



JOBSOHIO

(A Component Unit of the State of Ohio)

Financial Statements

September 30, 2014

(With Independent Auditors' Review Report Thereon)

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KPMG LLP
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Independent Auditors' Review Report

The Board of Directors
JobsOhio:

Report on the Financial Statements

We have reviewed the accompanying statement of net position of JobsOhio, a component unit of the State of Ohio, as of September 30, 2014, the related statements of revenues, expenses, and changes in net position for the three-month period ended September 30, 2014, and the related statement of cash flows for the three-month period ended September 30, 2014.

Management's Responsibility

JobsOhio's management is responsible for the preparation and fair presentation of the interim financial information in accordance with U.S. generally accepted accounting principles; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with U.S. generally accepted accounting principles.

Auditors' Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Basis for Modification

Management has omitted the Management's Discussion and Analysis that U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our review on the basic financial statements is not affected by this missing information.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Columbus, Ohio
January 16, 2015

JOBSONHIO
(A Component Unit of the State of Ohio)

Statement of Net Position

September 30, 2014
(Unaudited)

(In thousands)

	<u>JobsOhio</u>	<u>Component Unit JobsOhio Beverage System</u>
Assets:		
Current assets:		
Cash and cash equivalents - unrestricted	\$ 154,697	\$ 27,758
Cash and cash equivalents - restricted	-	208,078
Investments	97,397	-
Inventory	-	53,553
Receivables	41	17
Prepaid expenses	461	1,378
JOBS grant receivable	120,000	-
Due from JOBS	145	-
Total current assets	<u>372,741</u>	<u>290,784</u>
Long-term assets:		
Cash and cash equivalents - restricted	5,048	-
Intangible asset - liquor franchise, net of amortization	-	1,287,929
Capital assets, net of depreciation	1,630	-
Loans	775	-
Total long-term assets	<u>7,453</u>	<u>1,287,929</u>
Total assets	<u>\$ 380,194</u>	<u>\$ 1,578,713</u>
Liabilities:		
Current liabilities:		
Accounts payable	\$ 1,250	\$ 27
Accrued liabilities	25,542	40,382
Special obligation bonds payable - current portion	-	42,955
Bond interest payable	-	14,985
JobsOhio grant payable	-	120,000
Due to JobsOhio	-	145
Total current liabilities	<u>26,792</u>	<u>218,494</u>
Long-term liabilities:		
Special obligation bonds payable	-	1,522,626
Total liabilities	<u>26,792</u>	<u>1,741,120</u>
Net position:		
Net investment in capital assets	1,630	-
Restricted	5,048	-
Unrestricted (deficit)	346,724	(162,407)
Total net position (deficit)	<u>\$ 353,402</u>	<u>\$ (162,407)</u>

See accompanying notes to financial statements.

JOBSOHIO
(A Component Unit of the State of Ohio)

Statement of Revenues, Expenses, and Changes in Net Position

Three months ended September 30, 2014
(Unaudited)

(In thousands)

	JobsOhio	Component Unit JobsOhio Beverage System
Operating revenues:		
Net liquor sales	\$ -	\$ 239,147
Interest income - loans	15	-
Fees and other	156	-
Total operating revenues	<u>171</u>	<u>239,147</u>
Operating expenses:		
Cost of goods sold	-	137,095
Sales commissions	-	12,958
Liquor gallonage taxes	-	10,893
Amortization of intangible asset - liquor franchise	-	13,799
Service fees	-	5,968
Supplemental Payment	-	4,693
JobsOhio management fees	-	155
Economic development programs	24,229	-
Salaries and benefits	1,487	-
Economic development purchased services	2,032	-
Professional services	447	65
Insurance	43	82
Administrative and support	483	-
Marketing	1,174	-
Other	-	16
Total operating expenses	<u>29,895</u>	<u>185,724</u>
Operating income (loss)	<u>(29,724)</u>	<u>53,423</u>
Nonoperating revenues (expenses):		
Grants	120,000	(120,000)
Bond interest, net	-	(14,270)
Investment income	46	-
Other, net	-	11
Total nonoperating revenues (expenses)	<u>120,046</u>	<u>(134,259)</u>
Change in net position	<u>90,322</u>	<u>(80,836)</u>
Net position (deficit), beginning of period	263,080	(81,571)
Net position (deficit), end of period	<u>\$ 353,402</u>	<u>\$ (162,407)</u>

See accompanying notes to financial statements.

JOBSOHIO
(A Component Unit of the State of Ohio)

Statement of Cash Flows

Three months ended September 30, 2014
(Unaudited)

(In thousands)

	JobsOhio	Component unit JobsOhio Beverage System
Cash flows from operating activities:		
Receipts from fees and other	\$ 3	\$ -
Receipts from customers	-	228,428
Payments to employees	(1,526)	-
Payments to suppliers	(6,208)	(138,440)
Payments for economic development programs	(1,641)	-
Payments for commissions	-	(13,044)
Receipts from sales taxes	-	13,738
Receipts from gallonage taxes	-	10,893
Payments for sales tax collections to State and county	-	(13,863)
Payments for gallonage tax collections to State	-	(10,989)
Payments for servicing fees	-	(5,968)
Payments for Supplemental Payments to State	-	(14,030)
Net cash provided by (used in) operating activities	(9,372)	56,725
Cash flows from noncapital financing activity:		
Payments for other nonoperating expenses	-	(6)
Net cash provided by (used in) noncapital financing activity	-	(6)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(7)	-
Payments for bond interest	-	(29,970)
Net cash provided by (used in) capital and related financing activities	(7)	(29,970)
Cash flows from investing activities:		
Dividends and interest income	12	10
Purchases of investments	(56,383)	-
Proceeds from maturities of investments	61,004	-
Net cash provided by (used in) investing activities	4,633	10
Net (decrease) increase in cash and cash equivalents	(4,746)	26,759
Cash and cash equivalents, beginning of period	164,491	209,077
Cash and cash equivalents, end of period	\$ 159,745	\$ 235,836
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (29,724)	\$ 53,423
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Amortization of intangible asset - liquor franchise	-	13,799
Depreciation and amortization expense	113	-
Increase in loans	(393)	-
Increase in inventory	-	(1,446)
(Increase) decrease in receivables	(13)	358
(Increase) decrease in prepaid expenses	(63)	82
(Increase) decrease in due from JobsOhio	(155)	10
Increase (decrease) in accounts payable	(2,042)	4
Increase (decrease) in accrued liabilities	22,905	(9,650)
Increase in due to JobsOhio	-	145
Total adjustments	20,352	3,302
Net cash provided by (used in) operating activities	\$ (9,372)	\$ 56,725

See accompanying notes to financial statements.

JOBSONHIO
(A Component Unit of the State of Ohio)

Notes to Financial Statements

September 30, 2014
(Unaudited)

(In thousands)

(1) Unaudited Financial Statements

The financial information as of and for the three months ended September 30, 2014 is unaudited. In the opinion of management of JobsOhio, all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows for the period presented have been made on a consistent basis.

(2) Summary of Significant Accounting Policies

(a) Financial Reporting Entity

JobsOhio was incorporated on July 5, 2011, as a nonprofit corporation under Chapters 1702 and 187, Revised Code, to promote economic development, job creation, job retention, job training, and the recruitment of business to Ohio. JobsOhio is governed by a Board of Directors (Board) appointed by the Governor of Ohio.

The accompanying financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*; Statement No. 39; *Determining Whether Organizations Are Component Units*; and Statement No. 61, *The Financial Reporting Entity: Omnibus*, in that the financial statements include all organizations, activities, functions, and component units for which JobsOhio (the primary reporting entity) is financially accountable.

JobsOhio Beverage System (JOBS), a nonprofit corporation under Chapter 1702, Revised Code, was acquired by JobsOhio on July 6, 2011. As the sole member of JOBS under Chapter 1702, Revised Code, JobsOhio appoints all members of the JOBS' Board of Directors, its governing body. In addition, under the JOBS Articles of Incorporation, JOBS' use of its funding is limited to making grants to JobsOhio. It is the assessment of JobsOhio management that JobsOhio is "financially accountable" for JOBS and that JOBS should, therefore, be considered a component unit of JobsOhio. JOBS is reported as a discretely presented component unit of JobsOhio.

The accounting policies and financial reporting practices of JobsOhio conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units.

(b) Financial Statements

As a special-purpose primary reporting entity engaged only in business-type activities, JobsOhio presents financial statements required for enterprise funds. For such entities, the basic financial statements include the statement of net position; statement of revenues, expenses, and changes in net position; statement of cash flows; and notes to financial statements.

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September 30, 2014
(Unaudited)

(In thousands)

As discussed earlier, JOBS is a discretely presented component unit of JobsOhio. As such, JOBS is disclosed in a separate column in the financial statements.

(c) Measurement Focus and Basis of Accounting

JobsOhio reports its financial statements using the economic resources measurement focus (i.e., full accrual) 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.

(d) Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(e) Cash and Cash Equivalents

Cash equivalents include all demand deposits with commercial banks.

(f) Restricted Assets

JobsOhio holds grant funds in the amount of \$5,048 to be used to fund capital-related economic development activities. Use of these moneys is not further restricted.

(g) Prepaid Expenses

Payments to vendors representing costs applicable to future accounting periods are recorded as prepaid expenses in the financial statements. The cost of prepaid expenses is recorded as expenses when consumed rather than when purchased.

(h) Capital Assets

Capital assets, which include property and equipment, are reported in the financial statements. JobsOhio defines capital assets as assets with an expected useful life of one year or more from the time of acquisition and a cost of five thousand dollars or more. Such assets are recorded at historical cost.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Software	3–5 years
Furniture and equipment	3–10 years
Leasehold improvements	Lesser of 10-year amortization period or lease term

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(Unaudited)

(In thousands)

(i) Net Position

Net position is displayed in three components as follows:

- Net investment in capital assets – represents capital assets, net of accumulated depreciation less the outstanding balances of bonds, notes, and other borrowings used to acquire, construct, or improve those assets
- Restricted – consists of net position that is legally restricted externally by creditors, contributors, laws, or regulations or internally by enabling legislation
- Unrestricted – consists of net position that does not meet the definition of net investment in capital assets or restricted

(j) Classification of Revenues and Expenses

Revenues and expenses are classified as operating or nonoperating. Under the JobsOhio definition:

- “Operating revenues” represent loan application fees, loan interest, and fees for management services to JOBS.
- “Operating expenses” represent costs that support economic development activities.

All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

JobsOhio has initiated loan and grant programs to private businesses in the state of Ohio to support economic development. For the three months ended September 30, 2014, JobsOhio issued grants and contributions for such purposes, reported in the JobsOhio statement of revenues, expenses, and changes in net position as “economic development program expense.”

(k) Revenue Recognition

JobsOhio’s main source of revenue is through grant funds received from its component unit, JOBS. Grants from JOBS are recognized upon approval by the JOBS’ President of the grant award, as authorized by the JOBS’ Board of Directors. For the period ended September 30, 2014, JOBS granted \$120,000 to JobsOhio. This is reported in the statement of net position as JOBS grant receivable.

(l) Risk Management/Insurance

JobsOhio is exposed to various risks of loss related to torts and general liability; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. JobsOhio procures commercial insurance policies for commercial crime, management liability,

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directors' and officers' liability, employment practices, automobile liability, employers' liability, general liability, crime, and property. No claims have been submitted against JobsOhio since its incorporation and no liabilities have been identified or recorded. It is JobsOhio's policy that liabilities are to be reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Since no claims have been submitted, settled claims have not exceeded commercial coverage since the inception of JobsOhio.

(m) *Liquor Franchise*

On February 1, 2013, JOBS, JobsOhio, and the State of Ohio (State), through the Ohio Department of Commerce and the Ohio Office of Budget and Management, entered into a Franchise and Transfer Agreement (Transfer Agreement). Under the terms of the Transfer Agreement, JOBS purchased from the State an exclusive franchise for the sale of spirituous liquor throughout the state of Ohio. In addition, certain assets of the existing liquor enterprise were transferred to JOBS. In return, JOBS transferred cash to the State and committed to supplemental payments, characterized in the Transfer Agreement as "Deferred Payments" and reported in the JobsOhio statement of revenues, expenses, and changes in net position as "Supplemental Payment" to the State based upon sales of spirituous liquor by JOBS. Pursuant to the Transfer Agreement, JOBS receives all the gross revenue from the distribution, merchandising, and sale of spirituous liquor in the state of Ohio.

The liquor franchise established by the Transfer Agreement terminates 25 years from February 1, 2013. During the term of the franchise, JOBS is responsible for operating the "Liquor Business," as that term is defined in the Transfer Agreement, while the State will, under contract with JOBS, perform merchandising as a contract service, and will retain all liquor regulatory functions.

Financial reports for JOBS are separately issued by that corporation. They may be obtained by contacting JOBS at 41 South High Street, Suite 1500, Columbus, OH 43215.

(n) *Use of Restricted and Unrestricted Resources*

In the event that JobsOhio is to fund outlays for a particular purpose from both restricted and unrestricted resources, in order to calculate the amounts to report as restricted and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is JobsOhio's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

(o) *Compensated Absences*

JobsOhio provides no paid time off to part-time employees. Full-time employees (nonexecutive) are granted paid time off of 15 days per calendar year. Paid time off is not contingent upon services already rendered and no payment is made for unused paid time off at termination or retirement.

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(Unaudited)

(In thousands)

(p) New Accounting Pronouncements

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*---an amendment of GASB Statement No. 27, replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions administered as trust of equivalent arrangements that meet certain criteria. The statement establishes standards for measuring and reporting liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. Note disclosure and required supplementary information requirements about pensions are also addressed. The requirements of this statement are effective for financial statements for fiscal years beginning after June 15, 2014. JobsOhio initiated a 401(k) plan in the fiscal year ended June 30, 2014 and has implemented GASB Statement No. 68 for the financial statements for the three months ended September 30, 2014.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*---an amendment of GASB Statement No. 68, addresses transition issues related to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and is to be applied simultaneously with the provisions of GASB Statement No. 68. This new standard did not have any impact upon JobsOhio's financial statements for the three months ended September 30, 2014.

(3) Detailed Notes on Activities and Funds

(a) Assets

1. Cash Deposits with Financial Institutions

At September 30, 2014, the carrying amount of JobsOhio's deposits was \$159,745, and the respective bank balance was \$159,824. The difference of \$79 represents outstanding checks. The composition of the deposits is summarized as follows:

<u>Fund type</u>	<u>Account type</u>	<u>Carrying value</u>
Unrestricted	Checking	\$ 137,533
	Brokered Deposit – Money	
Unrestricted	Market Account	12,517
Unrestricted	Trust	4,647
	Total Cash – Unrestricted	154,697
Restricted	Checking	5,048
	Total	\$ 159,745

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(Unaudited)

(In thousands)

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, JobsOhio's deposits may not be returned. JobsOhio's investment policy adopted by the Board of Directors provided that JobsOhio minimizes credit risk as to cash deposits by prequalifying financial institutions with which JobsOhio will do business. Of the total bank balance, \$12,750 was insured through the Federal Deposit Insurance Corporation (FDIC), including up to \$12,500 deposited into money market accounts through a brokered deposit program permitting JobsOhio to obtain full FDIC coverage on the principal deposit amount. The remaining \$147,074 was uninsured and exposed to custodial credit risk. JobsOhio's investment policy adopted by the Board of Directors provides that JobsOhio minimizes credit risk as to cash deposits by prequalifying financial institutions with which JobsOhio will do business.

JobsOhio's principal checking account is linked to an overnight sweep account, whereby total cash deposits in excess of \$6,000, less the \$12,500 in the brokered deposit accounts, are automatically transferred (or swept) from the primary cash account into a money market mutual fund that invests primarily in U.S. Treasuries guaranteed in full by the U.S. government. The money market fund is rated AAA by Standard & Poor's.

2. Investments

JobsOhio is not subject to statutory restrictions on investments. JobsOhio's formal investment policy, as adopted by the Board, is the basis for all investment activity. Authorized investments under the Board policy include sweep accounts, United States Treasury Securities and Agency Securities, repurchase agreements, certifications of deposit, bankers' acceptances, commercial paper, and money market funds. The weighted average maturity of the portfolio should not exceed three years with individual investments maturing in no more than five years.

As of September 30, 2014, JobsOhio had the following investments and maturities held in trust pursuant to the terms of the Huntington Asset Management Agreement dated January 13, 2014:

	<u>Fair value</u>	<u>Investment maturity</u>	
		<u>3 months or less</u>	<u>4 to 6 months</u>
FHLB Notes	\$ 50,399	\$ 50,399	\$ -
FHLMC Notes	41,998	32,499	9,499
FNMA Notes	5,000	5,000	-
Total	<u>\$ 97,397</u>	<u>\$ 87,898</u>	<u>\$ 9,499</u>

Liquidity and Interest Rate Risk – As a means of limiting exposure to fair value losses arising from rising interest rates, JobsOhio's investment policy generally requires that the investment portfolio remain sufficiently liquid to meet all operating and economic development programmatic needs.

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(In thousands)

Credit Risk – JobsOhio’s investment in FHLB, FHLMC, and FNMA Coupon Notes were rated AA+ and Aaa by Standard & Poor’s and Moody’s Investor Services, respectively. U.S. Treasury and Agency Securities whereby the underlying obligations of the U.S. government are guaranteed, are authorized and suitable investments in accordance with the JobsOhio investment policy. To minimize credit risk, JobsOhio prequalifies the financial institutions, broker/dealers, intermediaries, and advisors with whom the Corporation will do business. In addition, the investment portfolio is diversified to minimize risk of loss.

Concentration of Credit Risk – To limit exposure to the risk of loss due to the magnitude of JobsOhio’s investments in a single issuer, no more than five percent of the total market value of JobsOhio’s portfolio may be invested in bankers’ acceptances issued by any one commercial bank and no more than five percent of the total market value of the portfolio may be invested in commercial paper of any one issuer. Investments are to be diversified in accordance with allocations determined by the Board of Directors, after consultation with the Board’s Investment Committee.

Custodial Credit Risk – For an investment, this is the risk that, in the event of the failure of the counterparty, JobsOhio will not be able to recover the value of its investments that are in the possession of an outside party. JobsOhio’s investments of \$97,397 are uninsured and held in the name of its investment manager.

Investment activity for the three month period ended September 30, 2014 is summarized as follows:

	Balance, July 1, 2014	Purchases	Maturities	Accrued income	Balance, Sept. 30, 2014
FHLB	\$ 92,485	\$ 9,398	\$ (51,504)	\$ 20	\$ 50,399
FHLMC	-	41,986	-	12	41,998
FNMA	9,500	4,999	(9,500)	1	5,000
Total	<u>\$ 101,985</u>	<u>\$ 56,383</u>	<u>\$ (61,004)</u>	<u>\$ 33</u>	<u>\$ 97,397</u>

Interest income accrues on U.S. government and Agency Bonds over the bond term. Interest income is redeemed upon bond maturity. Income realized from maturities during the period totaled \$13. Accrued income of \$33 represents unrealized bond interest earned as of September 30, 2014 but not redeemed until maturity. Accrued income increases bond value, which is reported at fair value in the financial statements.

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(Unaudited)

(In thousands)

3. Capital Assets

Capital assets activity for the three months ended September 30, 2014 is as follows:

	<u>Balance, July 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, Sept. 30, 2014</u>
Furniture and equipment	\$ 461	\$ -	\$ -	\$ 461
Leasehold improvements	575	7	-	582
Software	1,338	-	-	1,338
Total capital assets being depreciated	<u>2,374</u>	<u>7</u>	<u>-</u>	<u>2,381</u>
Less: accumulated depreciation				
Furniture and equipment	(163)	(22)	-	(185)
Leasehold improvements	(110)	(17)	-	(127)
Software	(365)	(74)	-	(439)
Total accumulated depreciation	<u>(638)</u>	<u>(113)</u>	<u>-</u>	<u>(751)</u>
Total capital assets being depreciated, net	<u>\$ 1,736</u>	<u>\$ (106)</u>	<u>\$ -</u>	<u>\$ 1,630</u>

4. Loans Receivable

JobsOhio's economic development initiatives include JobsOhio Growth Fund Loans for expansion projects to companies that have limited access to capital and funding from conventional private sources of funding. In order to obtain a disbursement, the borrower submits to JobsOhio a draw request that identifies the applicable costs that have been incurred. JobsOhio recognizes the receivable at time of disbursement to the borrower.

Loan receivable balance of \$775 as of September 30, 2014 is related to disbursements to two companies. The terms of the loans provide for disbursements of up to \$1,750. The outstanding balance of the commitment as of September 30, 2014 was \$975. JobsOhio does not anticipate any loss in the collection of the loans and has concluded, therefore, that no loss allowance is necessary.

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(Unaudited)

(In thousands)

(b) Liabilities

1. Accrued Liabilities

Accrued liabilities reported at September 30, 2014 are as follows:

Economic development programs	\$ 15,286
Contribution payable	10,000
Legal services	87
Paid time off	77
Deferred rent	62
Other	30
	<hr/>
	\$ 25,542
	<hr/> <hr/>

2. Economic Development Programs - Grants

JobsOhio operates four grant programs to encourage economic development within the state of Ohio. These comprise:

- JobsOhio Economic Development Grants – The Economic Development grant program focuses on fixed asset and infrastructure investment.
- JobsOhio Workforce Grants – The Workforce grant program focuses on training costs associated with new or incumbent employees.
- JobsOhio Revitalization Grants – The Revitalization grant program is designed to support the acceleration of redeveloping sites in Ohio, with the primary focus on projects where the cost of redevelopment and remediation is more than the value of the land in question.
- JobsOhio Revitalization Phase II Assessment Grants – The Revitalization Phase II Assessment grant program is designed to assist in the review of potential environmental risks on a project site where redevelopment for job creation or retention is likely to occur.

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(In thousands)

During the three month period ended September 30, 2014, JobsOhio executed 47 grants, including 17 economic development grants, 26 workforce grants, and 4 revitalization grants with a total committed amount of \$13,983. As of September 30, 2014, JobsOhio has \$17,087 in committed, but unpaid grants. The grants are funded on a reimbursement basis where the grantee must provide documentation illustrating where applicable costs have been incurred.

In accordance with generally accepted accounting principles, JobsOhio recognizes grant expense and the related liability for allowable costs as of the three month period ended September 30, 2014, where the transaction is reasonably estimable in amount and probable of distribution. This process includes the use of estimates in the absence of information as to costs incurred, but unclaimed by the grantee. JobsOhio has developed a methodology to produce an estimate of the liability as of the financial statement date, based upon the anticipated progress of the related project. The corresponding result is recorded as accrued grant expense and is included in accrued liabilities in the statement of net position. At September 30, 2014, the accrued grant expense was \$15,286.

3. Contribution Payable

On February 21, 2014, the JobsOhio Board of Directors adopted a resolution authorizing the President and Chief Investment Officer of JobsOhio to provide a letter indicating the intent of JobsOhio to provide financial support for up to \$10 million dollars of funding to an appropriate nonprofit host-city committee or municipal fund to support an Ohio city hosting one of the two national political conventions in 2016. Under the terms and conditions of the resolution:

- Such support would be provided only after award of such a convention to a city;
- Funds awarded would be usable only for purposes authorized by law and consistent with the tax-exempt purposes of the Corporation; and
- In no event could such funds be considered or used, directly or indirectly, as a contribution to, for or in aid of any campaign committee, political party, legislative campaign fund, political action committee, or political contributing entity, or for any partisan political purpose.

On August 8, 2014, the Republican National Convention selected the City of Cleveland, Ohio as the host city for the 2016 national convention. As such, at September 30, 2014, JobsOhio has a contribution payable of \$10,000.

4. 401(k) Savings Plan

JobsOhio operates a defined contribution plan titled JobsOhio 401(k) Plan (herein referred to as the Plan) created in accordance with Internal Revenue Code Section 401(k). The Plan, available to all qualified JobsOhio employees, permits employees to defer a percentage of their salary up

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(Unaudited)

(In thousands)

to the maximum percentage allowed by the Internal Revenue Service. JobsOhio matches 100% of the first three percent of the employee contribution, plus 50% of the employee contribution over three percent but not greater than five percent, bringing the maximum match percentage to 4%. Employees are fully vested in the Plan at the time contributions begin and there are no forfeitures. Participants must be over 21 years of age and have completed three consecutive months of service.

JobsOhio is the plan administrator of the Plan and the Plan trustee is Frontier Trust Company. JobsOhio may amend the Plan to add new features or to change or eliminate various provisions, but may not take away or reduce protected benefits under the Plan. Participants direct the allocation of their deferral based on several investment options. The assets of the Plan are not included in JobsOhio's financial statements and cannot be used for purposes other than the exclusive benefit of the participants or their beneficiaries or to pay the reasonable expenses of plan administration.

During the three month period ended September 30, 2014, the total 401(k) match expense was \$36 on total employee contributions of \$92.

5. Commitments and Contingencies – Litigation

ProgressOhio.com, et al., vs. JobsOhio, et al.

Legislation enacted by the Ohio General Assembly in February 2011 authorized (i) the creation of an Ohio nonprofit corporation named "JobsOhio" to promote economic development, job creation and retention, job training, and the recruitment of business to the State, and (ii) the State Department of Development to contract with JobsOhio for economic development services. The State's 2012-13 biennial appropriations act signed into law on June 30, 2011, both (i) amended the law authorizing the creation of JobsOhio to remove the Governor from the JobsOhio Board of Directors, require JobsOhio to comply with Ohio's nonprofit corporation law unless specifically exempted from a provision, eliminate the exclusive original jurisdiction in the Ohio Supreme Court and relax the deadlines for filing challenges, and (ii) authorized the transfer of the State's spirituous liquor system to JobsOhio or a subsidiary.

On August 30, 2011, ProgressOhio.com and two state legislators filed a complaint against JobsOhio and various State parties in the Court of Common Pleas of Franklin County, Ohio, claiming the law authorizing the creation of JobsOhio, as amended, is an improper special act conferring corporate powers, and that the State may not lend its aid and credit to JobsOhio. Among other relief, plaintiffs requested that the court declare the legislation authorizing JobsOhio's creation unconstitutional, and enjoin JobsOhio from continuing its operations.

JobsOhio and the State defendants filed motions to dismiss the complaint claiming that the plaintiffs lacked legal standing to bring the lawsuit. On December 2, 2011, the Court of

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Common Pleas granted those motions, finding that the plaintiffs did not have standing to bring their action. Since the trial court granted the defendants' motions based on lack of standing, it did not decide the plaintiffs' constitutional challenges to the legislation and JobsOhio.

On December 23, 2011, the plaintiffs appealed that trial court ruling to the Tenth District Court of Appeals of Franklin County, Ohio, and on June 14, 2012, the Court of Appeals unanimously affirmed the trial court's decision that the plaintiffs lacked standing to bring their action.

On July 27, 2012, the plaintiffs requested the Ohio Supreme Court to accept their appeal from the Court of Appeals' decision. JobsOhio and the State opposed that request, but on January 23, 2013, the Ohio Supreme Court granted jurisdiction to decide the question whether the plaintiffs had standing to bring their action. The parties fully briefed that question and the Ohio Supreme Court heard oral arguments in the case on November 13, 2013. On June 10, 2014, the Ohio Supreme Court issued its 5-2 decision affirming the judgments of the lower courts and concluding that the plaintiff/appellants lacked standing to bring their action because they failed to show any personal stake in the outcome of the litigation and no other alternative grounds for standing applied.

On June 20, 2014, the attorney for ProgressOhio.org in the trial court and Court of Appeals, who had made filings in the Ohio Supreme Court's proceedings only as amicus curiae ("friend of the court"), filed four motions requesting the Supreme Court grant her leave to bring a further action challenging JobsOhio and the legislation authorizing its creation and the liquor enterprise transaction. On September 3, 2014, the Supreme Court denied all of those motions. In addition, the Chief Justice wrote an entry cautioning this attorney "that the filing of any further frivolous, unsubstantiated, or repeated motions may result in the imposition of appropriate sanctions." The Ohio Supreme Court decision is now final and there are no further opportunities for additional appeals or motions in that case.

Victoria E. Ullmann v. John Husted et al.

On October 27, 2014, acting as her own legal counsel, the same former attorney for ProgressOhio.org, filed a new action in the Franklin County Court of Appeals challenging JobsOhio and the legislation authorizing its creation and the transfer of the State's spirituous liquor system. Among other relief sought in this filing, she is requesting the Court of Appeals order the Ohio Attorney General to appoint her as special counsel in order to pay her attorney fees to pursue these claims. It remains the opinion of JobsOhio management that the constitutional questions being raised in this most recent case are without merit.

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6. Lease Obligations

JobsOhio entered into an agreement for an office facilities lease and pays monthly rent. Rent expense was \$84 for the three month period ended September 30, 2014.

Minimum future lease payments under this operating lease are as follows:

Year ending June 30:

2015	\$ 186
2016	192
2017	198
2018	204
2019	210
2020 – 2022	<u>571</u>
Total	<u><u>\$ 1,561</u></u>

(4) Discretely Presented Component Unit – JOBS

(a) Revenues and Expenses

JobsOhio had multiple transactions with JOBS, a discretely presented component unit of JobsOhio. JOBS provides funds to JobsOhio pursuant to a grant agreement effective February 1, 2013 for the purpose of economic development as discussed in note 2(a). The Transfer Agreement provides for the transfer of the excess liquor business profits (after the transfer of liquor business profits into all funds and accounts in accordance with the Indenture) into the General Purpose Fund to be made available to JobsOhio by grant for the sole purpose of funding JobsOhio's economic development functions. Funds granted by JOBS to JobsOhio during the three month period ended September 30, 2014 totaled \$120,000.

Additionally, JobsOhio provided administrative services and facilities to JOBS that were the subject of charges to and payments by JOBS. These included:

- Accounting system lease – Coinciding with the franchise purchase, JobsOhio entered into a three-year lease agreement as lessor for the use of a financial accounting software system at a cost of \$763 (carrying amount of \$547, net of \$216 in accumulated depreciation). The asset has a five-year estimated useful life. The lease agreement qualifies as an operating lease for accounting purposes, and therefore, amounts are recorded as fee revenue. Lease amounts for the three month period ended September 30, 2014 totaled \$40. Minimum future lease payments are as follows:

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	Lease obligation
Year ending June 30:	
2015	\$ 160
2016	93
Total	\$ 253

- Management fee – In a separate agreement, JobsOhio entered into an Employee Lease and Asset License Agreement (Agreement) as lessor on February 1, 2013 with JOBS for the lease of personnel, administrative support, equipment, supplies, office space, and services necessary for JOBS’ operations. Monthly charges under the lease are determined and calculated based on actual identifiable payroll costs incurred on behalf of supporting JOBS, including administrative, equipment, supplies, office space, and services allocated on the basis of the lease agreement terms. Lease amounts for the three months ended September 30, 2014 totaled \$155. The Agreement qualifies as an operating lease for accounting purposes. Revenues under the lease are recorded as fee revenue.

(b) Intangible Assets – Liquor Franchise

As a result of the purchase of the franchise for the sale of spirituous liquor, JOBS recorded an intangible asset of \$1,379,924, reflecting the net franchise fee paid to the State, net of certain tangible assets received in the transfer pursuant to the Transfer Agreement.

The intangible asset – liquor franchise is amortized over its useful life that coincides with the related contractual rights of the Transfer Agreement of 25 years. Amortization expense in the amount of \$13,799 was recorded for the three month period ended September 30, 2014. No impairment of the intangible asset existed as of September 30, 2014.

Intangible assets – liquor franchise activity for the three month period ended September 30, 2014 is as follows:

	Balance, July 1, 2014	Additions	Reductions	Balance, September 30, 2014
Liquor franchise	\$ 1,379,924	-	-	\$ 1,379,924
Less: Accumulated amortization	(78,196)	(13,799)	-	(91,995)
Liquor franchise, net of amortization	\$ 1,301,728	\$ (13,799)	-	\$ 1,287,929

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(c) **Special Obligation Bonds**

Special obligation revenue bonds were issued on February 1, 2013, by JOBS to finance payment of consideration in connection with the purchase of a franchise to operate the Liquor Business including the transfer of certain Liquor Business assets and bond transaction costs. The bonds were issued as bonds with (approximately) level debt service (principal and interest) maturing each year with maturities that range from one to 25 years. JobsOhio Beverage System Statewide Senior Lien Liquor Profits Tax-Exempt Revenue Bonds, Series 2013A and JobsOhio Beverage System Statewide Senior Lien Liquor Profits Taxable Revenue Bonds, 2013B outstanding at September 30, 2014 are as follows:

<u>Special obligation bonds</u>	<u>Original issue date</u>	<u>Original borrowing and outstanding as of June 30, 2014</u>	<u>Interest rates to maturity</u>	<u>Final maturity</u>
Series 2013A	Feb. 2013	\$ 404,790	3.0% – 5.0%	2038
Series 2013B	Feb. 2013	1,105,895	0.9% – 4.5%	2038

The bonds have maturities starting in 2015 and continuing through 2038. The bond series are subject to mandatory sinking fund redemption starting in 2024 and each year thereafter to maturity. The bonds will be repaid from the Liquor Business profits. All proceeds from the Liquor Business are pledged to the Trustee to pay obligations under the Indenture. The Indenture imposes certain restrictions and requirements whereby all Liquor Business revenues are required to be deposited in a trust fund held by the Trustee to settle obligations under the Indenture, including amounts sufficient to cover annual debt service for each fiscal year on account for all outstanding revenue bonds.

Liquor Business profits must meet the minimum debt service coverage ratio of 135 percent for each fiscal year pursuant to the Transfer Agreement. Certain amounts are released from the lien of the Indenture and certain other amounts are held in funds pursuant to the terms of the Indenture for which amounts will not be pledged for the benefit of the owners of the bonds. These funds include the Tax Fund, the Operations Fund, and the General Purpose Fund. The bonds are not general obligations of JOBS or the State, and neither the faith or credit are pledged as security for payment of the bonds.

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Debt service requirements related to the bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2015	\$ 42,955	59,939	102,894
2016	43,440	59,458	102,898
2017	44,020	58,876	102,896
2018	44,870	58,024	102,894
2019	45,845	57,049	102,894
2020 – 2024	251,825	262,336	514,161
2025 – 2029	302,660	211,549	514,209
2030 – 2034	371,675	142,225	513,900
2035 – 2038	363,395	46,394	409,789
Total	<u>1,510,685</u>	<u>955,850</u>	<u>2,466,535</u>
Unamortized premium	54,896		
Less current portion	<u>(42,955)</u>		
Total debt, long-term portion	<u>\$ 1,522,626</u>		

Debt service activity for the three month period ended September 30, 2014 is as follows:

	<u>Balance, July 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, Sept. 30, 2014</u>	<u>Current portion</u>
Bond principal	\$ 1,510,685	-	-	\$ 1,510,685	\$ 42,955
Bond premium	59,663	-	-	59,663	-
Less: Accumulated amortization	<u>(4,052)</u>	<u>(715)</u>	<u>-</u>	<u>(4,767)</u>	<u>-</u>
Total debt	<u>\$ 1,566,296</u>	<u>(715)</u>	<u>-</u>	<u>\$ 1,565,581</u>	<u>\$ 42,955</u>

Bonds are subject to redemption prior to their stated maturity dates at the option of JOBS, in whole or in part on any date on or after January 1, 2023 at a redemption price equal to the principal amount of bonds to be redeemed plus accrued interest.

Pursuant to the terms of the Indenture, the Transfer Agreement, and the Services Agreement, JOBS is required to comply with various covenants and requirements. All financial covenants associated with the agreements executed in connection with the franchise transaction have been fully complied with as of September 30, 2014.