCOUNTING PRINCIPLES AND STANDARDS

A. Restatements

Certain restatements of fund balance, as of June 30, 2001 are summarized as follows:

NOTE 2 RESTATEMENTS AND CHANGES IN ACCOUNTING PRINCIPLES AND STANDARDS (Continued)

A. Restatements *(Continued)*

Restatements of June 30, 2001 Fund Balances			
Fund	Fund Balance as Previously Reported, June 30, 2001	Increase (Decrease) for Restatement	Fund Balance as Restated, July 1, 2001
Facilities Establishment	$336,407,155	$6,229,425	$342,636,580
Regional Agency	54,771,284	(28,772)	54,742,512
Operating Fund	1,857,024	0	1,857,024
Port Authority Bond Reserve	4,111,970	(4,000,000)	111,970
Nonmajor Governmental Funds	24,310,538	(11,250)	24,299,288
Total Funds	$421,457,971	$2,189,403	$423,647,374

- Prior period adjustment of $6,229,425. Increase in fund balance of $3,809,000 to correct amount reversed out twice last fiscal year. Increase of $2,530,095 to adjust prior year loans certified to the Attorney General's Office. Decrease of $109,670 for transfer to ODNR for Scrap Tire loan.

- Prior period adjustment of $28,772 to correct prior year ending balance for loans receivable.

- Prior period adjustment of $4,000,000 in the Port Authority Bond Reserve program is needed to correct fund activity previously classified as loans when they are actually grants.

- Decrease of $11,250 in the Premium Income account for a prior year loan payment that was incorrectly deposited in the account.

Restatements of June 30, 2001 Net Assets			
	Fund Balance as Previously Reported, June 30, 2001	Increase (Decrease) for Restatement	Fund Balance as Restated, July 1, 2001
Governmental Activities	$421,457,971	$2,420,927	$423,878,898

- Prior period adjustment of $2,420,927 is the sum of the adjustments noted above as well as an increase of $231,524 for the addition of a capital asset (land).

B. Implementation of Recently Issued Accounting Pronouncements

For the year ended June 30, 2002, the State implemented the provisions of the following pronouncements of the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 34*, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*

- GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*

NOTE 2 RESTATEMENTS AND CHANGES IN ACCOUNTING PRINCIPLES AND STANDARDS (Continued)

B. Implementation of Recently Issued Accounting Pronouncements (Continued)

- GASB Statement No. 38, *Certain Financial Statement Note Disclosures*
- GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

These new standards resulted in significant changes to the State's financial statements and related notes for both the primary government and component units for the fiscal year ended June 30, 2002.

GASB Statement No. 34 establishes new accounting and financial reporting standards that fundamentally affect the presentation of a general purpose government's basic financial statements and related required supplementary information.

GASB Statement No. 38 establishes and modifies disclosure requirements related to the summary of significant accounting policies, actions taken to address violations of significant finance-related legal and contractual provisions, debt and lease obligations, short-term debt, disaggregation of receivable and payable balances, and interfund balances and transfers.

GASB Interpretation No. 6 clarifies the application of existing accounting standards for distinguishing the respective portions of certain liabilities that should be reported as governmental fund liabilities and as general long-term liabilities of a government.

In May 2002, the GASB amended GASB Statement No. 14, *The Financial Reporting Entity*, and established additional guidance on the application of existing standards for the assessment of potential component units in determining a government's financial reporting entity when it issued GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The provisions of GASB Statement No. 39 are effective for financial statements presented for periods beginning after June 15, 2003. Management has not yet determined the impact that GASB Statement No. 39 will have on the State's financial statements.

NOTE 3 DEPOSITS AND INVESTMENTS

A. Legal Requirements

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

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

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

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

NOTE 3 DEPOSITS AND INVESTMENTS (Continued)

A. Legal Requirements (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.

The primary government's deposits must be held in insured depositories approved by the State Board of Deposit and must be fully collateralized.

B. Deposits and Investments

Cash equity with treasurer consists of pooled demand deposits and investments carried at fair value. The State's cash pool under the Treasurer of State's administration has the general characteristics of a demand deposit account whereby additional cash can be deposited at any time and can also be effectively withdrawn at any time, without prior notice or penalty. Cash equity with treasurer also includes the net increase (decrease) in fair value of investments. Cash and cash equivalents includes monies held within custodial accounts and warrants which have been written for loans which have yet to close as of June 30, 2002.

NOTE 3 DEPOSITS AND INVESTMENTS (Continued)

B. Deposits and Investments (Continued)

In accordance with Government Accounting Standards Board Statement 31, investments are recorded at fair value. Investments include holdings in the STAROhio investment pool which are reported at $1 / share. STAROhio operates in a manner consistent with Rule 2a7 of the Investment Company Act of 1940; investments in the 2a7-like pool are reported at amortized cost (which approximates fair value).

Deposits and investments at June 30, 2002 were as follows:

Deposits and Investments at June 30, 2002			
	Cash Equity with Treasurer	**Cash and Cash Equivalents**	**Investments (at fair value)**
Operating	$1,566,468	$763	$0
Facilities Establishment	95,205,000	169,672	36,727,816
Regional Agency	0	10,494,766	0
Loan Guarantee	0	500	720,708
Premium Income	0	170,937	3,710,292
Rural Industrial Park Program	94,144	700,000	0
Port Authority Bond Reserve Program	2,237,687	0	0
Urban Redevelopment Loan Program	6,372,526	0	0
Family Farm Loan Guarantee Program	112,993	0	0
Total	**$105,588,818**	**$11,536,638**	**$41,158,816**

OBD's cash equity with treasurer is maintained in the State Treasurer's pooled cash funds. The carrying amounts of the Agency's deposits at June 30, 2002 were $117,125,456 ($105,588,818 cash equity with treasurer and $11,536,638 cash and cash equivalent) and the bank balance was $116,425,456. Of the bank balance, $106,588,818 was fully insured or collateralized with securities held by the pledging financial institution's trust department or agent in the Agency's name, $0 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the Agency's name.

The collateralization for the remaining $9,836,638 could not be determined and therefore was categorized as uninsured and uncollateralized (Category 3).

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

Investing is performed in accordance with the deposit and investment policies of the Treasurer of State and the State Board of Deposit are governed by the Uniform Depository Act, Chapter 135, Ohio Revised Code. Funds may be invested in: (1) Obligations of U.S. Treasury agencies and instrumentalities, (2) Shares of an open-end diversified management company, the investments of which are primarily in governmental obligations, Standard and Poor's A-1 rated commercial paper or Moody's P-1 Commercial Paper Record and bankers' acceptances. Management of the non-pooled investments is performed in accordance with applicable bond indentures by trustee bank departments.

NOTE 3 DEPOSITS AND INVESTMENTS (Continued)

B. Deposits and Investments (continued)

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

In conformity with Governmental Accounting Standards Board Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions,* securities lent at year-end for cash collateral have not been categorized by customer credit risk, while securities lent for securities collateral have been collateralized.

The STAROhio investments are not required to be categorized in accordance with Governmental Accounting Standards Board Statement No. 3. The level of credit risk assumed by the OBD and the fair value of investments, as of June 30, 2002 are as follows:

Categorization of Investments June 30, 2002

	Category			
	1	2	3	Fair Value
Non-Pooled Investments:				
Money Market Funds	$7,896,977			$7,896,977
Certificates of Deposit	$2,775,069			$2,775,069
Star Ohio	N/A	N/A	N/A	$30,486,770
Totals	$10,672,046	$0	$0	$41,158,816

NOTE 4 LOAN PROGRAM ACTIVITY

The following summary is loan and lease repayments and new loan activity of the various funds during the fiscal year:

Loan Program Activity for the year ended June 30, 2002

	Adj. Balance 7/01/01	**New Loan Activity**	**Principal Repayments**	**Balance 6/30/02**
Facilities Establishment	$234,572,280	$34,017,153	($42,223,420)	$226,366,013
Regional Agency	45,375,117	8,556,186	(7,994,284)	45,937,019
122 Direct Loan Program	1,867,988	0	(324,819)	1,543,169
Rural Industrial Park Program	2,327,465	3,370,000	(732,400)	4,965,065
Urban Redevelopment Loan Program	2,119,582	2,020,000	(133,333)	4,006,249
Family Farm Loan Guarantee Program	3,102,952	1,473,619	(276,499)	4,300,072
Total	$289,365,384	$49,436,958	($51,684,755)	$287,117,587

The Facilities Establishment Fund balance includes $1,775,343 in leases receivable. The allowance for loan losses is the result of management's review of loans, with consideration given to collateral values, borrower's financial condition and current economic environment. The allowance is maintained at the level management estimates adequately provide for potential loan losses. The total allowance for loan losses as of June 30, 2002 was $19,183,901 (Facilities Establishment Fund was $18,196,170; Regional Agency Fund was $484,742; 122 Direct Loan Fund was $481,489 and Family Farm Loan Guarantee Fund was $21,500).

NOTE 5 COMMITMENTS AND CONTINGENCIES

A. Ohio Enterprise Bond Funds

Ohio Enterprise Bond Fund (OEBF) bonds are issued through the Treasurer of State for the purpose of financing “eligible projects” of private industry organizations, such as a company’s purchase of manufacturing equipment. The actual bonds are sold through private placement. At June 30, 2002 outstanding loan/lease balances under this program aggregated $109,115,000 with original terms up to 20 years at interest ranging from 5.6% to 10.0%. The scheduled payment of the bonds is guaranteed through the OBD. The OBD only monitors OEBF activities and does not include the financial transactions within its financial statements. In case of a default, the following steps will be taken. First, OBD would draw on the 10% letter of credit to satisfy the bondholders. Second, if the letter of credit is insufficient, the assets, that the State of Ohio holds title to, will be liquidated. Finally, if the bondholders are still not paid in full, OBD is obligated to make the bond payments using Fund 037.

Of the thirty-six bonds with outstanding principal balances remaining, thirty-three of the bonds guaranteed by the OBD were current in their repayment as of June 30, 2002. The two bonds which are in default of monthly payments are OCHS and Euclid & Wickliffe. The following shows payments to be made for FY2003 – FY2006 and then 5-year increments.

	FY 2003	FY 2004	FY 2005	FY 2006
OCHS	325,000	345,000	375,000	405,000
Euclid & Wickliffe	140,000	155,000	165,000	180,000
Total	$465,000	$500,000	$540,000	$585,000

	FY 2007-11	FY 2012-16	FY 2017-20
OCHS	900,000	0	0
Euclid & Wickliffe	1,165,000	1,750,000	1,575,000
Total	$2,065,000	$1,750,000	$1,575,000

According to the Ohio Enterprise Bond Fund’s official bond statement, the bonds are conduit debt of the Office of Business Development and are not general obligations of the State of Ohio or of any political subdivision and are not payable from any tax source.

The rights of holders of the bonds to payments of amounts due there under are limited solely to the Ohio Enterprise Bond Fund Accounts.

B. Ohio Enterprise Bond Fund Leases

Within the Ohio Enterprise Bond Fund, there are eleven projects where the State of Ohio holds title to the asset and leases it back to the company. The OBD only monitors OEBF activities and does not include the financial transactions within its financial statements. Total lease receivable as of June 30, 2002 was $24,160,000. The projects that include leases are as follows:

NOTE 5 COMMITMENTS AND CONTINGENCIES (Continued)

B. Ohio Enterprise Bond Fund Leases

Issue#	Borrower	Original Bond Amount	Current Bond Balance
1993-3	Bowling Green Investors	1,830,000	1,345,000
1994-1	CR/PL Ltd. Partnership	3,060,000	585,000
1993-2	Chemron Corporation	1,630,000	225,000
1994-2	Cheryl & Company	1,455,000	885,000
1995-1	JJ & W Partnership	3,425,000	2,700,000
1991-1	Kinetics Noise Control	2,270,000	1,585,000
1993-8	Landair Transport, Inc.	6,280,000	3,675,000
1994-4	Orlando Baking Company	3,575,000	2,255,000
1991-5	Royal Appliance	4,145,000	2,765,000
1991-9	Royal Appliance	3,125,000	2,090,000
2000-2	Western Reserve P.A./Timken	6,185,000	6,050,000
	Totals	**36,980,000**	**24,160,000**

C. Loan Commitments

These commitments primarily represent Chapter 166 loan commitments, which have been approved by the OBD's Development Financing Advisory Council and the State's Controlling Board; however, the loans were not closed as of June 30, 2002. Below is a summary of outstanding commitments of the OBD related to the Chapter 166 programs:

Facilities Establishment	$76,400,770
Family Farm Loan Guarantee	74,000
Urban Redevelopment Loan	13,318,000
Total	**$89,792,770**

The Facilities Establishment encumbrances include $12,525,228 to local agencies. These funds are transferred to the escrow funds of these agencies, which then make eligible project loans based on program requirements. The encumbrances do not include each individual agency's loan commitments to eligible borrowers. The regional programs include the 166 loan program and the pollution prevention loan program. These programs are administered by the local agencies on behalf of the OBD.

Under the Chapter 166 Loan Guarantee Program, OBD guarantees up to 75% of certain qualifying loans made by various financial institutions. The bonds issued by the State of Ohio to fund the loan and loan guarantee programs under 166 of the Code are to be repaid initially from revenue of the State from the sale of liquor. Repayment would come from the Facilities Establishment Fund only if such revenues were inadequate to service the debt. At June 30, 2002, OBD had two loan guarantees with a maximum liability of $3.1 million. At June 30, 2002, the loans guaranteed by the OBD were not in default.

NOTE 6 PENSION PLAN

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

NOTE 6 PENSION PLAN (Continued)

Required employee and employer contributions to PERS are established under the Ohio Revised Code and are based on percentages of covered employees' gross salaries, with the contribution rate percentages being calculated annually by the Retirement Board's actuaries. The employee contribution rate is 8.5 percent of covered payroll costs; the employer contribution rate was 13.31 percent of the covered payroll costs. Required employer contributions are equal to 100% of the dollar amount billed to each employer. Employer contributions required and made to PERS for the current and previous two years were:

Fiscal Year	Percentage Contribution	Required Contributed
2002	100%	$79,169
2001	100%	$60,605
2000	100%	$79,908

NOTE 7 OTHER POST-EMPLOYMENT BENEFITS

The Public Employees Retirement System of Ohio (PERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post employment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post-retirement health care based on authority granted by State statute. The 2001 employer contribution rate was 13.31 percent of covered payroll; 4.30 percent was the portion that was used to fund health care for the year. For 2000, the contribution rate was 10.65 percent of covered payroll; 4.30 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 2000, include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.75 percent annually.

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

The number of active contributing participants was 411,076. OBD's actual contributions for state fiscal year 2002 which were used to fund other post employment benefits were $40,050 (assuming a rate of 4.30 percent during the period). PERS's net assets available for payment of benefits at December 31, 2000 (the latest information available) were $11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability were $14,364.60 million and $2,628.7million, respectively.

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

NOTE 8 SUBSEQUENT EVENTS

OCHS and Euclid & Wickliffe, two Ohio Enterprise Bonds, were not current as of June 30, 2002. The ODOD is required to make the payments to the bondholders, a total of $637,140 in FY2003, pending the sale of real estate and the liquidation of each company's assets. The OBD is projecting to receive approximately $5.7 million from the sale and liquidation of assets.

Hamilton CIC lost a tenant, therefore, the monthly Ohio Enterprise Bond payments ceased as of June 2002. However, there are sufficient funds to cover the bond payments through August 2003. The outstanding principal balance is $1,530,000. The OBD is assisting Hamilton CIC locate a potential tenant or buyer.

During FY 2003, the OBD has disbursed seven (7) OEBF bonds totaling $42,370,000 and 76 loans totaling $57,863,438. Nine (9) loan totaling $2,143,697 were certified to the Attorney General's Office.

House Bill 405 created the Rural Development Initiative Fund (RDI), which is a new grant program created in fiscal year 2002. The program offers up to $500,000 in grant funds per eligible applicant with a maximum annual liability of $5,000,000. The program receives money from the Facilities Establishment Fund and is eligible to recipients of the Rural Industrial Park Loan program. The RDI Fund ceases to exist after June 30, 2007, and all moneys remaining in it after that date revert to the Facilities Establishment Fund. In addition, the bill extends the sunset date applicable to the Rural Industrial Park Loan Program and its fund from July 1, 2003, to July 1, 2007. While the program was created in fiscal year, 2002, no grants were awarded until after the fiscal year end.

NOTE 9 LOSS ON LOAN RESTRUCTURING

In March 2002, the OBD had a loan loss of $150,844.17 on Gumina-Spitzer, a 166 Direct Loan. The outstanding balance of the loan was $1,250,844.17. The OBD and the State Controlling Board approved an early payoff of $1,100,000. Originally, a balloon payment was due in January 2005. The OBD was willing to accept a lesser amount in FY 2002 because under current 166 law, this project was now considered ineligible and an early payoff would eliminate the loan from the portfolio. Also, Gumina-Spitzer project included a hotel. The hospitality industry has experienced a slowdown so it is uncertain that the company could make a balloon payment in 2005.

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SUPPLEMENTARY COMBINING FINANCIAL STATEMENTS

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OFFICE OF BUSINESS DEVELOPMENT

BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

June 30, 2002

	LOAN GUARANTEE FUND		122 DIRECT LOAN FUND	
ASSETS:				
Cash Equity with Treasurer	$	-	$	-
Cash and Cash Equivalents	$	500	$	-
Investments	$	720,708	$	-
Allocated Collateral on Lent Securities	$	51,315	$	-
Loans Receivable, Net	$	-	$	1,061,680
Leases Receivable	$	-	$	-
Other Receivables	$	-	$	-
TOTAL ASSETS	**$**	**772,523**	**$**	**1,061,680**
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts Payable	$	-	$	-
Accrued Liabilities	$	-	$	-
Allocated Obligations Under Securities Lending	$	51,315	$	-
Deferred Revenue	$	-	$	-
TOTAL LIABILITIES	**$**	**51,315**	**$**	**-**
FUND BALANCES:				
Reserved For:				
Encumbrances	$	-	$	-
Noncurrent Portion of Loans Receivable	$	-	$	976,039
Noncurrent Portion of Leases Receivable	$	-	$	-
Ohio Enterprise Bond Program	$	-	$	-
Unreserved / Undesignated (Deficits)	$	721,208	$	85,641
TOTAL FUND BALANCES	**$**	**721,208**	**$**	**1,061,680**
TOTAL LIABILITIES AND FUND BALANCES	**$**	**772,523**	**$**	**1,061,680**

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

PREMIUM INCOME FUND	RURAL INDUSTRIAL PARK LOAN FUND	URBAN REDEVELOPMENT LOAN FUND	FAMILY FARM LOAN GUARANTEE FUND
$ -	$ 94,144	$ 6,372,526	$ 112,993
$ 170,937	$ 700,000	$ -	$ -
$ 3,710,292	$ -	$ -	$ -
$ 264,172	$ 24,158	$ 1,962,597	$ 35,543
$ -	$ 4,965,065	$ 4,006,249	$ 4,278,572
$ -	$ -	$ -	$ -
$ 50,815	$ -	$ -	$ -
$ 4,196,216	**$ 5,783,367**	**$ 12,341,372**	**$ 4,427,108**
$ -	$ -	$ -	$ -
$ -	$ -	$ -	$ -
$ 264,172	$ 24,158	$ 1,962,597	$ 35,543
$ -	$ -	$ -	$ -
$ 264,172	**$ 24,158**	**$ 1,962,597**	**$ 35,543**
$ -	$ -	$ 13,318,000	$ 74,000
$ -	$ 4,959,665	$ 3,872,916	$ 4,033,069
$ -	$ -	$ -	$ -
$ -	$ -	$ -	$ -
$ 3,932,044	$ 799,544	$ (6,812,141)	$ 284,496
$ 3,932,044	**$ 5,759,209**	**$ 10,378,775**	**$ 4,391,565**
$ 4,196,216	**$ 5,783,367**	**$ 12,341,372**	**$ 4,427,108**

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

OFFICE OF BUSINESS DEVELOPMENT

BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

June 30, 2002

		TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS:		
Cash Equity with Treasurer	$	6,579,663
Cash and Cash Equivalents	$	871,437
Investments	$	4,431,000
Allocated Collateral on Lent Securities	$	2,337,785
Loans Receivable, Net	$	14,311,566
Leases Receivable	$	-
Other Receivables	$	50,815
TOTAL ASSETS	**$**	**28,582,266**
LIABILITIES AND FUND BALANCES:		
LIABILITIES:		
Accounts Payable	$	-
Accrued Liabilities	$	-
Allocated Obligations Under Securities Lending	$	2,337,785
Deferred Revenue	$	-
TOTAL LIABILITIES	**$**	**2,337,785**
FUND BALANCES:		
Reserved For:		
Encumbrances	$	13,392,000
Noncurrent Portion of Loans Receivable	$	13,841,689
Noncurrent Portion of Leases Receivable	$	-
Ohio Enterprise Bond Program	$	-
Unreserved / Undesignated (Deficits)	$	(989,208)
TOTAL FUND BALANCES	**$**	**26,244,481**
TOTAL LIABILITIES AND FUND BALANCES	**$**	**28,582,266**

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

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OFFICE OF BUSINESS DEVELOPMENT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2002

	LOAN GUARANTEE FUND	122 DIRECT LOAN FUND
REVENUES:		
Fee Revenue	$ -	$ 10
Loan Interest Income	$ -	$ 44,076
Investment Income	$ 17,767	$ -
Net Increase (Decrease) in Fair Value of Investments	$ -	$ -
Miscellaneous	$ -	$ -
TOTAL REVENUES	**$ 17,767**	**$ 44,086**
EXPENDITURES:		
Personnel Expenditures	$ -	$ -
Operating Expenditures	$ -	$ -
Grant Expenditures	$ -	$ -
OEBF Loan Payment Expenditure	$ -	$ -
Miscellaneous Expenditures	$ -	$ -
TOTAL EXPENDITURES	**$ -**	**$ -**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	**$ 17,767**	**$ 44,086**
OTHER FINANCING SOURCES (USES):		
Interfund Transfers	$ -	$ -
Distributions to Other Offices	$ -	$ (374,241)
TOTAL OTHER FINANCING SOURCES (USES)	**$ -**	**$ (374,241)**
SPECIAL ITEM		
Loss on Loan Restructuring	$ -	$ -
NET CHANGE IN FUND BALANCES	**$ 17,767**	**$ (330,155)**
FUND BALANCES, JULY 1	**$ 703,441**	**$ 1,391,835**
Prior Period Adjustments	$ -	$ -
FUND BALANCES, JUNE 30	**$ 721,208**	**$ 1,061,680**

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

PREMIUM INCOME FUND	RURAL INDUSTRIAL PARK LOAN FUND	URBAN REDEVELOPMENT LOAN FUND	FAMILY FARM LOAN GUARANTEE FUND
$ 107,682	$ 2,873	$ 3,775	$ -
$ -	$ -	$ -	$ 1,781
$ 91,470	$ -	$ -	$ -
$ -	$ -	$ -	$ -
$ -	$ -	$ -	$ -
$ 199,152	**$ 2,873**	**$ 3,775**	**$ 1,781**
$ -	$ -	$ -	$ -
$ -	$ -	$ -	$ -
$ -	$ -	$ -	$ -
$ -	$ -	$ -	$ -
$ -	$ -	$ -	$ -
$ -	**$ -**	**$ -**	**$ -**
$ 199,152	**$ 2,873**	**$ 3,775**	**$ 1,781**
$ -	$ 1,450,000	$ -	$ 600,000
$ -	$ -	$ -	$ -
$ -	**$ 1,450,000**	**$ -**	**$ 600,000**
$ -	$ -	$ -	$ -
$ 199,152	**$ 1,452,873**	**$ 3,775**	**$ 601,781**
$ 3,744,142	**$ 4,306,336**	**$ 10,375,000**	**$ 3,789,784**
$ (11,250)	$ -	$ -	$ -
$ 3,932,044	**$ 5,759,209**	**$ 10,378,775**	**$ 4,391,565**

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

OFFICE OF BUSINESS DEVELOPMENT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2002

		TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES:		
Fee Revenue..	$	114,340
Loan Interest Income...	$	45,857
Investment Income..	$	109,237
Net Increase (Decrease) in Fair Value of Investments..........	$	-
Miscellaneous...	$	-
TOTAL REVENUES...	**$**	**269,434**
EXPENDITURES:		
Personnel Expenditures...	$	-
Operating Expenditures..	$	-
Grant Expenditures..	$	-
OEBF Loan Payment Expenditure.......................................	$	-
Miscellaneous Expenditures..	$	-
TOTAL EXPENDITURES...	**$**	**-**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES...	**$**	**269,434**
OTHER FINANCING SOURCES (USES):		
Interfund Transfers..	$	2,050,000
Distributions to Other Offices..	$	(374,241)
TOTAL OTHER FINANCING SOURCES (USES).............	**$**	**1,675,759**
SPECIAL ITEM		
Loss on Loan Restructuring...	$	-
NET CHANGE IN FUND BALANCES....................................	**$**	**1,945,193**
FUND BALANCES, JULY 1...	**$**	**24,310,538**
Prior Period Adjustments...	$	(11,250)
FUND BALANCES, JUNE 30...	**$**	**26,244,481**

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

REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Office of Business Development
77 South High Street, 28th Floor
Columbus, Ohio 43215

We have audited the basic financial statements of the Office of Business Development (Office), State of Ohio, as of and for the year ended June 30, 2002, and have issued our report thereon dated June 30, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

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

However, we noted certain immaterial instances of noncompliance that we have reported to management of the Office in a separate letter dated June 30, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Office's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2002-001 and 2002-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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We noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the Office in a separate letter dated June 30, 2003.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

June 30, 2003

Finding Number	2002-001

General Ledger – Reportable Condition - ✳

Generally accepted accounting principles require that financial statements present fairly the financial position of an entity, be free of material misstatements, and be supported by the underlying accounting records of the entity. It is management's responsibility to reasonably assure that transactions are being processed in accordance with prescribed laws and regulations and are properly recorded in the accounting records. Typically, a general ledger is used to account for the entity's activities and provide information for the preparation of financial statements.

The Office of Business Development did not utilize a general ledger system to record and manage its financial activities; rather, it utilized internal spreadsheets to record and track the activities of the various funds administered by the Office. Not maintaining a detailed ledger increases the risk that financial statements could be misstated without timely detection, which could result in financial statements that are materially incorrect. An inadequate or inconsistent system or method of recording financial transactions could cause inaccurate information to be furnished to management who relies on such information to make operational decisions. Furthermore, internal controls associated with timely recording and reconciliations may not be performed as management had intended and data security and inadequate back-up procedures are also impacted by the lack of a centralized general ledger system.

Management indicated they had purchased a new loan servicing program in February 2002; however, this system was not implemented during the audit period. OBD plans to have the new program implemented and operational in early fiscal year 2004. Once the new NORTRIDGE-Windows program has been implemented, OBD indicated they will start researching general ledger systems to implement.

We recommend the Office, with the assistance of the Department of Development, select and implement an effective general ledger system. Once a system is implemented, the Office should periodically review those ledgers and reconcile them to the supporting documentation or other internal records and the reports available from the Treasurer of State, regional agencies and other appropriate parties.

Finding Number	2002-002

Policies and Procedures – Reportable Condition

An entity's control environment is based on financial reporting and internal accounting policies and procedures established by management. Financial reporting policies are developed to document how an entity records amounts on their financial statements. Internal accounting policies and procedures are developed to provide reasonable assurance of effective and efficient operations, reliable financial reporting, compliance with applicable laws and regulations, and safeguarding resources.

As of the date of this report, the Office had not developed and/or implemented formal, written policies or procedures documenting financial reporting and internal control procedures. Without fully documenting financial reporting policies, the Office incurs increased risk that transactions could be improperly recorded in the financial statements. Also, without specific documented accounting policies and procedures, the Office incurs increased risk that transactions may not be processed consistently, accurately, and that competence needed to complete these tasks may not be obtained. In addition, the lack of formalized internal control procedures could result in activities not being adequately performed; especially should there be turnover among key personnel.

Policies and Procedures (continued)

Management indicated OBD was unable to develop financial reporting and internal control policies and procedures due to staffing and time constraints. However, OBD is in the process of writing new policies and procedures.

We recommend the Office develop written financial reporting policies and procedures which promote the accomplishment of the Office's statutory and professional requirements of issuing their financial statement report by October 1 following year-end. These policies and procedures may include, but not limited to methods for:

- Reporting Cash Equity with Treasurer, Cash and Cash Equivalents, Investments, and Capital Assets;
- Accruing Allocated Collateral on Lent Securities, Loans Receivable, Leases Receivable, and Other Receivables;
- Accruing Accounts Payable, Allocated obligations Under Securities Lending, Deferred Revenue, and Compensated Absences;
- Recognizing loan interest income, investment income, fee revenue, and other miscellaneous income;
- Recognizing personnel, operating, grant, OEBF loan payment, and miscellaneous expenditures;
- Recognizing interfund transfers and payments to other departments/agencies;
- Estimating allowance for uncollectible loans;
- The preparation of the financial statements and related footnotes; and
- Acquiring the competence needed related to new pronouncements and technical issues.

We also recommend management implement written internal accounting policies and procedures which specifically identify employees' responsibilities within each transaction cycle and reasonably ensure that control activities are applied uniformly and consistently to all transactions processed. The internal accounting policies and procedures may include, but not limited to, the following:

- Risk financing guidelines to ensure only qualified, economically sound companies receive state funds;
- Processing and reconciliation of various deposits and disbursements;
- Documentation of loans within NORTRIDGE;
- An adequate level of segregation among employees' job functions, and
- Management review of employee prepared documents.

✳ - This comment was repeated from the prior year's Report on Compliance and Internal Controls. No other comments were included in that report.

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OFFICE OF BUSINESS DEVELOPMENT

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 28, 2003