



JOBSOHIO

(A Component Unit of the State of Ohio)

Financial Statements

December 31, 2014 and 2013

(With Independent Auditors' Review Report Thereon)

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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 December 31, 2014, the related statements of revenues, expenses, and changes in net position for the three and six-month periods ended December 31, 2014 and 2013, and the related statements of cash flows for the six-month periods ended December 31, 2014 and 2013.

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
March 13, 2015

JOBSONHIO
(A Component Unit of the State of Ohio)

Statements of Net Position

(Unaudited)

(In thousands)

	<u>December 31, 2014</u>		<u>June 30, 2014</u>	
	Component Unit		Component Unit	
	JobsOhio	JobsOhio Beverage System	JobsOhio	JobsOhio Beverage System
Assets:				
Current assets:				
Cash and cash equivalents - unrestricted	\$ 261,904	\$ 80,055	\$ 159,443	\$ 103,272
Cash and cash equivalents - restricted	-	137,598	-	105,805
Investments	101,974	-	101,985	-
Inventory	-	55,728	-	52,107
Receivables	239	8	28	375
Prepaid expenses	393	906	398	1,460
Due from JobsOhio	-	-	-	10
Due from JOBS	87	-	-	-
Total current assets	<u>364,597</u>	<u>274,295</u>	<u>261,854</u>	<u>263,029</u>
Long-term assets:				
Cash and cash equivalents - restricted	4,798	-	5,048	-
Intangible asset - liquor franchise, net of amortization	-	1,274,130	-	1,301,728
Capital assets, net of depreciation	1,775	-	1,736	-
Loans	2,020	-	382	-
Total long-term assets	<u>8,593</u>	<u>1,274,130</u>	<u>7,166</u>	<u>1,301,728</u>
Total assets	<u>373,190</u>	<u>1,548,425</u>	<u>269,020</u>	<u>1,564,757</u>
Liabilities:				
Current liabilities:				
Accounts payable	730	13,587	3,293	23
Accrued liabilities	36,170	50,996	2,637	50,039
Special obligation bonds payable - current portion	-	42,955	-	42,955
Bond interest payable	-	29,970	-	29,970
Due to component unit - JOBS	-	-	10	-
Due to JobsOhio	-	87	-	-
Total current liabilities	<u>36,900</u>	<u>137,595</u>	<u>5,940</u>	<u>122,987</u>
Long-term liabilities:				
Special obligation bonds payable	-	1,521,911	-	1,523,341
Total liabilities	<u>36,900</u>	<u>1,659,506</u>	<u>5,940</u>	<u>1,646,328</u>
Net position:				
Net investment in capital assets	1,775	-	1,736	-
Restricted	4,798	-	5,048	-
Unrestricted (deficit)	329,717	(111,081)	256,296	(81,571)
Total net position (deficit)	<u>\$ 336,290</u>	<u>\$ (111,081)</u>	<u>\$ 263,080</u>	<u>\$ (81,571)</u>

See accompanying notes to financial statements.

JOBSOHIO
(A Component Unit of the State of Ohio)

Statements of Revenues, Expenses, and Changes in Net Position

(Unaudited)

(In thousands)

	<u>Three months ended December 31, 2014</u>		<u>Three months ended December 31, 2013</u>	
	<u>JobsOhio</u>	<u>Component Unit JobsOhio Beverage System</u>	<u>JobsOhio</u>	<u>Component Unit JobsOhio Beverage System</u>
Operating revenues:				
Net liquor sales	\$ -	\$ 269,130	\$ -	\$ 251,145
Interest income - loans	23	-	-	-
Fees and other	307	-	118	-
Total operating revenues	<u>330</u>	<u>269,130</u>	<u>118</u>	<u>251,145</u>
Operating expenses:				
Cost of goods sold	-	155,213	-	144,331
Sales commissions	-	14,717	-	13,747
Liquor gallonage taxes	-	11,770	-	11,278
Amortization of intangible asset - liquor franchise	-	13,799	-	13,799
Service fees	-	1,104	-	3,560
Supplemental Payment	-	6,563	-	3,300
JobsOhio management fees	-	267	-	106
Economic development programs	11,175	-	400	-
Salaries and benefits	1,575	-	917	-
Economic development purchased services	2,712	-	-	-
Professional services	506	10	600	58
Insurance	45	82	56	54
Administrative and support	860	-	364	-
Marketing	610	-	366	-
Other	-	18	-	51
Total operating expenses	<u>17,483</u>	<u>203,543</u>	<u>2,703</u>	<u>190,284</u>
Operating income (loss)	<u>(17,153)</u>	<u>65,587</u>	<u>(2,585)</u>	<u>60,861</u>
Nonoperating revenues (expenses):				
Grants	-	-	-	-
Bond interest, net	-	14,270	-	14,270
Investment income	41	-	-	-
Other, net	-	(9)	-	(11)
Total nonoperating revenues (expenses)	<u>41</u>	<u>14,261</u>	<u>-</u>	<u>14,259</u>
Change in net position	<u>(17,112)</u>	<u>51,326</u>	<u>(2,585)</u>	<u>46,602</u>
Net position (deficit), beginning of period	<u>353,402</u>	<u>(162,407)</u>	<u>181,018</u>	<u>(101,655)</u>
Net position (deficit), end of period	<u>\$ 336,290</u>	<u>\$ (111,081)</u>	<u>\$ 178,433</u>	<u>\$ (55,053)</u>

See accompanying notes to financial statements.

JOBSOHIO
(A Component Unit of the State of Ohio)

Statements of Revenues, Expenses, and Changes in Net Position

(Unaudited)

(In thousands)

	<u>Six months ended December 31, 2014</u>		<u>Six months ended December 31, 2013</u>	
	<u>JobsOhio</u>	<u>Component Unit JobsOhio Beverage System</u>	<u>JobsOhio</u>	<u>Component Unit JobsOhio Beverage System</u>
Operating revenues:				
Net liquor sales	\$ -	\$ 508,277	\$ -	\$ 476,458
Interest income - loans	38	-	-	-
Fees and other	463	-	250	-
Total operating revenues	<u>501</u>	<u>508,277</u>	<u>250</u>	<u>476,458</u>
Operating expenses:				
Cost of goods sold	-	292,308	-	273,438
Sales commissions	-	27,675	-	25,937
Liquor gallonage taxes	-	22,663	-	21,784
Amortization of intangible asset - liquor franchise	-	27,598	-	27,598
Service fees	-	7,072	-	7,999
Supplemental Payment	-	11,255	-	6,352
JobsOhio management fees	-	422	-	238
Economic development programs	35,404	-	400	-
Salaries and benefits	3,062	-	1,754	-
Economic development purchased services	4,744	-	-	-
Professional services	953	75	1,249	248
Insurance	88	163	99	-
Administrative and support	1,343	-	905	-
Marketing	1,784	-	454	-
Other	-	36	-	183
Total operating expenses	<u>47,378</u>	<u>389,267</u>	<u>4,861</u>	<u>363,777</u>
Operating income (loss)	<u>(46,877)</u>	<u>119,010</u>	<u>(4,611)</u>	<u>112,681</u>
Nonoperating revenues (expenses):				
Grants	120,000	(120,000)	-	-
Bond interest, net	-	(28,539)	-	(28,539)
Investment income	87	-	-	-
Other, net	-	19	-	(22)
Total nonoperating revenues (expenses)	<u>120,087</u>	<u>(148,520)</u>	<u>-</u>	<u>(28,561)</u>
Change in net position	<u>73,210</u>	<u>(29,510)</u>	<u>(4,611)</u>	<u>84,120</u>
Net position (deficit), beginning of period	-	(81,571)	-	(128,680)
Restatement due to GASB 65	-	-	-	(10,493)
Net position (deficit), beginning of period, as restated	263,080	(81,571)	183,044	(139,173)
Net position (deficit), end of period	<u>\$ 336,290</u>	<u>\$ (111,081)</u>	<u>\$ 178,433</u>	<u>\$ (55,053)</u>

See accompanying notes to financial statements.

JOBSONHIO
(A Component Unit of the State of Ohio)

Statements of Cash Flows

Six months ended December 31, 2014 and 2013
(Unaudited)

(In thousands)

	2014		2013	
	Component unit		Component unit	
	JobsOhio	JobsOhio Beverage System	JobsOhio	JobsOhio Beverage System
Cash flows from operating activities:				
Receipts from fees and other	\$ 45	\$ -	\$ 12	\$ -
Receipts from customers	-	485,797	-	455,095
Payments to employees	(3,141)	-	(1,754)	-
Payments to suppliers	(10,873)	(283,522)	(3,079)	(275,018)
Payments for economic development programs	(4,102)	-	(400)	-
Payments for commissions	-	(25,801)	-	(24,450)
Receipts from sales taxes	-	29,617	-	27,101
Receipts from gallonage taxes	-	22,663	-	21,784
Payments for sales tax collections to State and county	-	(27,609)	-	(25,213)
Payments for gallonage tax collections to State	-	(21,575)	-	(20,917)
Payments for servicing fees	-	(6,681)	-	(5,301)
Payments for Supplemental Payment to State	-	(14,030)	-	-
Receipts (payments) between JobsOhio and component unit	325	(325)	677	(677)
Net cash provided by (used in) operating activities	(17,746)	158,534	(4,544)	152,404
Cash flows from noncapital financing activities:				
Receipts (payments) between JobsOhio and component unit for grants	120,000	(120,000)	-	-
Payments for other nonoperating expenses	-	(9)	-	(36)
Net cash provided by (used in) noncapital financing activity	120,000	(120,009)	-	(36)
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(141)	-	(35)	-
Payments for bond interest	-	(29,970)	-	(24,975)
Net cash used in capital and related financing activities	(141)	(29,970)	(35)	(24,975)
Cash flows from investing activities:				
Dividends and interest income	68	21	-	16
Purchases of investments	(162,839)	-	-	-
Proceeds from maturities of investments	162,869	-	-	-
Net cash provided by investing activities	98	21	-	16
Net increase (decrease) in cash and cash equivalents	102,211	8,576	(4,579)	127,409
Cash and cash equivalents, beginning of period	164,491	209,077	181,795	86,749
Cash and cash equivalents, end of period	\$ 266,702	\$ 217,653	\$ 177,216	\$ 214,158
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (46,877)	\$ 119,010	\$ (4,611)	\$ 112,681
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Amortization of intangible asset - liquor franchise	-	27,598	-	27,598
Depreciation and amortization expense	228	-	199	-
Increase in loans	(1,638)	-	-	-
Increase in inventory	-	(3,621)	-	(2,831)
(Increase) decrease in receivables	(211)	367	6	260
(Increase) decrease in prepaid expenses	5	554	(3)	2,838
Increase (decrease) in accounts payable	(2,689)	13,564	(501)	3,242
Increase (decrease) in accrued liabilities	33,533	965	(73)	9,055
Increase (decrease) in due to/from JobsOhio	(97)	97	439	(439)
Total adjustments	29,131	39,524	67	39,723
Net cash provided by (used in) operating activities	\$ (17,746)	\$ 158,534	\$ (4,544)	\$ 152,404
Noncash capital activities:				
Purchases of capital assets on account	\$ 126	\$ -	\$ 2	\$ -

See accompanying notes to financial statements.

JOBSONHIO
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Notes to Financial Statements

December 31, 2014 and 2013
(Unaudited)

(In thousands)

(1) Unaudited Financial Statements

The financial information included in these financial statements 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.

These financial statements should be read in conjunction with the financial statements and notes contained in JobsOhio's audited financial statements for the year ended June 30, 2014.

(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 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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Notes to Financial Statements

December 31, 2014 and 2013
(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 to be used to fund capital related economic development activities. The amount of funds held at December 31, 2014 and June 30, 2014 was \$4,798 and \$5,048, respectively. 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.

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(Unaudited)

(In thousands)

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

(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 and six months ended December 31, 2014 and 2013, 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. JOBS granted \$0 and \$120,000 to JobsOhio for the three and six months ended December 31, 2014, respectively. There were no grants from JOBS to JobsOhio for the three and six months ended December 31, 2013.

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Notes to Financial Statements

December 31, 2014 and 2013
(Unaudited)

(In thousands)

(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, 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.

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Notes to Financial Statements

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(Unaudited)

(In thousands)

(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.

(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 and six months ended December 31, 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 and six months ended December 31, 2014.

(3) Detailed Notes on Activities and Funds

(a) *Assets*

1. Cash Deposits with Financial Institutions

At December 31, 2014, the carrying amount of JobsOhio's deposits was \$266,702 and the respective bank balance was \$266,713. At June 30, 2014, the carrying amount of JobsOhio's deposits was \$164,491 and the respective bank balance was \$164,650. The differences of \$11 and \$159, respectively, represent outstanding checks. The composition of the deposits is summarized as follows:

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(Unaudited)

(In thousands)

<u>Fund type</u>	<u>Account type</u>	<u>Carrying value at December 31, 2014</u>	<u>Carrying value at June 30, 2014</u>
Unrestricted	Checking	\$ 249,295	\$ 146,897
	Brokered Deposit – Money		
Unrestricted	Market Account	12,524	12,511
Unrestricted	Trust	85	35
	Total Cash – Unrestricted	<u>261,904</u>	<u>159,443</u>
Restricted	Checking	<u>4,798</u>	<u>5,048</u>
	Total	<u>\$ 266,702</u>	<u>\$ 164,491</u>

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 at December 31, 2014, \$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 \$253,963 was uninsured and exposed to custodial credit risk. Of the total bank balance at June 30, 2014, \$12,750 was insured through the FDIC. The remaining \$151,900 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.

JOBSONHIO
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December 31, 2014 and 2013
(Unaudited)

(In thousands)

As of December 31, 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	\$ 18,995	\$ 5,000	\$ 13,995
FHLMC Notes	9,500	9,500	-
FNMA Notes	73,479	-	73,479
Total	<u>\$ 101,974</u>	<u>\$ 14,500</u>	<u>\$ 87,474</u>

As of June 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	\$ 92,485	\$ 51,499	\$ 40,986
FNMA Notes	9,500	9,500	-
Total	<u>\$ 101,985</u>	<u>\$ 60,999</u>	<u>\$ 40,986</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.

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

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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 \$101,974 at December 31, 2014 and \$101,985 at June 30, 2014 are uninsured and held in the name of its investment manager.

Investment activity for the six months ended December 31, 2014 is summarized as follows:

	Balance, July 1, 2014	Purchases	Maturities	Accrued income	Balance, Dec. 31, 2014
FHLB	\$ 92,485	\$ 42,388	\$ (115,881)	\$ 3	\$ 18,995
FHLMC	-	41,986	(32,490)	4	9,500
FNMA	9,500	78,465	(14,498)	12	73,479
Total	<u>\$ 101,985</u>	<u>\$ 162,839</u>	<u>\$ (162,869)</u>	<u>\$ 19</u>	<u>\$ 101,974</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 three and six months ended December 31, 2014 totaled \$41 and \$87, respectively. There was no income realized from maturities as of the three and six months ended December 31, 2013. Accrued income of \$19 as of December 31, 2014 and \$14 as of June 30, 2014 represents unrealized bond interest earned, but not redeemed until maturity. Accrued income increases bond value, which is reported at fair value in the financial statements.

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3. Capital Assets

Capital assets activity for the six months ended December 31, 2014 is as follows:

	Balance, July 1, 2014	Additions	Reductions	Balance, December 31, 2014
Furniture and equipment	\$ 461	\$ 40	\$ -	\$ 501
Leasehold improvements	575	189	-	764
Software	1,338	38	-	1,376
Total capital assets being depreciated	<u>2,374</u>	<u>267</u>	<u>-</u>	<u>2,641</u>
Less: accumulated depreciation				
Furniture and equipment	(163)	(41)	-	(204)
Leasehold improvements	(110)	(36)	-	(146)
Software	(365)	(151)	-	(516)
Total accumulated depreciation	<u>(638)</u>	<u>(228)</u>	<u>-</u>	<u>(866)</u>
Total capital assets being depreciated, net	<u>\$ 1,736</u>	<u>\$ 39</u>	<u>\$ -</u>	<u>\$ 1,775</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.

Loans receivable balance of \$2,020 as of December 31, 2014 and \$382 as of June 30, 2014, respectively, is related to disbursements to three companies. The terms of the loans outstanding at December 31, 2014 provide for disbursements of up to \$2,750. The outstanding balance of the commitments as of December 31, 2014 was \$730. 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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(b) Liabilities

1. Accrued Liabilities

Accrued liabilities reported at December 31, 2014 and June 30, 2014 are as follows:

	December 31, 2014	June 30, 2014
Economic development programs	\$ 25,245	\$ 2,305
Contribution payable	10,000	-
Economic development purchased services	653	-
Professional services	85	18
Legal services	77	124
Paid time off	36	115
Deferred rent	44	58
Employee benefits	-	16
Other	30	1
	\$ 36,170	\$ 2,637

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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As of December 31, 2014, JobsOhio had executed 127 grants, including 47 economic development grants, 69 workforce grants, and 11 revitalization grants with a total committed amount of \$28,216. As of December 31, 2014, JobsOhio had \$25,692 in committed, but unpaid grants. As of June 30, 2014, JobsOhio had executed 39 grants, including 17 economic development grants and 22 workforce grants with a total committed amount of \$3,879. As of June 30, 2014, JobsOhio had \$13,346 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 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. For the three and six months ended December 31, 2014, the accrued grant expense was \$11,175 and \$25,404, respectively. For the three and six months ended December 31, 2013, the accrued grant expense was \$0 and \$400, respectively.

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 of December 31, 2014, JobsOhio had a contribution payable of \$10,000. As of June 30, 2014, there was no contribution payable.

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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 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 four percent. 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.

The Plan was implemented in February, 2014. For the three and six months ended December 31, 2014, the total 401(k) match expense was \$41 and \$77, respectively, on total employee contributions of \$106 and \$198, respectively. For the three and six months ended December 31, 2013, there were no employee contributions or 401(k) match expense as the Plan was not implemented during the period.

5. Commitments and Contingencies – Litigation

Victoria E. Ullmann v. John Husted et al.

On October 27, 2014, acting as her own legal counsel, a 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 (the "Relator") requested the Court of Appeals to order the Ohio Attorney General to appoint her as special counsel in order to pay her attorney fees to pursue these claims. On February 12, 2015, the Court of Appeals' Magistrate issued a decision dismissing the case in its entirety, ruling it clear beyond doubt that the Relator does not have standing to bring this action. Relator petitioned the Court of Appeals to issue specific findings of fact and conclusions of law related to the Magistrate's decision, and the case remains pending. It is the opinion of JobsOhio management that the issues raised by Relator in this 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 \$100 and \$184 for the three and six months ended December 31, 2014, respectively. Rent expense was \$84 and \$165 for the three and six months ended December 31, 2013, respectively.

Minimum future lease payments as of December 31, 2014 under this operating lease are as follows:

Year ending June 30:

2015	\$ 141
2016	288
2017	297
2018	306
2019	315
2020 – 2022	855
Total	<u>\$ 2,202</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 and six months ended December 31, 2014 totaled \$0 and \$120,000, respectively. There were no funds granted by JOBS to JobsOhio during the three and six months ended December 31, 2013.

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 valued at \$763. 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.

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Lease amounts for the three and six months ended December 31, 2014 totaled \$40 and \$80, respectively. Lease amounts for the three and six months ended December 31, 2013 totaled \$40 and \$80, respectively. Minimum future lease payments as of December 31, 2014 are as follows:

	<u>Lease obligation</u>
Year ending June 30:	
2015	\$ 80
2016	<u>93</u>
	<u>\$ 173</u>

- 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 and six months ended December 31, 2014 totaled \$227 and \$342, respectively. Lease amounts for the three and six months ended December 31, 2013 totaled \$66 and \$158, respectively. The Agreement qualifies as an operating lease for accounting purposes. Revenues under the lease are recorded as fee revenue.

(b) Intangible Asset – 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 was \$13,799 and \$27,598 for the three and six months ended December 31, 2014, respectively. Amortization expense was \$13,799 and \$27,598 for the three and six months ended December 31, 2013, respectively. No impairment of the intangible asset existed as of December 31, 2014 and June 30, 2014.

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Intangible asset – liquor franchise activity for the six months ended December 31, 2014 is as follows:

	Balance, July 1, 2014	Additions	Reductions	Balance, December 31, 2014
Liquor franchise	\$ 1,379,924	-	-	\$ 1,379,924
Less: Accumulated amortization	(78,196)	(27,598)	-	(105,794)
Liquor franchise, net of amortization	<u>\$ 1,301,728</u>	<u>(27,598)</u>	<u>-</u>	<u>\$ 1,274,130</u>

(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 December 31, 2014 and June 30, 2014 are as follows:

Special obligation bonds	Original issue date	Original borrowing and outstanding as of December 31, 2014 and June 30, 2014	Interest rates to maturity	Final maturity
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.

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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.

Debt service requirements as of June 30, 2014 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	54,181		
Less current portion	<u>(42,955)</u>		
Total debt, long-term portion	<u>\$ 1,521,911</u>		

Debt service activity for the six months ended December 31, 2014 is as follows:

	<u>Balance, July 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, December 31, 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>(1,430)</u>	-	<u>(5,482)</u>	-
Total debt	<u>\$ 1,566,296</u>	<u>(1,430)</u>	-	<u>\$ 1,564,866</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.

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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 December 31, 2014 and June 30, 2014.