



JOBSOHIO AND SUBSIDIARY

Consolidated Financial Statements

July 5, 2011 through June 30, 2012

(With Independent Auditors' Report Thereon)

JOB SOHIO AND SUBSIDIARY

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Independent Auditors' Report

The Board of Directors
JobsOhio and Subsidiary

We have audited the accompanying consolidated statement of financial position of JobsOhio and subsidiary (the Organization) as of June 30, 2012, and the related statement of activities and change in net assets, cash flows and functional expenses for the period from July 5, 2011 through June 30, 2012. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of JobsOhio and subsidiary as of June 30, 2012, and the change in its net assets and its cash flows for the period from July 5, 2011 through June 30, 2012 in conformity with U.S. generally accepted accounting principles.

KPMG LLP

December 21, 2012

JOBSONIO AND SUBSIDIARY

Consolidated Statement of Financial Position

June 30, 2012

Assets		
Cash		\$ 3,777,921
Accounts receivable		383,498
Prepaid expenses		92,021
	Total current assets	<u>4,253,440</u>
Property and equipment:		
Systems and long-term assets		1,467,758
Less accumulated depreciation and amortization		<u>(40,687)</u>
	Net property and equipment	1,427,071
Deferred bond issue costs		<u>1,286,319</u>
	Total assets	<u><u>\$ 6,966,830</u></u>
Liabilities and Net Assets		
Accounts payable		\$ 258,169
Accrued expenses		1,802,878
Deferred revenue		930,352
Deferred rent		<u>10,601</u>
	Total liabilities	3,002,000
Unrestricted net assets		<u>3,964,830</u>
	Total liabilities and net assets	<u><u>\$ 6,966,830</u></u>

See accompanying Notes to Consolidated Financial Statements.

JOB SOHIO AND SUBSIDIARY

Consolidated Statement of Activities and Change in Net Assets

For the period from July 5, 2011 through June 30, 2012

Revenue and support:	
Contributions	\$ 6,949,999
Grants	5,774,824
	<hr/>
Total revenue and support	12,724,823
Expenses:	
Direct program expenses	3,602,559
Salaries, benefits and payroll taxes	1,956,832
Travel	140,725
Other	157,366
	<hr/>
Total program	5,857,482
Professional fees	1,696,013
Salaries, benefits and payroll taxes	851,637
Rent	232,987
Insurance	106,877
Other	279,714
	<hr/>
Total management and general	3,167,228
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Total expenses	9,024,710
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Excess of assets acquired over liabilities assumed in acquisition of JOBS	264,717
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Change in net assets	3,964,830
Net assets, beginning of the period	—
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Net assets, end of the period	\$ 3,964,830

See accompanying Notes to Consolidated Financial Statements.

JOB SOHIO AND SUBSIDIARY

Consolidated Statement of Cash Flows

For the period from July 5, 2011 through June 30, 2012

Cash flows from operating activities:	
Change in net assets	\$ 3,964,830
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation and amortization	40,687
Assets acquired in excess of liabilities assumed in acquisition of JOBS	(264,717)
Assets contributed by the State of Ohio	(66,965)
Net change in working capital	<u>(88,508)</u>
Net cash provided by operating activities	<u>3,585,327</u>
Cash flows from investing activities:	
Payment for the purchase of property and equipment	(1,400,793)
Cash received in acquisition of JOBS	<u>1,593,387</u>
Net cash provided by investing activities	<u>192,594</u>
Net increase in cash	3,777,921
Cash, beginning of the period	<u>—</u>
Cash, end of the period	<u><u>\$ 3,777,921</u></u>
Supplemental cash flow information:	
The Organization acquired JOBS on July 6, 2011. In conjunction with the acquisition, liabilities were assumed and assets were acquired from JOBS as follows:	
Fair value of assets acquired	\$ 3,665,023
Liabilities assumed	<u>(3,400,306)</u>
Contribution received in acquisition of JOBS	<u>\$ 264,717</u>
Contributed property and equipment	\$ 66,965
Contributed payments for services	124,814
Contributed services	299,999

See accompanying Notes to Consolidated Financial Statements.

JOBSOHIO AND SUBSIDIARY

Consolidated Statement of Functional Expenses

For the period from July 5, 2011 through June 30, 2012

	<u>Program</u>	<u>Management and general</u>	<u>Consolidated total</u>
Direct program expenses	\$ 3,602,559	—	3,602,559
Salaries, benefits and payroll taxes	1,956,832	851,637	2,808,469
Professional fees	91,070	1,696,013	1,787,083
Rent	—	232,987	232,987
Travel	140,725	9,395	150,120
Insurance	—	106,877	106,877
Service fees	—	82,750	82,750
Utilities	—	79,105	79,105
Office supplies	—	67,031	67,031
Repairs and maintenance	66,296	—	66,296
Depreciation and amortization	—	40,687	40,687
Marketing	—	746	746
Totals	<u>\$ 5,857,482</u>	<u>3,167,228</u>	<u>9,024,710</u>

See accompanying Notes to Consolidated Financial Statements.

JOBSONHIO AND SUBSIDIARY

Notes to Consolidated Financial Statements

July 5, 2011 through June 30, 2012

(1) Summary of Significant Accounting Policies

(a) *Organization and Purpose*

JobsOhio was incorporated on July 5, 2011, under the authority of Chapter 187, Revised Code, which authorized the Governor of Ohio to form a non-profit corporation under Chapter 1702, Revised Code, to promote economic development, job creation, job retention, job training, and the recruitment of business to Ohio. The Ohio General Assembly also adopted legislation authorizing a mechanism to fund the activities of JobsOhio, whereby the State may enter into an agreement to grant to JobsOhio or its nonprofit affiliate a franchise on the merchandising and sale of spirituous liquor in the State in exchange for valuable consideration in the form of a negotiated transfer price.

The Ohio Business Development Coalition (OBDC), a non-profit corporation under Chapter 1702, Revised Code, was created in 2004 to operate exclusively for the promotion of business and economic development within the State of Ohio and to lessen the burdens of government. On July 6, 2011, by action of its Board of Directors, the OBDC amended its Articles of Incorporation to transfer total control of JOBS to JobsOhio. OBDC has since changed its name to JobsOhio Beverage System (JOBS).

This transaction was accounted for as an acquisition. JOBS shares JobsOhio's mission of promoting business and economic development within the State of Ohio, including job creation, job retention, job training, the recruitment of business to the State of Ohio and lessening the burdens of government. JobsOhio will provide additional administrative and financial support to JOBS to continue its existing programs.

JOBS and JobsOhio are collectively known as the "Organization."

(b) *Financial Statement Presentation*

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting, in accordance with U.S. generally accepted accounting principles (U.S. GAAP). Under these principles, the Organization is required to report the changes in, and totals of each net asset class based on the existence of donor restrictions. Net assets, revenues, expenses, gains, and losses are classified based on the existence of Board designated or donor-imposed restrictions, where applicable. Accordingly, net assets and changes therein are reported as follows:

Unrestricted net assets – Net assets that are not subject to restrictions by donors or grantors, even though their use may be limited in other respects, such as by contract or by Board designation. Donor restricted contributions whose restrictions are met in the same period as the contributions are recorded as unrestricted net assets. Unrestricted net assets as of June 30, 2012 were \$3,964,830.

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Notes to Consolidated Financial Statements

July 5, 2011 through June 30, 2012

Temporarily restricted net assets – Net assets that are subject to donor or grantor-imposed restrictions that may or will be met, either by actions of the Organization or by the passage of time. When a restriction expires, or the funds are expended for the intended purpose, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statement of Activities and Change in Net Assets as net assets released from restrictions. There were no temporarily restricted net assets as of June 30, 2012.

Permanently restricted net assets – Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of JOBS. There were no permanently restricted net assets as of June 30, 2012.

JobsOhio's wholly-owned subsidiary, JOBS, is consolidated in the Organization's financial statements. All significant intercompany accounts and transactions are eliminated in consolidation.

(c) **Cash**

For purposes of the Consolidated Statement of Financial Position, the Organization considers all short-term, highly liquid investments that are readily convertible to a known amount of cash and short-term debt securities purchased with an original maturity of three months or less to be cash equivalents.

(d) **Deferred Bond Issue Costs**

Deferred bond issue costs represent costs, including professional fees, which will be amortized over the term of the related bonds to be issued in conjunction with the anticipated transfer of the State of Ohio liquor enterprise franchise to JobsOhio.

(e) **Property and Equipment**

Property and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Betterments and improvements of a nature considered to materially extend the useful lives of the assets are capitalized. Other maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the assets and related allowances for depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in income.

These assets consist of the following at June 30, 2012:

Accounting software	\$	739,026	(3 – 10 year useful life)
Furniture and equipment		361,826	(3 – 10 year useful life)
Leasehold improvements		366,906	(10 year amortization period)
		<u>1,467,758</u>	
Less accumulated depreciation and amortization		<u>(40,687)</u>	
	\$	<u>1,427,071</u>	

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July 5, 2011 through June 30, 2012

Depreciation and amortization expense totaled \$40,687 for the period ended June 30, 2012.

(f) Revenue Recognition

The Organization's revenue recognition policies are as follows:

Grants

The Organization receives various grants from the Ohio Development Services Agency (ODSA), formerly known as the Ohio Department of Development. Funding for these grants is provided either through cash advances or on a cash reimbursement basis.

Where grants are funded through cash advances, grant receipts represent deferred revenue until they are earned by incurring an allowable expense under the grant. Once earned, the balance is reduced and revenue is recognized. Deferred revenue is included in Deferred revenue on the Consolidated Statement of Financial Position.

Where grants are funded on a cash reimbursement basis, payment is made to the Organization only where an allowable cost is incurred. Revenue is recognized at the point at which the allowable cost is incurred with a corresponding receivable from the State.

Contributions

Contributions are recognized at fair value at the date of the donor's commitment to give. These contributions are considered to be available for unrestricted use, unless specifically restricted by the donor.

During the period ended June 30, 2012, JOBS received \$6,650,000 of contributions and provided \$4,850,000 to JobsOhio.

Included in contributions are services that meet the requirement of U.S. GAAP. Contributed services recognized as revenue include the waiver of authorized compensation by the Chief Investment Officer and President of JobsOhio.

(g) Income Taxes

JOBS is exempt from federal income tax, pursuant to Internal Revenue Code Section 501(c) (3). Therefore, JOBS has no liability for federal income taxes on exempt activities. JobsOhio is exempt from federal income tax, pursuant to Internal Revenue Code Section 501(c) (4). Therefore, JobsOhio has no liability for federal income taxes on exempt activities. However, JOBS and JobsOhio may be subjected to tax on unrelated business income. For the period ended June 30, 2012, JOBS and JobsOhio earned no unrelated business income.

U.S. GAAP requires the Organization to evaluate the level of uncertainty related to whether tax positions taken will be sustained upon examination. Any positions taken that do not meet the more-likely than-not threshold must be quantified and recorded as a liability for unrecognized tax benefits in the accompanying consolidated statement of financial position along with interest and penalties that would be payable to the taxing authorities upon examination. The Organization

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Notes to Consolidated Financial Statements

July 5, 2011 through June 30, 2012

believes that there are no tax positions taken that would materially impact the consolidated financial statements, and no such liabilities have been recorded. In general, the Organization is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for the periods before 2008.

(h) *Functional Expense Allocation*

The expenses incurred to provide the various programs and activities of JOBS and JobsOhio have been summarized on a functional basis in the Consolidated Statement of Activities and Change in Net Assets. The Organization performs two functions: Program and Management and general. Accordingly, certain costs have been allocated based on the nature of the costs as determined by Management. Definitions of these functions are as follows:

Program

Program expenses encompass those costs directly attributable to or reasonably allocable to the core activities performed by the Organization to promote economic development, job creation, job retention, job training, and the recruitment of business to the State of Ohio.

Management and General

Management and general expenses encompass all costs not identifiable with a single program activity, but indispensable to the conduct of such programs and to the Organization's existence. This includes expenses for the overall direction of the Organization, business management, general record-keeping, budgeting, financial reporting, and activities relating to these functions such as Professional fees, Salaries, benefits and payroll taxes, Rent, Insurance, and Other expenses.

(i) *Related Parties*

JOBS has a lease agreement and a service agreement with Ohio Business Roundtable (OBRT), whereby OBRT provides financial accounting services, information and data services as well as office receptionist and administrative support services.

On July 6, 2011, JobsOhio acquired JOBS. JOBS supports JobsOhio by accepting contributions, intended for JobsOhio. In addition, JobsOhio provides administrative support to JOBS, including office space and legal and accounting services. The cost of the services is not separately identified but is not considered material to the consolidated financial statements.

JobsOhio and JOBS are separate legal entities and the assets of JOBS are only available to satisfy the creditors of JOBS.

(j) *Use of Estimates*

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

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Notes to Consolidated Financial Statements

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(k) *Subsequent Events*

The Organization has evaluated its June 30, 2012 consolidated financial statements for subsequent events through December 21, 2012, the date the consolidated financial statements were available to be issued. The Organization is not aware of any subsequent events that would require recognition or disclosure in the consolidated financial statements.

(2) **Acquisition of Subsidiary**

JobsOhio acquired JOBS on July 6, 2011. JobsOhio did not transfer any consideration as part of the acquisition and recognized an inherent contribution received of \$264,717 in the Consolidated Statement of Activities and Change in Net Assets for the fiscal period ended June 30, 2012, which is classified as unrestricted.

The following table summarizes the July 6, 2011 acquisition-date fair values of the excess of assets acquired and liabilities assumed.

Cash	\$	1,593,387
Accounts receivable		<u>2,071,636</u>
Total assets		3,665,023
Accounts payable		(1,868,793)
Deferred revenue		<u>(1,531,513)</u>
Total liabilities		<u>(3,400,306)</u>
Excess of assets acquired over liabilities assumed in acquisition of JOBS	\$	<u><u>264,717</u></u>

(3) **Risks and Uncertainties**

(a) *Uninsured Risk on Cash Deposits*

The Organization maintains their cash balances in financial institutions located in Central Ohio. Deposits in interest-bearing accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a coverage limit of \$250,000. Insurance on deposits in noninterest-bearing accounts is unlimited through December 31, 2012. The Organization has both interest-bearing and noninterest-bearing accounts. As a result, the Organization may have balances that exceed the insured limit.

(b) *Concentration Risk – Support*

The Organization relies on revenues from State of Ohio grants and contributions. State of Ohio grants accounted for approximately 42% of \$12,724,823 in total revenue and support. The State of Ohio has granted funds during the previous periods as well. A loss of grant funding from this source in the future may have an adverse effect on the Organization's operations.

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(4) Operating Lease Obligation

JOBS rented office space under a sublease agreement which originally expired in December 2011, converting to a month by month basis until February 2012. JobsOhio has entered into an agreement and pays monthly rent. Rent expense was \$232,987 for the period ended June 30, 2012.

Minimum future payments under the operating lease for the remaining terms are as follows:

	<u>Amount</u>
Years ended June 30:	
2013	\$ 165,712
2014	171,543
2015	177,375
2016	183,206
2017	189,038
Thereafter	<u>940,329</u>
Total minimum lease payments	<u>\$ 1,827,203</u>

(5) Retirement Plan

During fiscal period 2006, JOBS implemented a defined contribution employee benefit plan known as the Ohio Business Development Coalition Cash or Deferred Profit Sharing Plan (the Plan) covering all employees. JOBS makes nonelective contributions of 3% of the employees' compensation to the Plan. Annually, JOBS also has the ability to contribute an additional discretionary amount ranging up to 9% of the employees' compensation. Employees do not have to contribute to the Plan to receive a nonelective or discretionary contribution. Employees are immediately vested 100% in JOBS's contributions. Plan contribution expense for JOBS was \$65,726 for the period ended June 30, 2012. The expense is a component of salaries, benefits and payroll taxes on the Consolidated Statement of Activities and Change in Net Assets.

At this time, there is no employee benefit plan in place for employees of JobsOhio.

(6) Commitments and Contingencies

(a) Litigation

JobsOhio is currently engaged in the following litigation:

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. Litigation filed on April 18, 2011 in the Ohio Supreme Court challenged, under various provisions of the Ohio Constitution, certain aspects of both JobsOhio and that law enacted in February 2011 authorizing its creation.

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Specifically, plaintiffs in that case were challenging the provisions in that law granting the Ohio Supreme Court exclusive original jurisdiction for any challenge to that law or the creation of JobsOhio, and also requiring those challenges be filed within sixty days after that law took effect. Plaintiffs were also claiming that law was an improper special act conferring corporate powers, that the Governor may not serve on the JobsOhio board of directors, that the provisions for dissolution of JobsOhio violate limitations in the Ohio Constitution on State appropriations and assumption of corporate debt, and that the law created a joint venture under which the State is lending its aid and credit. Among other relief, Plaintiffs requested the Court declare the legislation authorizing JobsOhio's creation unconstitutional and enjoin the Governor from filing the articles of incorporation to create JobsOhio. On August 19, 2011, the Ohio Supreme Court dismissed that case for lack of subject matter jurisdiction.

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, those same plaintiffs filed a complaint against JobsOhio and various State parties in the Court of Common Pleas of Franklin County, Ohio, again claiming the law authorizing the creation of JobsOhio, as amended by the 2012-13 appropriations Act, 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 again 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 this case. The Court of Common Pleas on November 23, 2011, held a hearing on the defendants' motions to dismiss and on December 2, 2011, 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. In an effort to have the Ohio Supreme Court hear their case, the plaintiffs on June 25, 2012, requested the Court of Appeals certify to the Supreme Court a conflict between its decision and similar decisions in other Ohio courts of appeal, but the Tenth District Court of Appeals refused to certify a conflict and denied the plaintiffs' motion on August 2. On July 27, the plaintiffs also directly requested the Ohio Supreme Court to accept their appeal of the Court of Appeals decision, and on August 24 JobsOhio and the State filed their responses opposing that appeal.

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Notes to Consolidated Financial Statements

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It is the opinion of JobsOhio management that the constitutional questions being raised in the aforementioned litigation regarding JobsOhio and the legislation authorizing its creation, as well as the transaction involving the State's liquor system, are without merit. Although the outcome of the litigation is not determinable, because the pending litigation does not include any demand for money damages, there is no basis for accrual of a related loss contingency.

(b) *Other Contingencies*

Under the terms of the various state grants, periodic monitoring reviews are performed and certain costs may be questioned as being unallowable expenditures under the grant terms. The purpose of the monitoring is to assess the effectiveness of JOBS's current businesses practices and their compliance with grant requirements. Any expenditure determined to be unallowable may be required to be returned, resulting in a liability for JOBS.