

NEW ISSUE
(Book-Entry Only)

RATINGS:
(See "Ratings" herein)

In the opinion of Peck, Shaffer & Williams LLP, Bond Counsel, under existing law, (i) interest on the Series 2003 A Bonds will be excludible from gross income of the holders thereof for purposes of federal income taxation, (ii) interest on the Series 2003 A Bonds will not be a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (iii) interest on the Series 2003 A Bonds will be exempt from taxation, including personal income taxation, by the State of Ohio and its political subdivisions, and will be excludible from the net income base used in calculating the Ohio corporate franchise tax, all subject to the qualifications described herein under the heading "TAX STATUS."

OFFICIAL STATEMENT
\$142,500,000
STATE OF OHIO
(Ohio Building Authority)
Workers' Compensation Facilities Refunding Bonds
(William Green Building)
2003 Series A

Dated: Date of Initial Issuance

Due: As shown below

Purpose: The \$142,500,000 State of Ohio (Ohio Building Authority) Workers' Compensation Facilities Refunding Bonds (William Green Building), 2003 Series A (the "Series 2003 A Bonds") will be issued for the purpose of providing moneys to currently refund all of the outstanding State of Ohio (Ohio Building Authority) Workers' Compensation Facilities Bonds (William Green Building), 1993 Series A (the "Series 1993 A Bonds"). See "INTRODUCTORY STATEMENT" herein.

Security and Sources of Payment: The Series 2003 A Bonds are special obligations of the State, issued by the Ohio Building Authority, and are payable solely from Pledged Receipts, principally rental payments under the Lease. The obligations of the Ohio Bureau of Workers' Compensation (the "Bureau") to make the rental payments are subject to and dependent upon biennial appropriations for the Bureau being made from the Administrative Cost Fund for such purposes by the General Assembly. The failure of the General Assembly to so appropriate moneys for the Bureau will result in the termination of the Lease. The Series 2003 A Bonds do not represent or constitute a debt of the Authority, the Bureau or the State or of any political subdivision thereof or a pledge of the faith and credit of the State, any political subdivision thereof or the Authority. *The Holders and Book-Entry Interest Owners of the Series 2003 A Bonds shall have no right to have excises or taxes levied by the General Assembly for the payment of Bond Service Charges on the Series 2003 A Bonds.* See "SECURITY FOR THE SERIES 2003 BONDS" herein.

Payment: Interest on the Series 2003 A Bonds will be payable on April 1 and October 1 of each year, commencing October 1, 2003. The Series 2003 A Bonds will mature on April 1 in the years and in the principal amounts as follows:

MATURITY SCHEDULE

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2005	\$ 5,300,000	2.00%	1.61%	2010*	\$ 2,300,000	3.30%	3.36%
2006	2,960,000	2.00	1.96	2010*	13,630,000	5.00	3.36
2006	10,230,000	5.00	1.96	2011*	730,000	3.60	3.60
2007*	4,190,000	2.30	2.35	2011*	15,135,000	5.00	3.60
2007*	9,960,000	5.00	2.35	2012*	885,000	3.70	3.73
2008*	2,290,000	2.70	2.72	2012*	15,005,000	5.00	3.73
2008*	12,765,000	5.00	2.72	2013*	290,000	3.80	3.85
2009*	3,030,000	3.00	3.05	2013*	15,625,000	5.00	3.85
2009*	12,975,000	5.00	3.05	2014*	890,000	4.00	3.95
				2014*	14,310,000	5.00	3.95

*Insured maturity

Bond Insurance: The scheduled payment of principal of and interest on the Series 2003 A Bonds maturing April 1, 2007 through April 1, 2014, when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Series 2003 A Bonds by FINANCIAL GUARANTY INSURANCE COMPANY. See "BOND INSURANCE" herein.

 **Financial Guaranty Insurance
Company**

FGIC is a registered service mark used by Financial Guaranty Insurance Company,
a private company not affiliated with any U.S. Government agency.

Redemption of Bonds: The Series 2003 A Bonds are not subject to redemption prior to maturity.

Book-Entry: The Series 2003 A Bonds are being issued as fully registered bonds in book-entry form only, and book-entry interests therein will be available for purchase in principal amounts of \$5,000 and integral multiples thereof. The Depository Trust Company ("DTC"), New York, New York, is Securities Depository. See "BOOK-ENTRY FORM" herein.

This cover page includes certain information for reference only. It is not a summary of the Series 2003 A Bonds or the matters set forth herein. Investors should read the entire Official Statement to obtain information as a basis for the making of informed investment judgments. Capitalized terms not otherwise defined on this cover page shall have the meanings given to them in the "GLOSSARY" herein.

The Series 2003 A Bonds are offered when, as and if issued by the Authority and accepted by the Underwriters, subject to the approval of certain legal matters relating to their issuance by Peck, Shaffer & Williams LLP, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Bricker & Eckler LLP. Certain legal matters will be passed upon for the Authority by its counsel, the Attorney General of Ohio, Jim Petro, and Calfee, Halter and Griswold LLP. It is expected that the Series 2003 A Bonds will be available in definitive form for delivery to DTC in New York, New York on or about April 22, 2003.

MORGAN STANLEY

**Citigroup
McDonald Investments Inc.
Mesirow Financial, Inc.**

**First Albany Corporation
Melvin Securities, L.L.C.
SBK-Brooks Investment Corp.**

The date of this Official Statement is April 10, 2003

REGARDING USE OF THIS OFFICIAL STATEMENT

This Official Statement does not constitute an offering of any security other than the original offering of the Series 2003 A Bonds identified on the cover page of this Official Statement. No person has been authorized by the Bureau, the Authority or the State to give any information or to make any representation, other than those contained in this Official Statement, and if given or made such other information or representation must not be relied upon as having been given or authorized by the Bureau, the Authority or the State. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Series 2003 A Bonds by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The information and expression of opinions set forth herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder, under any circumstances, shall create any implication that there has been no change in the affairs of the Bureau, the Authority or the State since the date hereof.

Upon issuance, the Series 2003 A Bonds will not be registered by the Bureau, the Authority or the State under the Securities Act of 1933, as amended, or the securities laws of any jurisdiction and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency, except the Authority, will have passed upon the accuracy or adequacy of this Official Statement or approved the Series 2003 A Bonds for sale. This Official Statement includes the cover page immediately preceding this page.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2003 A BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2003 A BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

This Official Statement has been prepared in connection with the original offering for sale of the Series 2003 A Bonds. The Authority deems this Official Statement "final as of its date" within the meaning of Rule 15c2-12(b)(1) of the Securities and Exchange Commission.

The information approved and provided by the State in this Official Statement is the information relating to the particular subjects provided by the State or State agencies for the purpose. Reliance for the purpose should not be placed on any other information publicly provided, in any format including electronic, by any State agency for other purposes, including general information provided to the public or to portions of the public.

Other than with respect to information concerning Financial Guaranty Insurance Company ("FGIC" or "Bond Insurer") contained under the caption "**BOND INSURANCE**" and "**APPENDIX D - Specimen of Municipal Bond Insurance Policy**" herein, none of the information in this Official Statement has been supplied or verified by Financial Guaranty Insurance Company and Financial Guaranty Insurance Company makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series 2003 A Bonds; or (iii) the tax exempt status of the interest on the Series 2003 A Bonds.

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SUMMARY STATEMENT

The following summary statement supplements certain of the information on the cover page and summarizes selected other information in this Official Statement relating to the Series 2003 A Bonds. It is not intended as a substitute for the more detailed discussions in this Official Statement, to which reference should be made.

ISSUER: The State of Ohio, by the Ohio Building Authority.

SECURITY AND SOURCES OF PAYMENT: The Series 2003 A Bonds are special obligations of the State payable solely from, and secured by a pledge of, the Pledged Receipts. Holders and Book-Entry Interest Owners have no right to have excises or taxes levied by the General Assembly for payment.

The Series 2003 A Bonds (and Additional Bonds that have been and may be issued and outstanding) are secured by the Trust Agreement. Principal and interest are payable from and secured by a pledge of:

1. Payments received in the Bond Service Fund from rentals and other revenues and receipts of the Authority under the Lease.
2. Amounts on deposit in the Replacement and Improvement Fund.
3. Receipts of the Authority with respect to the Project, consisting of Pledged Receipts as defined in and subject to the provisions of the Trust Agreement.

The obligations of the Bureau to make rental payments under the Lease are subject to and dependent upon biennial appropriations being made by the General Assembly from the Administrative Cost Fund for such purpose. The appropriation may not be made for more than a two-year period. The failure of the General Assembly to so appropriate moneys to the Bureau will result in termination of the Lease. The Series 2003 A Bonds do not represent or constitute a debt of the Authority, the Bureau or the State or of any political subdivision thereof, or a pledge of the faith and credit of the State, any political subdivision thereof or the Authority.

Certain financial and other information concerning the State is contained in Appendix A hereto and is provided only as information regarding the State generally. Audited financial statements of the Bureau (which include the financial statements of the Industrial Commission) for the year ended June 30, 2002 are contained in Appendix B hereto and should be reviewed carefully because rental payments under the Lease are paid from moneys appropriated from the Administrative Cost Fund of the Bureau.

BOND INSURANCE: The scheduled payment of principal of and interest on the Series 2003 A Bonds maturing April 1, 2007 through April 1, 2014, when due will be guaranteed under a municipal bond insurance policy (the "Bond Insurance Policy") to be issued concurrently with the delivery of the Series 2003 A Bonds by Financial Guaranty Insurance Company

AUTHORIZATION: The Series 2003 A Bonds are being issued under Section 2i of Article VIII of the Ohio Constitution under powers granted to the Authority by Chapter 152 of the Ohio Revised Code. The Authority is a body both corporate and politic of the State. The Governor appoints its five members for six-year terms with the advice and consent of the Senate.

PURPOSE OF BONDS: The Series 2003 A Bonds are being issued for the purpose of providing moneys to currently refund all of the outstanding State of Ohio (Ohio Building Authority) Workers' Compensation Facilities Bonds (William Green Building), 1993 Series A.

PRIOR REDEMPTION: The Series 2003 A Bonds are not subject to redemption prior to maturity.

FORM AND MANNER OF MAKING PAYMENTS: The Series 2003 A Bonds will be originally issued only as fully registered bonds, one for each maturity, under a Book Entry System, and registered initially in the name of DTC, or its nominee. There will be no distribution of Series 2003 A Bonds to the ultimate purchasers. The Series 2003 A Bonds in certificated form will not be transferable or exchangeable, except for transfer to another nominee of DTC or as otherwise described in this Official Statement.

Principal and interest will be payable to the Holder (initially, DTC). Principal will be payable on presentation and surrender to the Trustee. The Trustee will transmit interest on each Interest Payment Date (April 1 and October 1, beginning October 1, 2003) to the Holder as of the 15th day of the month preceding the Interest Payment Date. Interest on the Series 2003 A Bonds will be calculated on a year consisting of twelve 30-day months.

TAX MATTERS: In the opinion of Bond Counsel, under existing law (i) interest on the Series 2003 A Bonds will be excludible from gross income of the holders thereof for purposes of federal income taxation, (ii) interest on the Series 2003 A Bonds will not be a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (iii) interest on the Series 2003 A Bonds will be exempt from taxation, including personal income taxation, by the State of Ohio and its political subdivisions, and will be excludible from the net income base used in calculating the Ohio corporate franchise tax, all subject to the qualifications described herein under the heading "TAX STATUS".

TRUSTEE AND BOND REGISTRAR: U.S. Bank National Association (formerly known as Firststar Bank, National Association, which was formerly known as Star Bank, National Association) is Trustee and Bond Registrar for the Series 2003 A Bonds.

BOND COUNSEL: Peck, Shaffer & Williams LLP.

UNDERWRITERS: Morgan Stanley & Co. Incorporated, Citigroup Global Markets Inc., First Albany Corporation, McDonald Investments Inc., Melvin Securities, LLC, Mesirov Financial, Inc. and SBK-Brooks Investment Corp.

Questions regarding this Official Statement or the Series 2003 A Bonds should be directed to Kevin Fenlon, Ohio Building Authority, 30 East Broad Street, Columbus, Ohio 43215, telephone (614) 466-5959.

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\$142,500,000
STATE OF OHIO
(Ohio Building Authority)
Workers' Compensation Facilities Refunding Bonds
(William Green Building)
2003 Series A

INTRODUCTORY STATEMENT

The purpose of this Official Statement of the Ohio Building Authority (the "Authority") is to furnish information with respect to the original issuance and sale of \$142,500,000 aggregate principal amount of State of Ohio (Ohio Building Authority) Workers' Compensation Facilities Refunding Bonds (William Green Building), 2003 Series A (the "Series 2003 A Bonds"). The Series 2003 A Bonds are being issued pursuant to Section 2i of Article VIII of the Ohio Constitution under powers granted to the Authority by the General Assembly of Ohio in the Act. Capitalized terms not otherwise defined in the text of this Official Statement shall have the meanings given thereto in the Glossary herein.

The Series 2003 A Bonds will be issued under the Trust Agreement dated as of October 1, 1993 (the "Original Trust Agreement") between the Authority and U.S. Bank National Association (formerly known as Firstar Bank, National Association, which was formerly known as Star Bank, National Association), as trustee (the "Trustee"), and the Second Supplemental Trust Agreement, dated as of April 1, 2003, between the Authority and the Trustee (the "Second Supplemental Trust Agreement"). The Original Trust Agreement as amended and supplemented to date and by the Second Supplemental Trust Agreement is hereinafter referred to as the "Trust Agreement". The Series 2003 A Bonds are authorized by Resolution No. 1993-19 adopted by the Authority on October 15, 1993 (the "General Bond Resolution") and Resolution No. 2003-3 adopted by the Authority on April 10, 2003 (the "Series 2003 A Resolution" and, collectively with the General Bond Resolution as amended and supplemented to date, the "Resolutions").

Proceeds of the Series 2003 A Bonds will be used (i) to currently refund all of the outstanding State of Ohio (Ohio Building Authority) Workers' Compensation Facilities Bonds (William Green Building), 1993 Series A (the "Refunded Bonds"), and (ii) to pay costs incidental to the issuance and sale of the Series 2003 A Bonds. See "**SOURCES AND USES OF SERIES 2003 A BOND PROCEEDS**" and "**PLAN OF REFUNDING**".

The Authority has leased the Project to the Bureau pursuant to the terms of a Lease Agreement dated as of October 1, 1993 (the "Original Lease") and the Second Supplemental Lease dated as of April 1, 2003 (the "Second Supplemental Lease") each between the Authority and the Bureau. The Original Lease as amended and supplemented to date and by the Second Supplemental Lease is hereinafter referred to as the "Lease". The current term of the Lease expires on June 30, 2003, and is automatically renewable for successive terms not to exceed two years upon appropriation by the General Assembly to the Bureau of the amounts required for rental payments for each successive term.

The Lease requires rental payments from the Bureau equal to the Bond Service Charges on the Series 2003 A Bonds and any other obligations issued under the Trust Agreement (collectively, the "Bonds"), certain administrative costs of the Authority and any necessary Rebate Amount. The rental payments constituting Basic Rent (see "**THE LEASE – Rental Payments and Pledges**") from the Bureau are pledged by the Authority pursuant to the Trust Agreement for the payment of Bond Service Charges on the Bonds and are required to be deposited as described herein under "**THE TRUST AGREEMENT – Funds and Accounts**".

The obligations of the Bureau to make rental payments and to perform other obligations involving expenditures under the Lease are subject to and dependent upon biennial appropriations for the Bureau being made by the General Assembly for such purpose. If the General Assembly were to fail to appropriate moneys to make rental payments under the Lease, the Lease would terminate. The appropriation for rental payments under the Lease will be solely from the Bureau's Administrative Cost Fund (see "BUREAU OF WORKERS' COMPENSATION - Funds - The Administrative Cost Fund") and not from the General Revenue Fund of the State or other funds available to or maintained by the Bureau.

Based upon projected Bond Service Charges on the Series 2003 A Bonds and the Authority's estimated administrative expenses for the Project for the biennium ending June 30, 2003, the amounts appropriated by the General Assembly for the rental payments by the Bureau under the Lease to the Authority will be sufficient to pay, with respect to the Project, such Bond Service Charges and certain administrative expenses of the Authority for such biennium, including any amounts due as Additional Rent under the Lease.

This Official Statement contains brief descriptions of the Series 2003 A Bonds, the plan of refunding for the Refunded Bonds, the security for the Series 2003 A Bonds, the Authority, the Bureau, the Project, the Lease and the Trust Agreement. **Audited financial statements of the Bureau (which include the financial statements of the Industrial Commission) for the year ended June 30, 2002 are contained in Appendix B and should be reviewed carefully because rental payments under the Lease are paid with moneys appropriated from the Administrative Cost Fund.**

Simultaneously with the issuance of the Series 2003 A Bonds, Financial Guaranty Insurance Company will issue the Bond Insurance Policy for the Series 2003 A Bonds maturing October 1, 2007 through October 1, 2014, guaranteeing the payment of principal of and interest on such Series 2003 A Bonds, when due. See "BOND INSURANCE" and "APPENDIX D - Specimen of Municipal Bond Insurance Policy".

All financial and other data included herein have been provided by the Authority, the Bureau or the State, except that which is attributed to other sources. The summaries of the documents described herein do not purport to be comprehensive or definitive and are qualified in their entirety by reference to such documents. Copies of the Lease and the Trust Agreement may be obtained from the Authority and, during the initial offering period, from the Underwriters.

THE SERIES 2003 A BONDS

General Terms

The Series 2003 A Bonds will be dated the date of initial issuance. The Series 2003 A Bonds will bear interest at the rates set forth on the cover page hereof, payable semi-annually on April 1 and October 1, commencing October 1, 2003, and will mature on April 1 in the years and in the principal amounts set forth on the cover page hereof.

Registration, Payment and Transfer

The Series 2003 A Bonds will be issued only as one fully registered bond for the April 1, 2005 maturity and one fully registered bond for each of the two interest rates for each other maturity in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York, as Holder of all the Series 2003 A Bonds. The fully registered Series 2003 A Bonds will be retained and immobilized in the custody of DTC. See "**BOOK-ENTRY FORM**". As used in this Official Statement,

"Holder" means the registered owner of a Series 2003 A Bond and "Book-Entry Interest Owner" means the owner of a Book-Entry interest in a Series 2003 A Bond held by a Securities Depository in Book-Entry Form. DTC (or any successor Securities Depository), or its nominee, will be and will be considered to be the sole Holder of the Series 2003 A Bonds for all purposes under the Trust Agreement.

Payments of Bond Service Charges on the Series 2003 A Bonds

The principal of the Series 2003 A Bonds will be payable to the Holder (initially DTC or its nominee) upon presentation and surrender of the Series 2003 A Bonds at the principal corporate trust office of the Trustee. The Series 2003 A Bonds will bear interest on their unpaid principal amounts payable on each Interest Payment Date to the Holder (initially DTC or its nominee) at the address shown on the bond register for the Series 2003 A Bonds, as of the close of business on the 15th day of the calendar month next preceding such Interest Payment Date; provided that, so long as the Series 2003 A Bonds remain in Book-Entry Form, the Trustee will make payment of Bond Service Charges by wire transfer of funds on each Interest Payment Date.

Redemption of Series 2003 A Bonds

The Series 2003 A Bonds are not subject to redemption prior to maturity.

Additional Bonds

The Authority may issue Additional Bonds under the Trust Agreement for the purpose of paying Project Costs in an amount not exceeding the amount authorized for the Project by the General Assembly and, to the extent permitted by the Act, for the purpose of refunding one or more series or one or more maturities within a series of Bonds (including but not limited to the Series 2003 A Bonds). The General Assembly can, by legislation, increase or decrease the amount authorized for the Project. Additional Bonds will be payable from the Pledged Receipts under the Trust Agreement, on a parity with the Bonds outstanding under the Trust Agreement, including the Series 2003 A Bonds.

BOOK-ENTRY FORM

General

Book-Entry Interest Owners of the Series 2003 A Bonds will not receive or have the right to receive physical delivery of Series 2003 A Bonds and will not be or be considered to be, and will not have any rights as, Holders, of Series 2003 A Bonds under the Trust Agreement.

The following information on the Book-Entry System applicable to the Series 2003 A Bonds has been supplied by DTC. The Authority, the Bureau, the Underwriters and the Trustee do not make any representations, warranties or guarantees with respect to the accuracy or completeness of this information and have no responsibility for the accuracy thereof.

DTC will act as Securities Depository for the Series 2003 A Bonds. The Series 2003 A Bonds will be issued as securities registered in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of Series 2003 A Bonds, each in the aggregate principal amount of the respective maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve

System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposit securities through electronic, computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of the Depository Trust & Clearing Corporation ("DTCC"). DTCC is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (also subsidiaries of DTCC) and by The New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has S&P's highest rating: AAA. The Rules applicable to DTC and Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2003 A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2003 A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2003 A Bond ("Book-Entry Interest Owner") is in turn to be recorded on the Direct and Indirect Participants' records. **Book-Entry Interest Owners will not receive written confirmation from DTC of their purchase, but Book-Entry Interest Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Book-Entry Interest Owner entered into the transaction.** Transfers of ownership interests in the Series 2003 A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Book-Entry Interest Owners. **Book-Entry Interest Owners will not receive certificates representing their ownership interests in the Series 2003 A Bonds except in the event that use of the Book-Entry System for the Series 2003 A Bonds purchased by such Book-Entry Interest Owner is discontinued.**

To facilitate subsequent transfers, all Series 2003 A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by DTC. The deposit of Series 2003 A Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Book-Entry Interest Owners of the Series 2003 A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2003 A Bonds are credited, which may or may not be the Book-Entry Interest Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Book-Entry Interest Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to Cede & Co. If less than all of the Series 2003 A Bonds are being redeemed, DTC's practice is to determine by lot the amount of interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2003 A Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the applicable regular record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2003 A Bonds entitled to consent or vote, as applicable, are credited on the applicable regular record date (identified in a listing attached to the Omnibus Proxy).

DTC may discontinue providing its services as Securities Depository with respect to the Series 2003 A Bonds, at any time by giving reasonable notice to the Authority or the Trustee. Also, the Authority may determine that continuation of a securities depository/book-entry relationship is not in the best interests of the Holders of the Series 2003 A Bonds. Under such circumstances, in the event that a successor Securities Depository is not obtained, bond certificates are required to be and will be printed and delivered. See "**BOOK-ENTRY FORM - Revision of Book-Entry System; Series 2003 A Replacement Bonds**" below.

Revision of Book-Entry System; Series 2003 A Replacement Bonds

The Trust Agreement provides for the physical delivery of fully registered Series 2003 A Bonds ("Series 2003 A Replacement Bonds") issued, directly or indirectly, to Holders, other than DTC or its nominee, of such Series 2003 A Bonds if the Authority determines that continuation of a securities depository/book-entry relationship is not in the best interests of the Holders of the Series 2003 A Bonds or in the event that DTC determines not to continue to act as Securities Depository for the Series 2003 A Bonds. Upon the occurrence of any such event with respect to the Series 2003 A Bonds, the Authority may in its discretion attempt to have established a securities depository/book-entry relationship with another qualified Securities Depository for the Series 2003 A Bonds. If the Authority does not, or is unable to, establish such a relationship and after the Trustee has made provisions for notification of the Book-Entry Interest Owners of the Series 2003 A Bonds by appropriate notice to DTC or its nominee, the Trustee will authenticate and deliver the Series 2003 A Replacement Bonds in the denomination of \$5,000 or any integral multiple thereof, to or at the direction of, and, if the event is not the result of Authority action or inaction, at the expense (including printing costs) of DTC's assigns.

Bond Service Charges on Series 2003 A Replacement Bonds will be payable when due without deduction for the services of the applicable paying agent. Principal of any Series 2003 A Replacement Bonds will be payable to the Holder thereof upon presentation and surrender thereof at the principal corporate trust office of the Trustee. Interest thereon will be payable by the Trustee by check or draft, mailed to the Holder of record on the bond register for the Series 2003 A Bonds maintained by the Trustee as of the 15th day of the calendar month preceding the Interest Payment Date.

Series 2003 A Replacement Bonds will be exchangeable for Series 2003 A Replacement Bonds in authorized denominations, and transferable, at the office of the Trustee without charge (except taxes and other governmental fees).

Transfer of Book-Entry Interests in Series 2003 A Bonds

The rights of Book-Entry Interest Owners in the Series 2003 A Bonds and the manner of transferring or pledging those interests are subject to applicable state law. Book-Entry Interest Owners of the Series 2003 A Bonds may wish to discuss the manner of transferring or pledging their book-entry interests in such Series 2003 A Bonds with their legal advisors.

SOURCES AND USES OF FUNDS

A portion of the proceeds from the sale of the Series 2003 A Bonds will be used, together with the moneys in the Series 1993 A Bond Service Reserve Account, to purchase direct obligations of, or obligations the payment of principal of and premium, if any, and interest on which are unconditionally guaranteed by the United States of America (the "Defeasance Obligations"). The Authority will cause Defeasance Obligations sufficient to currently refund the Refunded Bonds to be deposited with the Escrow Agent in the Escrow Account created under the Escrow Agreement. See "**PLAN OF REFUNDING**".

A portion of the proceeds of the Series 2003 A Bonds will be used to pay the costs incurred by the Authority in connection with the issuance of the Series 2003 A Bonds.

Sources:

Principal of Series 2003 A Bonds	\$142,500,000.00
Plus: Original Issue Premium	11,680,048.35
Less: Original Issue Discount	(30,002.95)
Transfer from Series 1993 A Bond Service Reserve Account	<u>10,320,306.25</u>
Total Sources	<u>\$164,470,351.65</u>

Uses:

Deposit to Escrow Account	\$163,151,502.65
Issuance Expenses *	<u>1,318,849.00</u>
Total Uses	<u>\$164,470,351.65</u>

* Includes Underwriters' discount, bond insurance premium, certain legal fees, printing and other costs of issuance.

PLAN OF REFUNDING

General

A portion of proceeds from the sale of the Series 2003 A Bonds will be used, together with \$10,320,306.25 of moneys in the Series 1993 A Bond Service Reserve Account, to currently refund all of the outstanding Series 1993 A Bonds (the "Refunded Bonds"). The aggregate principal amount of the Refunded Bonds is \$160,255,000.

Payment of Interest on and the Redemption of Refunded Bonds

On the date of delivery and payment of the Series 2003 A Bonds, the Trustee, as Escrow Agent (the "Escrow Agent") under the Escrow Agreement will receive a portion of the proceeds of the Series 2003 A Bonds and \$10,320,306.25 of moneys in the Series 1993 A Bond Service Reserve Account that, together, will be in the amount necessary to purchase the Defeasance Obligations. Proceeds of the Defeasance Obligations will be used by the Escrow Agent to redeem (including the payment of redemption premium) by optional redemption the Refunded Bonds on a date (the "Redemption Date") which is thirty days after the date of issuance of the Series 2003 A Bonds.

Mathematical Verification

The mathematical accuracy of the computations supporting the adequacy of maturing principal of and premium, if any, and interest on the Defeasance Obligations pursuant to the Escrow Agreement to pay the principal of and redemption premium and interest on the Refunded Bonds on the Redemption Date, will be verified by Grant Thornton, LLP, independent certified public accountants, prior to the delivery of the Series 2003 A Bonds.

Defeasance of Refunded Bonds

Upon the purchase and deposit of the Defeasance Obligations in accordance with the Escrow Agreement and receipt of the verification described above, the Refunded Bonds will be deemed to have been paid and discharged within the meaning of the Trust Agreement.

SECURITY FOR THE SERIES 2003 A BONDS

General

The Series 2003 A Bonds are special obligations of the State issued by the Authority under and pursuant to the Trust Agreement. The Series 2003 A Bonds, together with Additional Bonds, are payable solely from and are equally and ratably secured by a pledge of the Pledged Receipts. See "**SECURITY FOR THE SERIES 2003 A BONDS – Rental Payments and Related Budget Requirements**".

The Series 2003 A Bonds will be entitled only to the security afforded by the Pledged Receipts under the Trust Agreement on a parity with any Additional Bonds. **Neither the Project, nor any interest therein, is pledged or mortgaged as security for the Series 2003 A Bonds.**

Rental Payments and Related Budget Requirements

The Lease requires rental payments of Basic Rent at least equal to (i) Bond Service Charges on all outstanding Bonds (whether due as scheduled, as a result of a call for redemption or as a result of an acceleration of principal and interest on such Bonds); (ii) such sums, if any, as may be necessary to maintain any required reserve in a bond service reserve account (none is provided for or is required with respect to the Series 2003 A Bonds); (iii) such sums, if any, as may be necessary to purchase any Bonds which the Authority is obligated to purchase pursuant to any agreement with a Financial Institution, and (iv) such sums, if any, as may be necessary to make payments to any Financial Institution issuing a Credit Support Instrument for one or more series of Bonds. The Lease also requires payment by the Bureau to the Authority of Additional Rent in an amount equal to the sum of the estimated Operating Expenses of the Authority and amounts sufficient to pay the Rebate Amount to the extent not available from other sources.

The Lease requires the Authority to prepare periodically and submit to the Bureau and to the Director of Budget and Management reports estimating the rental payments to be due thereunder. See "**THE LEASE – Rental Payments and Pledges**". The obligation of the Bureau to make rental payments pursuant to the Lease is expressly made subject to the appropriation of moneys by the General Assembly for such purposes. See "**THE AUTHORITY - Budgetary Process**". Under the Ohio Constitution, an appropriation may not be made for more than a two-year period. The term of the Lease expires no later than the end of each State fiscal biennium (currently June 30 of each odd-numbered year, e.g., June 30, 2003) unless the General Assembly has appropriated moneys for the purpose of paying the rental payments and other sums payable thereunder for the next succeeding State fiscal biennium. The term of

the Lease will be automatically renewed for an additional term not exceeding two years (commencing on the first day of the new State fiscal biennium) upon such appropriation becoming effective on or prior to the beginning of each State fiscal biennium (currently July 1 of each odd numbered year, e.g., July 1, 2003). The present obligations of the Bureau to make rental payments under the Lease will continue, so long as the Lease is renewed, until all Bonds issued by the Authority have been paid. So long as the Lease remains in effect, the obligation of the Bureau to make rental payments thereunder in amounts sufficient to pay Bond Service Charges and for other purposes set forth above is absolute and unconditional, subject only to the availability of moneys appropriated for such purposes.

The obligation of the Bureau to make rental payments under the Lease are subject to and dependent upon biennial appropriations for the Bureau being made by the General Assembly for such purposes from assessments imposed on employers doing business in Ohio by the Bureau to pay administrative costs of the Bureau and the Industrial Commission and deposited in the Administrative Cost Fund. As noted above, the General Assembly may not, under the provisions of the Ohio Constitution, make appropriations for a period longer than two years. While the Authority expects that the General Assembly will, for each State fiscal biennium, continue to appropriate amounts to the Bureau sufficient to meet the Bureau's rental payment obligations under the Lease consistent with the Bureau's budget, the General Assembly is not under a legal obligation to make appropriations in accordance with such budgets for future State fiscal biennia. The Series 2003 A Bonds are special obligations of the State issued by the Authority payable solely from the Pledged Receipts under the Trust Agreement. The Series 2003 A Bonds do not represent or constitute a debt, or a pledge of the faith and credit, of the State or any political subdivision thereof, or of the Authority or the Bureau. The Holders and Book-Entry Interest Owners of the Series 2003 A Bonds will have no right to have excises or taxes levied by the General Assembly for the payment of the Bond Service Charges on the Series 2003 A Bonds.

Bond Service Reserve Account

The Trust Agreement permits the establishment of one or more Bond Service Reserve Accounts for each series of Bonds. The First Supplemental Trust Agreement, dated as of October 1, 1993, between the Authority and the Trustee established the Series 1993 A Bond Service Reserve Account to secure the Series 1993 A Bonds, and \$10,320,306.25 of moneys in that account will be used, together with proceeds of the Series 2003 A Bonds, to currently refund the Series 1993 A Bonds. No Bond Service Reserve Account will be established or funded in connection with the Series 2003 A Bonds.

BOND INSURANCE

Concurrently with the issuance of the Series 2003 A Bonds, Financial Guaranty Insurance Company ("FGIC") will issue its Municipal Bond New Issue Insurance Policy (the "Bond Insurance Policy") for the Series 2003 A Bonds maturing in the years 2007 through 2014, inclusive (the "Insured Series 2003 A Bonds". The Bond Insurance Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Insured Series 2003 A Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Authority. FGIC will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal or interest (as applicable) is due or on the Business Day next following the day on which FGIC shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Insured Series 2003 A Bonds or the paying agent therefor of the nonpayment of such amount by the Authority. The Fiscal Agent will disburse such amount due on any Insured Series 2003 A Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal or interest (as applicable) due for payment and evidence, including any appropriate instruments of

assignment, that all of such owner's rights to payment of such principal or interest (as applicable) shall be vested in FGIC. The term "nonpayment" in respect of an Insured Series 2003 A Bond includes any payment of principal or interest (as applicable) made to an owner of an Insured Series 2003 A Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Bond Insurance Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Insured Series 2003 A Bonds. The Bond Insurance Policy covers failure to pay principal of the Bonds on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

Generally, in connection with its insurance of an issue of municipal securities, FGIC requires, among other things, (i) that it be granted the power to exercise any rights granted to the holders of such securities upon the occurrence of an event of default, without the consent of such holders, and that such holders may not exercise such rights without FGIC's consent, in each case so long as FGIC has not failed to comply with its payment obligations under the Bond Insurance Policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to FGIC's consent. The specific rights, if any, granted to FGIC in connection with its insurance of the Insured Series 2003 A Bonds are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement (see "**RIGHTS OF BOND INSURER**"). Reference should be made as well to such description for a discussion of the circumstances, if any, under which the Authority is required to provide additional or substitute credit enhancement, and related matters.

This Official Statement contains a section regarding the ratings assigned to the Insured Series 2003 A Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Insured Series 2003 A Bonds. Reference should be made to the description of the Authority and information about the ratings, if any, assigned to such entity's outstanding parity debt that is not secured by credit enhancement.

The Bond Insurance Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

FGIC is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against FGIC. FGIC is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of December 31, 2002, the total capital and surplus of FGIC was approximately \$978 million. FGIC prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to FGIC at 125 Park Avenue, New York, New York 10017, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

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THE AUTHORITY

General

The Authority was created in 1963 as a body both corporate and politic of the State upon enactment of the Act by the General Assembly. The Authority is empowered by the Act, among other things, to acquire, purchase, construct, reconstruct, rehabilitate, remodel, renovate, enlarge, improve, alter, maintain, equip, furnish, repair, paint, decorate, manage and operate capital facilities for the use of State agencies (including branches, offices, boards, commissions, authorities, departments, divisions, courts, the General Assembly and other units or agencies of the State). Under the Act, capital facilities include capital facilities for housing branches and agencies of State government, including capital facilities for the purpose of housing personnel, equipment or functions, or any combination thereof, which State agencies are responsible for housing, other than facilities for mental hygiene and retardation, parks and recreation and state-supported or state-assisted institutions of higher education. The Authority is empowered to construct and operate capital facilities for housing of branches and agencies of State government, including, under certain circumstances, participation in such capital facilities with municipal corporations, counties or other political subdivisions.

Pursuant to the Act and Section 2i of Article VIII of the Ohio Constitution, the Authority is empowered to issue revenue obligations to finance the cost of capital facilities, but the holders of such obligations are not given the right to have excises or taxes levied by the General Assembly for the payment of debt service on such obligations. The Series 2003 A Bonds are such "revenue obligations" because only rental payments and other Pledged Receipts are pledged to the repayment of the Series 2003 A Bonds.

The Authority consists of five members appointed by the Governor for six-year terms with the advice and consent of the State Senate. The present members of the Authority are:

<u>Name of Member</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
Douglas R. Trail Chairperson	Attorney	December 31, 2007
C. Francis Barrett Vice Chairperson	President, Barrett & Webber	December 31, 2003
Sandra A. Drabik Secretary-Treasurer	General Counsel, University of Toledo	December 31, 2005
C. Jay Mathews, I	Pastor, Mt. Sinai Baptist Church	December 31, 2003
G. Duane Welsh	Vice President and General Counsel, American Share Insurance Company	December 31, 2007

The Executive Director of the Authority is responsible for the management, budgeting and operations of all of the Authority's projects. The Executive Director of the Authority is appointed by, and serves at the pleasure of, the members of the Authority as the chief administrative officer responsible for the Authority's daily operations. Paul E. Goggin is the Executive Director of the Authority. Mark A. Haberman and Kevin T. Fenlon are Assistant Executive Directors of the Authority for facilities management and financial affairs, respectively.

The Attorney General of Ohio, Jim Petro, serves as general counsel to the Authority. The law firm of Calfee, Halter & Griswold LLP serves as issuer's counsel to the Authority.

Current and Pending Projects

The Authority has financed or is financing the costs associated with the acquisition, construction and improvement of various facilities to house branches and agencies of State government, including facilities for the Bureau (see "**THE PROJECT**"); office buildings and a computer center for the Department of Administrative Services ("DAS"); facilities for the Ohio Arts and Sports Facilities Commission ("OASFC"); facilities for the Department of Transportation ("DOT"); facilities for the Department of Public Safety ("DPS"); prisons and local correctional facilities and minimum security jails for the Department of Rehabilitation and Correction ("DRC"); facilities for the Department of Natural Resources ("DNR"); and juvenile detention facilities, including single-county and joint-county facilities, for the Department of Youth Services ("DYS").

The Authority's financing for projects other than the Project are and will be under proceedings separate from the proceedings for the Series 2003 A Bonds. Highway user receipts are appropriated for rental payments relating to DOT and DPS facilities. Assessments paid into the Administrative Cost Fund of the Bureau are appropriated for rental payments related to the Project. General Fund revenues are appropriated for all other rental payments relating to other facilities. See **APPENDIX A - "INFORMATION CONCERNING THE STATE OF OHIO - STATE DEBT"**.

Budgetary Process

Substantially all of the moneys for the Authority are provided by the General Assembly through biennial appropriations of rental payments to the Bureau, DAS, OASFC, DOT, DPS, DRC, DNR and DYS. The Act requires that the Authority, prior to the preparation of the State's budget, prepare an estimate of the amount of moneys necessary to pay debt service on all obligations of the Authority and to pay all other expenses of the Authority and its properties for the next succeeding State fiscal biennium. The Authority's estimates are submitted to the Bureau, DAS, OASFC, DOT, DPS, DRC, DNR and DYS for review and inclusion in their respective budget requests and each may question the reasonableness or the necessity for the expenses related to its capital facilities. These estimates are then submitted to OBM as budget requests for the Bureau, DAS, OASFC, DOT, DPS, DRC, DNR and DYS, respectively. OBM has the authority to adjust these requests for rental payments as it prepares the State budget on behalf of the Governor, who submits it to the General Assembly for consideration and adoption.

The Authority's budget proposal includes projections of expenses to be incurred for capital facilities financed for the use of various State agencies, including the Bureau, for the next succeeding two fiscal years, but the actual expenses might exceed or be less than the amount estimated, budgeted and appropriated therefor. The leases between the Authority and the Bureau, DAS, OASFC, DOT, DPS, DRC, DNR and DYS provide for adjustments in budgeted amounts of such expenses for each two-year term to reflect overpayments or underpayments during the preceding two-year term. See "**THE LEASE - Rental Payments and Pledges**".

THE PROJECT

Construction of the William Green Building (the "Building") began in 1986 and the Building was initially occupied in 1990. The Building is located on a 1.67-acre site at 30 West Spring Street in Columbus. It is a 33-story office tower of approximately 1,020,000 square feet and was constructed to house the operations of the Bureau and the Industrial Commission.

The Authority owns the Building and a portion (approximately 17%) of the 40,000 square foot, eight-story glass enclosed atrium adjoining the Building which is shared, together with the balance of the

atrium, with an office building known as Nationwide III owned by the Nationwide Mutual Insurance Co. The Building and the portion of the atrium owned by the Authority (including the site) constitute the Project.

BUREAU OF WORKERS' COMPENSATION

The Bureau

The Bureau was created pursuant to the authority of an amendment to the Ohio Constitution adopted in 1912 and Chapter 4121 of the Ohio Revised Code and has responsibility for operating the exclusive state fund system in Ohio for workers compensation. The Bureau manages claims, pays compensation and medical benefits to injured workers, and underwrites workers' compensation coverage for employers doing business in Ohio. The Bureau also offers safety training and accident prevention programs to employers, and helps injured employees return to work through rehabilitation programs.

The Ohio workers' compensation system is the largest exclusive state fund system in the United States. As an exclusive state fund, the Ohio workers' compensation system is responsible for ensuring that all employees in the State (except for those employees expressly exempted by statute) have workers' compensation benefits. The Bureau provides insurance directly to about two-thirds of Ohio's work force. Through a self-insurance program available to qualifying large, financially-stable private and public employers, the remaining workers receive the same benefits provided to workers insured by the State Insurance Fund.

The Bureau is governed and managed by the Administrator, who is appointed by the Governor, and who acts as the Chief Executive Officer of the Bureau, with oversight provided by the Workers' Compensation Oversight Commission.

The principal officers of the Bureau are:

<u>Name</u>	<u>Title</u>
James Conrad	CEO/Administrator
Sandy Blunt	Assistant Administrator
Tim Hutchings	Director, Customer Service
Jeff Redman	Interim Chief Of Field Operations
John Annarino	Chief Legal Officer
John Fish	Chief Business Performance Services
Terrence W. Gasper	Chief Financial Officer
Tina Kielmeyer	Chief Medical Management
Charles Quinlan	Chief Information Officer
John Romig	Chief Employer Operations
Jim Samuel	Director Of Corporate Affairs
Barbara Young	Chief Human Resources Officer

The Bureau is organized into Legal, Information Technology, Corporate Affairs, Employer Operations, Medical Management, Field Operations, Business Performance Services, Human Resources, and Finance Divisions. The Bureau operates 21 services offices in key locations around the State.

Pursuant to legislative mandate, the Health Partnership Program (HPP), a managed care program for the Ohio workers' compensation system, was implemented in 1997. Under HPP, the Bureau continues

to make claim determination and pay compensation. Managed care organizations are responsible for medically managing workers' compensation claims. A similar system is in place for self-insured employers.

The Bureau has approximately 2,900 employees. Of these employees, approximately 79% are represented by three bargaining units, the Ohio Civil Service Employees Association, AFSCME Local 11, SEIU/District 1199, The Health Care and Social Service Union and the State Council of Professional Educators/Ohio Education Association/National Education Association. Management of the Bureau believes that relations with these bargaining units are stable.

The Workers' Compensation Oversight Commission

The Workers' Compensation Oversight Commission is comprised of nine members, representing labor, industry, the public and the General Assembly. The members representing labor, industry and the public are appointed by the Governor, with the consent of the Ohio Senate; the members representing the General Assembly are the chairman and ranking minority member of the committee in each of the Ohio Senate and Ohio House of Representatives having jurisdiction over legislation relating to workers' compensation. The members representing the General Assembly are non-voting members of the Oversight Commission.

The present members of the Oversight Commission are:

<u>Name</u>	<u>Affiliation</u>
William Sopko	President, STAMCO Industries Inc.
George Forbes	Forbes, Fields and Associates
Mary Beth Carroll	First Energy
Thomas Bainbridge, Jr.	Ward, Kaps, Bainbridge, Maurer & Melvin
William Burga	President, Ohio AFL-CIO
The Honorable Scott Nein	The Ohio Senate
The Honorable Ray Miller	The Ohio Senate (pending)
The Honorable George Distel	House of Representatives
The Honorable Ron Young	House of Representatives (pending)

The Industrial Commission

The Industrial Commission is made up of three members: one representing employees, one representing employers, and one representing the public. The members of the Industrial Commission are appointed by the Governor with the advice and consent of the Ohio Senate. The Industrial Commission is responsible for establishing adjudicatory policy and adjudicating claims.

The present members of the Industrial Commission are:

William B. Thompson, Chairman
Donna Owens
Patrick J. Gannon

The Industrial Commission conducts hearings to hear and decide contested workers' compensation claims and appeals. The Industrial Commission also has jurisdiction over applications for permanent total disability awards and certain other awards.

The Industrial Commission has approximately 554 employees. Of those employees, approximately 75% are represented by the Ohio Civil Service Employees Association, AFSCME Local 11. Management of the Industrial Commission believes that relations with this bargaining unit are stable.

Funds

The Bureau administers the following funds: State Insurance Fund; Disabled Workers' Relief Fund ("DWRF"); Coal-Workers Pneumoconiosis Fund ("CWPF"); Public Work-Relief Employees' Fund ("PWREF"); Marine Industry Fund ("MIF"); Intentional Tort Disbursement Fund ("ITF"); Self-Insuring Employers Guaranty Fund, and Administrative Cost Fund. The State Insurance Fund, CWPF, MIF, and PWREF are insurance funds providing workers' compensation benefits to injured workers. DWRF is an assessment fund providing supplemental cost of living benefits to qualifying persons who are permanently and totally disabled and receiving benefits from the State Insurance Fund or PWREF. The maximum benefit levels are changed annually based on the United States Department of Labor National Consumer Price Index. The Self-Insuring Employers Guaranty Fund covers liability for compensation and benefits with respect to self-insured workers' compensation claims which occurred on or after January 1, 1987 in cases of default by the self-insured employer. Security for self-insured workers' compensation injuries which occurred prior to January 1, 1987 is in the form of surety bonds from private insurers, irrevocable letters of credit, or funds on deposit. The Administrative Cost Fund provides for the payment of administrative and operating costs of all funds except DWRF, CWPF, and MIF, which pay such costs directly. The ITF was established to provide for the payment of damages to employees and employer legal fees in intentional tort actions filed by employees having rights to receive workers' compensation benefits where such benefits result from an intentional tort of the employer. In August 1991, the Ohio Supreme Court declared the ITF unconstitutional. The cumulative assessments collected from participants are expected to be prorated as credits to the participants on or before June 30, 2003.

The State Insurance Fund. The State Insurance Fund was established and is operated pursuant to Chapter 4123 of the Ohio Revised Code. The State Insurance Fund provides benefits to employees of both public and private employers for the payment of lost time compensation, medical services, examinations, nursing and hospital services, rehabilitation, death benefits, funeral expenses and similar benefits for losses sustained from job-related injury, disease, or death. The State Insurance Fund, along with the CWPF, MIF, PWREF, and DWRF provide benefits to workers. Annual operating revenues of the State Insurance Fund for the Fiscal year ended June 30, 2002 were \$1,820,037,000 in premiums charged to employers and investment income and net realized losses on investments of \$71,166,328. The total assets of the State Insurance Fund at June 30, 2002 were \$20,429,363,000. The total Net Asset Balance in the State Insurance Fund at June 30, 2002 was \$1,886,585,000.

The Administrative Cost Fund. The Administrative Cost Fund was established and is operated under Chapter 4123 of the Ohio Revised Code. Administrative and operating costs of the Bureau and the Industrial Commission, including rental payments under the Lease, are paid from the Administrative Cost Fund. Benefits to workers are not paid from the Administrative Cost Fund. Assessments to cover administrative costs are calculated by the Bureau, collected from all employers and credited to the Administrative Cost Fund. The assessment rates are approved by the Workers' Compensation Oversight Commission and are based on employers' premium, except for assessments of self-insured employers which are based on paid compensation. Annual revenues of the Administrative Cost Fund for the Fiscal year ended June 30, 2002 were \$356,651,000, of which over 97% consisted of assessments charged to employers. The total assets of the Administrative Cost Fund at June 30, 2002 were \$390,791,000. An actuarially determined net deficit currently exists in the Administrative Cost Fund. At June 30, 2002, the deficit was \$767,661,000. The deficit results from the recognition of a liability of the discounted present value of actuarially-determined future compensation adjustment expenses. According to generally accepted accounting principles, the Bureau is required to make provision in its accounts for expenses

involved in the administration and management of the payment and settlement of all reported and unreported claims. The process of estimating the liability for expenses of the administration and management of unpaid claims is subject to variables that are influenced by both external and internal factors. This is true, in part, because administrative expenses relating to future payments and settlements will be impacted by changing rates of inflation and other economic conditions, changing legal and social environments and changing claim handling procedures. Because of the length of time required for the actual liabilities for expenses of the administration and management of claims to be determined and the uncertainty regarding whether recent data will be reflective of the future payment of claims, the actual liabilities for those administrative expenses may vary significantly from the estimated amounts provided, which could have a material effect on the Administrative Cost Fund. Although a future expense reserve is calculated for financial statement purposes based upon patterns that are adjusted using generally accepted actuarial techniques for anticipated economic and social conditions, the Bureau does not fund the Administrative Cost Fund based on total future cost estimates, resulting in the actuarially-determined deficit referred to above. **The Administrative Cost Fund is funded each biennium on a cash basis so that sufficient funds are available to cover costs to be paid from the Administrative Cost Fund during the biennium.**

Rental payments under the Lease are payable only from the Administrative Cost Fund. The Lessee does not have the right to make rental payments under the Lease from the State Insurance Fund or any other fund maintained by the Bureau other than the Administrative Cost Fund.

THE LEASE

General

The Act provides that the capital facilities financed by the Authority for State agencies shall be leased to the State agency using those capital facilities or to DAS for the use of such State agency or other governmental entities. Accordingly, the Authority has leased the Project to the Bureau. Under the Act, the term of any lease between the Authority and such State agency or DAS shall be for a period not exceeding the then current two-year period for which appropriations for rental payments to the Authority have been made by the General Assembly. Provision may be made for renewals at the end of each term for another term not exceeding two years. The Act also provides that all rentals and other charges by the Authority shall be set so that its revenues are sufficient to meet its requirements, including Bond Service Charges on all outstanding obligations and all other expenses of the Authority.

The following summarizes certain provisions of the Lease, to which document in its entirety reference is made for the detailed provisions thereof.

Term of the Lease

The Lease has been automatically renewed for successive two year terms and currently expires on June 30, 2003. The Bureau has the right to renew the Lease for successive terms of two years (each, a "Renewal Term") commencing on the beginning of each State fiscal biennium (currently July 1 of each odd-numbered year), upon the same terms as are contained in the Lease, unless sooner terminated in accordance with the Lease and the Trust Agreement. The Bureau's right to renew the term of the Lease is deemed exercised upon the effectiveness, at or prior to the expiration of the Renewal Term then in effect, of legislation enacted by the General Assembly appropriating moneys to the Bureau at least equal to the Basic Rent (as described below) and amounts the Authority deems necessary for Additional Rent (as described below) including sums payable pursuant to the Trust Agreement for such items as estimated administrative and overhead expenses of the Authority with respect to the Project, and certain other sums

payable under the Lease during the Renewal Term. Upon payment in full of the Bonds, the Authority will transfer title to the Project to the Bureau. See "**THE LEASE - Rental Payments and Pledges**".

Rental Payments and Pledges

The Lease requires the Bureau to make rental payments sufficient to pay the Bond Service Charges on outstanding Bonds, certain administrative costs of the Authority and any additional amounts required to be paid into the Rebate Fund. The rental payments (other than those to be deposited in the Administrative Service Fund for the payment of various administrative and operating expenses of the Authority and for deposit into the Rebate Fund) are pledged by the Authority pursuant to the Trust Agreement for the payment of Bond Service Charges on the Bonds and are required to be deposited in the Bond Service Fund. All rental payments are required to be deposited in the Bond Service Fund, the Administrative Service Fund or the Rebate Fund. See "**THE TRUST AGREEMENT - Funds**".

During each term of the Lease, the Bureau has agreed to pay the Authority without notice or demand, on or before each Rental Payment Date, a net basic rent (the "Basic Rent") that includes (i) an amount equal to the Bond Service Charges on all outstanding Bonds, whether due as scheduled, as a result of a call for redemption or as a result of an acceleration of principal of and interest on such Bonds; (ii) such sums, if any as may be necessary to maintain any required reserve in a bond service reserve account (none is provided for or is required with respect to the Series 2003 A Bonds); (iii) such sums, if any, as may be necessary to purchase any Bonds which the Authority is obligated to purchase pursuant to any agreement with a Financial Institution and (iv) such sums, if any, as may be necessary to make payments to any Financial Institution issuing a Credit Support Instrument for one or more series of Bonds. On and after each Rental Payment Date money in the Administrative Cost Fund will be used only for the payment of Basic Rent until the Basic Rent due and payable on the Rental Payment Date has been paid in full. During each term of the Lease, the Bureau has the option to make prepayments of Basic Rent for the purchase, redemption or defeasance of any Bonds.

During each term of the Lease, the Bureau has also agreed to pay, as additional rent (the "Additional Rent"), (i) an amount equal to the estimated Operating Expenses of the Authority and (ii) amounts sufficient to pay the Rebate Amount to the extent not available from other sources.

The Bureau has agreed that, subject to applicable requirements and restrictions imposed by law, it will prescribe and charge assessments against employers to provide for the administrative costs, including amounts payable under the Lease, of the Bureau and the Industrial Commission.

Except as described below under "**THE LEASE - Legislative Appropriations**", the obligation of the Bureau to pay Basic Rent and Additional Rent during each two-year term of the Lease is absolute and unconditional, and is payable without any rights of termination, set-off, recoupment, deduction, defense or counterclaim the Bureau might have against the Authority, the Trustee or any other Person, and without abatement, suspension, deferment, diminution or reduction for any reason or as a result of any occurrence whatsoever, including any actions of the Bureau involving the substitution of furnishings, equipment and related property in connection with the Project or the alteration of or additions to the Project, any acts or circumstances constituting eviction or constructive eviction, failure of consideration, failure of title or frustration of purpose, or any damage to or destruction of the Project or any taking of title to or the right of temporary use of all or any part of the Project by condemnation or eminent domain.

Provisions Regarding the Project

The Bureau has the privilege of (i) substituting or removing furnishings, equipment and related property in connection with the Project, provided that such substitution or removal shall not impair the character or usefulness of the Project; and (ii) subject to laws applicable to it and with the Authority's written consent (which shall not be unreasonably withheld), making changes, alterations and additions, structural or otherwise, to such Project, which shall become a part of the Project. The Bureau may grant leases, easements, or the right of use to other persons or entities in the Project as may be allowed by law; the Bureau, however, is not permitted to grant leases, easements or other interests in or otherwise make available to any third party any interest in the Project which would, in the opinion of nationally recognized bond counsel acceptable to the Authority, adversely affect the exclusion from gross income for federal income tax purposes of interest on any obligations the Authority issued to pay costs associated with the Project.

The Authority has no obligation to provide insurance of any kind for, or with respect to, the Project. The Bureau agrees to carry and maintain, during the term of the Lease, certain insurance coverage, including fire and extended coverage insurance on the Project in an amount equal to the replacement cost of the Project or the principal amount of Bonds then outstanding, whichever is greater, general public liability insurance, comprehensive liability and the property damage insurance with respect to the Project, earthquake insurance, business interruption insurance and other insurance as may be required by the Trust Agreement. The Bureau will not be responsible to the Authority and the Authority will not be responsible to the Bureau for damages to property resulting from those perils usually covered by fire and extended coverage insurance, and the Bureau and the Authority agree under the Lease to waive all such claims and to release each other from all liability for such damages. Under certain circumstances, the Bureau will be permitted to self-insure or adopt alternative or supplemental risk management programs for risks other than fire and extended coverage and earthquake instead of obtaining the required insurance coverage.

Damage, Destruction and Condemnation

In the event of any damage to or destruction of the Project or a portion thereof, or the taking of all or a portion of the Project as a result of the exercise of the right of condemnation or eminent domain, the Bureau must, within 180 days after such damage or destruction or such taking, elect, with the consent of the Authority, to either (i) reconstruct, repair or improve the Project or portion thereof to the extent it determines necessary or (ii) to have the net proceeds of insurance or of any award or payment on account of a taking applied for the redemption, if permissible pursuant to the Trust Agreement, or payment in full of all, or a portion at least equal to the amount of such net proceeds or award or payment, of the Bonds outstanding under the Trust Agreement.

If the Bureau elects to so reconstruct, repair or improve the Project or the portion thereof, it must proceed promptly to commence and complete the same and, so long as the Authority is not in default under the Trust Agreement and the Authority and the Bureau are not in default under the Lease, such net proceeds or award or payment shall be deposited in the Acquisition and Construction Fund and applied to such reconstruction, repair or improvement.

Legislative Appropriations

The agreement of the Bureau to make rental payments pursuant to the Lease, and to perform other obligations involving expenditures thereunder, at times and in the amounts provided for in the Lease, is

effective and binding upon the Bureau only when and to the extent that moneys have been appropriated by the General Assembly and are available for that purpose. Under the Ohio Constitution, an appropriation may not be made for more than a two-year period. In addition, the Lease may be renewed only for two-year periods. Accordingly, the Bureau is obligated to make payments under the Lease only for two-year periods, to the extent funds have been appropriated and are available.

The Lease requires that projected payments under the Lease be included in the estimated budget of the Bureau for each State fiscal biennium submitted by the Governor to the General Assembly. See "**THE AUTHORITY - Budgetary Process**". The Lease provides that, on or before the commencement of each State fiscal year, currently July 1 of each year, the Authority shall submit to the Bureau and to the Director of Budget and Management a schedule which shall set forth the estimated amounts and dates of the rental payments due under the Lease during such fiscal year and on a timely basis shall supplement or correct such schedule to reflect any changes in such rental payments. The Bureau encumbers the appropriations made for rental payments under the Lease during the fiscal year as set forth in the schedule. On a timely basis prior to the date required for each rental payment, the Bureau is required to submit an order in the nature of an invoice or voucher for each rental payment to cause issuance of a warrant payable to the Authority and redeemable at the office of the Treasurer in accordance with law, for all such rental payments at the times therefor and for payment in accordance with the Trust Agreement. Such rental payments are required to be deposited for credit to the appropriate fund or account in accordance with the Trust Agreement.

Under the terms of the Lease, a failure by the General Assembly to appropriate moneys at least equal to Basic Rent, amounts the Authority estimates are necessary for Additional Rent and other sums payable under the Lease for the next State fiscal biennium would result in the termination of the Lease at the end of the two-year term then in effect. The Lease will, however, be fully reinstated, as if it had never been terminated, provided the conditions set forth below under "**THE LEASE - Reinstatement**" are met.

The General Assembly may not make appropriations for a period longer than two years. While the Authority expects that, for each State fiscal biennium, the General Assembly will appropriate amounts to the Bureau sufficient to meet its rental payments to the Authority under the Lease consistent with the Bureau's budget, the General Assembly is not under a legal obligation to make appropriations to the Bureau sufficient to make rental payments to the Authority under the Lease for future State fiscal biennia. Section 2i of Article VIII of the Ohio Constitution and the Act provide that the Holders and Book-Entry Interest Owners of the Bonds will have no right to have excises taxes levied by the General Assembly for the payment of Bond Service Charges thereon.

Default

Except as described below under "**THE LEASE - Termination**", an event of default under the Lease occurs if (i) the Bureau fails to make any payment of Basic Rent when due; (ii) the Bureau fails to make any payment of Additional Rent or other sums payable under the Lease when due, which failure continues for a period of 20 days; (iii) the Bureau fails to observe or perform any covenant, condition or agreement under the Lease, which failure continues for a period of 30 days after written notice; or (iv) an order or decree appointing a receiver of the Project or any part thereof or the revenues thereof is entered with the consent or acquiescence of the Bureau or such an order or decree is entered without the acquiescence or consent of the Bureau if such order is not vacated, discharged or stayed within 90 days after entry. If, however, the Bureau's failure to pay when due any payment required to be made under the Lease or the Bureau's failure to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Lease, results from a failure by the General Assembly to appropriate

sufficient money for such purposes or from a subsequent unavailability of funds, such failure will not constitute an event of default under the Lease.

Upon the occurrence and continuance of an event of default under the Lease, the Authority may (i) re-enter and take possession of the Project without terminating the Lease and (to the extent permitted by the Act and the Trust Agreement) sublease the Project for the account of the Bureau, holding the Bureau liable for the difference in the rent and other amounts payable by the sublessee and the Basic Rent, Additional Rent and other amounts payable by the Bureau under the Lease, (ii) terminate the Lease, exclude the Bureau from possession of the Project and use the Authority's best efforts to lease the Project, to the extent permitted by law and the Trust Agreement, to another party for the account of the Bureau, holding the Bureau liable for all Basic Rent, Additional Rent and other amounts due under the Lease not paid by such other party, and (iii) take whatever action at law or in equity as may appear necessary to collect the payments then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Bureau under the Lease.

The Authority is obligated by law to transfer title to the Project to the Bureau upon the payment of Bonds issued by the Authority for the acquisition of the Project and any disposition of the Project in the event of a default must not preclude the Authority from meeting this obligation.

Termination

As described above, the Lease may be terminated by the Authority upon the occurrence of an event of default under the Lease. In addition, if the Bureau fails to exercise its right to renew the term of the Lease, the Lease will terminate at the expiration of the Renewal Term then in effect. In the event of such a termination of the Lease, the Bureau's obligation to make rental payments to provide moneys to pay Bond Service Charges on the Bonds will terminate. The Lease also terminates upon payment in full of all Bonds outstanding under the Trust Agreement and all obligations of the Authority to Financial Institutions, if any.

Upon any termination of the Lease, the Authority may exclude the Bureau from possession of the Project and lease space to another party. The remedy of excluding the Bureau from possession of the Project is subject to equitable principles which may affect the timing of any enforcement of such actions. In addition, the Authority is obligated by law to transfer title to the Project to the Bureau upon the payment of Bonds issued by the Authority for the acquisition of the Project and any disposition of the Project in the event of a default must not preclude the Authority from meeting this obligation. Under the Trust Agreement, the Authority may not sell the Project in the event of a failure to pay Basic Rent or Additional Rent under the Lease or upon any termination of the Lease.

Reinstatement

Notwithstanding any termination of the Lease, if (a) all payments of Bond Service Charges due on the Bonds (other than as a result of acceleration) and all other payments due under the Trust Agreement have been made, (b) any acceleration of the Bonds has been duly rescinded and annulled, (c) all defaults under the Lease have been cured or waived, and (d) the General Assembly has appropriated moneys to enable the Bureau to make rental payments to become due under the Lease for any Renewal Term to be reinstated, then without further action by the Trustee or the Authority, the Lease shall be fully reinstated, subject to the rights of any third parties under any sub-lease or lease from the Authority, as if it had never been terminated.

THE TRUST AGREEMENT

General

The following, in addition to information contained above under the headings "**THE SERIES 2003 A BONDS**" and "**SECURITY FOR THE SERIES 2003 A BONDS**", summarizes certain provisions of the Trust Agreement to which document in its entirety reference is made for the detailed provisions thereof. The Resolutions authorizing the Series 2003 A Bonds are incorporated in their entirety in, and constitute part of, the Trust Agreement and all references herein to the Trust Agreement shall, unless specific section references are made, include the Resolutions.

So long as the Series 2003 A Bonds are immobilized in a Book-Entry System with a Securities Depository, that Securities Depository or its nominee is for all purposes of the Trust Agreement considered by the Authority and the Trustee to be the Holder of the Series 2003 A Bonds, and the Book-Entry Interest Owners will not be considered Holders and have no rights as Holders under the Trust Agreement. See "The SERIES 2003 A BONDS – Registration, Payment and Transfer" and BOOK-ENTRY FORM".

Security

The Trust Agreement provides for a pledge of the Pledged Receipts by the Authority to the Trustee for the benefit of the Holders of the Bonds. See "**SECURITY FOR THE SERIES 2003 A BONDS**".

Funds and Accounts

The Trust Agreement establishes the following funds and accounts to be held by the Trustee thereunder and used for specific purposes thereunder: the Bond Service Fund, which includes the Bond Service Account (including the Interest Payment Subaccount therein), and may include bond service reserve accounts and a bond redemption and purchase account; the Acquisition and Construction Fund; the Administrative Service Fund; the Replacement and Improvement Fund; and the Rebate Fund (collectively referred to herein as the "Funds"). The Rebate Fund and the Administrative Service Fund are not pledged for the payment of Bond Service Charges on the Bonds.

Bond Service Account. The Bond Service Account has been established in the Bond Service Fund. There will be deposited in the Bond Service Account: (i) all rental payments and other revenues and receipts of the Authority derived under the Lease (except the portion of such rental payments to be credited to other funds or accounts; (ii) any other available Pledged Receipts; (iii) excess moneys remaining in the Administrative Service Fund; and (iv) all other revenues or receipts derived by the Authority from the Project unless previously pledged. The Bond Service Account, except for money transferred to the Rebate Fund or any bond redemption and purchase account, will be used solely for the payment of Bond Service Charges on the Bonds as they become due or for payments of any amounts due to Financial Institutions in reimbursement of payments made pursuant to a Credit Support Instrument provided in connection with the Bonds.

Administrative Service Fund. The Administrative Service Fund will be used to pay (i) the underwriting fees and expenses, and the regular and special fees and reimbursement of reasonable expenses of the Trustee, bond registrar, paying agents, authenticating agents, tender agents, depositories, financial advisors, consultants, remarketing agents, indexing agents, attorneys, accountants and others providing services, including any Credit Support Instrument, with respect to the authorization, sale,

issuance and delivery of Bonds, and (ii) the financing charges, costs of printing, engraving, advertising and other expenses in connection with the authorization, sale, issuance and delivery of Bonds.

Fees and expenses incurred by the Authority and payable from the Administrative Service Fund will also be funded from Additional Rent due under the Lease and paid into the Administrative Service Fund. Any excess in the Administrative Service Fund is required to be transferred to the Bond Service Account.

Acquisition and Construction Fund. The Acquisition and Construction Fund was used in connection with the acquisition by the Authority of the Project at the time of issuance and sale of the Series 1993 A Bonds. No moneys remain in the Acquisition and Construction Fund.

Replacement and Improvement Fund. The Replacement and Improvement Fund was initially funded with a portion of the proceeds of the Series 1993 A Bonds and subsequently from payments made by the Bureau pursuant to the Lease. The balance in the Replacement and Improvement Fund is approximately \$2,000,000. Moneys in the Replacement and Improvement Fund have been and may be used to pay (i) claims or judgments against the Bureau or settlements with respect to those claims arising from the construction of the Project or for the replacement of obsolete or worn out portions of the Project or reconstructing, rehabilitating, remodeling, renovating, repairing or otherwise improving the Project and, to the extent not so applied, (ii) for the payment of Bond Service Charges due on the last Interest Payment Date and on the Interest Payment Date immediately preceding the last Interest Payment Date by making a transfer from the Replacement and Improvement Fund to the Bond Service Account. Disbursements from the Replacement and Improvement Fund for clause (i) purposes and transfers for clause (ii) purposes will be made by the Trustee to the Bureau in the case of clause (i) purposes and to the Bond Service Account in the case of clause (ii) purposes upon receipt of a written request signed by the Administrator which shall be approved by the Authority if the request is for an authorized purpose. **Neither the Authority nor the Bureau has any obligation to replenish the Replacement and Improvement Fund in the event of a disbursement or transfer.**

The Trust Agreement also provides that any balance in the Replacement and Improvement Fund is available for transfer by the Trustee to the Bond Service Account, to the extent necessary from time to time, to pay Bond Service Charges after applying to that purpose any balance in the Bond Service Account.

Series 2003 A Rebate Account. Pursuant to the Trust Agreement there has been created by the Authority and ordered maintained in the custody of the Trustee as a separate deposit account, a Rebate Fund in which the Authority may establish separate rebate accounts for each series of Bonds, including the Series 2003 A Bonds. The amounts on deposit in the Rebate Fund are not pledged to Holders of Bonds or any Financial Institutions as security for the payment of Bond Service Charges on the Bonds, are not Pledged Receipts and are not subject to the lien, pledge and assignment created by the Trust Agreement. The Second Supplemental Trust Agreement established the Series 2003 A Rebate Account in the Rebate Fund for the Series 2003 A Bonds to comply with the provisions of Section 148 of the Code.

At the times and in the manner required by the Code, (a) an independent public accounting firm or nationally recognized bond counsel engaged by the Authority will calculate the Rebate Amount; (b) the Trustee shall transfer, to the extent needed, any amount in the Bond Service Reserve Account for the applicable series of Bonds, if any, in excess of the required reserve for that series of Bonds to the applicable Rebate Account; and (c) the Trustee shall pay such Rebate Amount to the United States.

Investment of Certain Funds

Moneys held in the Bond Service Fund, the Administrative Service Fund, the Replacement and Improvement Fund and the Rebate Fund may be invested and reinvested by the Trustee, in accordance with the instructions of the Authority, in any Eligible Investments. Investments of moneys credited to the those Funds are required to mature or be redeemable at the option of the holder thereof at the times and in the amounts necessary to provide moneys when needed for payments to be made from those Funds, and moneys held in the Bond Service Fund are required to be available to pay Bond Service Charges on the Bonds when they become due. Any investments of moneys in any Fund will be deemed at all times to be a part of that Fund and any income will be credited and any loss will be charged to that Fund. Investments will be valued at the lesser of face value or market value on a quarterly basis, or more frequently as determined by the Authority, to evaluate the adequacy of amounts in the Bond Service Account and excess amounts in other Funds and Accounts.

Additional Bonds

One or more series of Additional Bonds may be issued under the Trust Agreement for the purpose of paying additional costs of the Project and for the purpose of refunding certain obligations issued under the Act. Such Additional Bonds will be on a parity with the Bonds outstanding under the Trust Agreement except as to bond service reserve accounts or Credit Support Instruments, if any, applicable only to certain series of such outstanding Bonds.

The issuance of Additional Bonds under the Trust Agreement is also subject to the following conditions, among others: (i) the Authority is not in default of any covenants or obligations of the Authority contained in the Trust Agreement or in the Bonds and the authentication and delivery of the Additional Bonds will not result in any such default; (ii) the principal amount of the Additional Bonds and of other Bonds then issued or outstanding and of any notes or other obligations then issued or outstanding (other than such notes or other obligations to be, and only to the extent to be, funded or refunded by the Additional Bonds then being issued), will not exceed in aggregate the principal amount of obligations which may be issued or outstanding under then existing authorizations of the General Assembly and the provisions of the Act; (iii) upon the issuance and delivery of such Additional Bonds, the amount in any bond service reserve account for such Additional Bonds shall not be less than the applicable required reserve; (iv) any necessary Supplemental Lease will have been executed and delivered providing for rental payments sufficient to pay the Bond Service Charges and Operating Expenses, if any, related to all Bonds during such biennium; (v) certificates of the Director of Budget and Management and the Administrator confirming that amounts sufficient to pay currently estimated rental payments under the Lease have been appropriated and that amounts in subsequent biennia have been requested, when appropriate; (vi) receipt of evidence that such Additional Bonds will be assigned a rating by each Rating Service equal to or better than the rating then assigned to the outstanding Bonds by each Rating Service; and (vii) the Trustee has received (a) a copy, signed by the Chairman, Vice-Chairman or Secretary-Treasurer of the Authority, of the Series Resolution authorizing the issuance and delivery of the Additional Bonds to be authenticated and delivered, adopted in conformity with the General Bond Resolution and containing the findings required by the General Bond Resolution to be set forth in that Series Resolution; (b) an original executed counterpart of the Supplemental Trust Agreement entered into in connection with the issuance of those Additional Bonds; (c) an original executed counterpart of any Supplemental Lease entered into in connection with the issuance of those Additional Bonds; (d) a request and authorization to the Trustee on behalf of the Authority, signed by an Authorized Officer, to authenticate and deliver the Additional Bonds to, or on the order of, the original purchaser thereof who is therein identified, upon payment of a sum specified in that request and authorization; (e) the certificate of an Authorized Officer as to items (i), (ii), (iii), (iv) and (v) above; (f) the written opinion of legal counsel retained or designated by the Authority, or other legal counsel satisfactory to the Trustee, to the effect that

documents submitted to the Trustee in connection with the application then being made comply with the requirements of the Trust Agreement, and that in that counsel's opinion all conditions precedent to the issuance of those Additional Bonds as provided in the Trust Agreement have been complied with, and a written opinion of bond counsel retained or designated by the Authority, who may also be the legal counsel referred to above, that the Additional Bonds the authentication of which is then applied for, when duly executed, authenticated and delivered by or on behalf of the Trustee, will be valid and legal obligations of the State, issued by the Authority, in accordance with their terms and will be secured by the Trust Agreement with all Bonds then outstanding.

Further Covenants

Certain of the other covenants of the Authority contained in the Trust Agreement are as follows:

Maintenance of Lease and Certain Other Agreements. The Authority covenants in the Trust Agreement to take all necessary and lawful actions to comply with its obligations, duties and responsibilities under the Lease or any agreements, the revenues or receipts from which constitute Pledged Receipts, and will take all actions within its authority to maintain the Lease and any agreement in effect and to enforce the rights of the Authority thereunder in accordance with the terms thereof, including actions at law and in equity, as may be appropriate.

The Authority covenants in the Trust Agreement to provide rental payments in sufficient and appropriate amounts to pay when due (i) all Bond Service Charges on the Bonds from the Bond Service Account, (ii) the payment of any amounts due to a Financial Institution providing a Credit Support Instrument in connection with a series of Bonds, (iii) all Operating Expenses, (iv) all amounts necessary to maintain any required reserve in a bond service reserve account and (v) all Rebate Amounts to be paid to the United States of America which are not otherwise available in one of the Funds or Accounts created pursuant to the Trust Agreement. The Authority covenants not to amend, modify, alter, change or waive any term or provision of the Lease if such action would have the effect of (a) reducing the rental payments payable thereunder to amounts less than described in the preceding sentence or changing the times and manner of payment thereof so that such rental payments would not be available when needed for payments to be made from the Funds established by the Trust Agreement, (b) surrendering or limiting any remedies of the Authority under the Trust Agreement (including the rights of the Authority to terminate the Lease) or (c) being adverse to the interests of the Holders of the Bonds or any applicable Financial Institutions.

Creation of Liens. The Authority covenants in the Trust Agreement not to make any pledge or assignment of, or create or suffer any lien or encumbrance upon, the Bond Service Fund or the Pledged Receipts prior to or on a parity with the pledge thereof under the Trust Agreement, except as otherwise authorized or permitted under the Trust Agreement, and in the case of a bond service reserve account, under the applicable Series Resolution.

Enforcement of Mandamus. The Authority has acknowledged that each provision of the Trust Agreement, the Bonds, the Lease, and all other agreements included in the proceedings relating to the Bonds, are binding upon the Authority, the Bureau and any other State agency or other Person or body as may from time to time have authority under the law to take such actions as may be necessary to perform all or any part of the duty required by such provision, and that each duty of the Authority, the Bureau or other State agency and their respective officers, members and employees undertaken or required pursuant thereto is established as a duty of the Authority and each such member, officer and employee having authority to perform such duty that is specifically enjoined by law resulting from an office, trust or station within the meaning of Section 2731.01 of the Ohio Revised Code providing for enforcement by writ of mandamus.

Certain Reports. The Authority will annually file with the Trustee and the Director of Budget and Management: (i) a report, certified by certified independent public accountants or the Auditor of the State, setting forth financial statements which present fairly the financial position of the Authority as of the end of the preceding fiscal year and the results of the operations and the cash flows of its internal service fund for the fiscal year then ended, all in conformity with generally accepted accounting principles (except as noted in such certificate); and (ii) a certificate of such accountants or Auditor stating that such accountants or Auditor have examined such report in accordance with generally accepted auditing procedures as such accountants or Auditor considered necessary in the circumstances, that their examination of such report has included a review of the terms of the Trust Agreement as they relate to matters susceptible of accounting determinations and that such review is sufficient to enable them to give such certificate and stating whether or not such examination has disclosed the existence, at the end of the fiscal year covered by such report (and existing at the date of such certificate), of any Event of Default under the Trust Agreement or any other event which, after notice or lapse of time or both, would become an Event of Default and, if such examination had disclosed such an Event of Default or such an event, specifying the same and the nature and status thereof. See "**THE TRUST AGREEMENT – Events of Default and Remedies**".

The Authority will annually submit to the Director of Budget and Management a written report confirmed by the Trustee setting forth the estimated amount of rent to become due under the Lease during the current fiscal year and the ensuing two fiscal years. Prior to the issuance of Additional Bonds or upon any determination by the Authority that a different amount than last reported will be required, the Authority will submit a revised written report superseding the next prior report.

On or before the forty fifth day preceding each Interest Payment Date with respect to the Bonds, the Trustee will submit to the Authority, the Director of Budget and Management and the Bureau a written certificate setting forth (i) the net interest earned and deposited into the Bond Service Account and not reflected on any previous similar certificate and any net interest to be earned and credited to the Bond Service Account prior to the next applicable Interest Payment Date; (ii) any moneys deposited into the Bond Service Account from any bond service reserve account or the Acquisition and Construction Fund as a result of excess funds being in such bond service reserve account or Acquisition and Construction Fund (and not reflected on any previous certificate) and any moneys to be so deposited in the Bond Service Account prior to such Interest Payment Date; (iii) any moneys deposited in the Bond Service Account from the Rebate Fund and not reflected on any previous certificate and any funds to be so deposited in the Bond Service Account prior to the next such Interest Payment Date; and (iv) any moneys remaining in the Administrative Service Fund on the date of such certificate which moneys are to be deposited immediately into the Bond Service Account. Such amounts shown on such certificate shall be a credit against the next rental payment due under the Lease.

Events of Default and Remedies

Events of Default. The following events constitute Events of Default under the Trust Agreement:

- (i) Default by the Authority in the payment of any interest on any Bond when due and payable; or
- (ii) Default by the Authority in the payment of the principal or any redemption premium on any Bonds when due and payable, whether at stated maturity or by mandatory redemption or mandatory purchase; or

(iii) Any other default by the Authority to perform or observe any of the other covenants, agreements or conditions on its part contained in the Trust Agreement or the Bonds and continuance of such default for 60 days after written notice thereof from the Trustee or the Holders of not less than 25% in aggregate principal amount of the affected Bonds then outstanding.

If an Event of Default occurs, the Trustee shall give notice to the Authority and any applicable Financial Institution within five days of receipt of actual knowledge and to the applicable original purchasers, Holders, tender agents, paying agents, bond registrars and authenticating agents within 90 days after having knowledge, unless the Event of Default is cured or, in the case of an Event of Default under clause (iii) above, the Trustee determines that withholding notice is in the best interest of Holders of the Bonds.

Remedies. If an Event of Default described in clauses (i) or (ii) above occurs and is not remedied, the Trustee shall proceed to protect and enforce its rights and the rights of the Holders of the Bonds, which include the right to declare the principal of all Bonds and interest accrued thereon to be immediately due and payable. At any time after that declaration and prior to the entry of judgment in a court for enforcement or the appointment of a receiver under the Trust Agreement, such declaration of acceleration is subject to a rescission and annulment by the Trustee if all sums payable under the Trust Agreement (except the principal and interest on Bonds which have not reached their stated maturity dates and which are due and payable solely by reason of that declaration of acceleration), plus interest (to the extent permitted by law) on any overdue installments of interest have been paid or provided for by deposit with the Trustee or paying agents, and all existing Events of Default have been cured.

If an Event of Default occurs under the Trust Agreement and is not remedied, the Trustee may, as an alternative or in addition to acceleration of the Bonds, enforce the rights of the Holders of the Bonds by mandamus or other suit, action or proceeding at law or in equity, bring suit upon the Bonds, enjoin unlawful activities or activities in violation of the rights of Holders or Financial Institutions under the Trust Agreement, or, in the case of an Event of Default described in clause (i) or (ii) above, apply to a court to appoint a receiver of the Pledged Receipts. If an Event of Default described in clause (iii) above occurs and is not remedied, and if requested by the Holders of at least 25% principal amount of the affected Bonds then outstanding or a Financial Institution providing a Credit Support Instrument with respect to the affected Bonds and if indemnified as provided in the Trust Agreement, the Trustee, is required to exercise such one or more rights and powers conferred by the Trust Agreement as the Trustee being advised by counsel, considers most effective to protect and enforce those rights.

The Trustee is not required to take notice or be deemed to have notice or knowledge of any default under the Trust Agreement, except Events of Default described in clauses (i) and (ii) above, unless the Trustee is specifically notified in writing of such default by the Authority or by the Holders of at least 10% of the aggregate principal amount of Bonds then outstanding or a Financial Institution providing a Credit Support Instrument with respect to the affected Bonds, and in the absence of such notice so delivered, the Trustee may conclusively assume there is no Event of Default except as described above.

The Trust Agreement provides for the appointment of a receiver to recover and administer the Pledged Receipts upon the occurrence of certain Events of Default, but the right to a receiver under Ohio law is discretionary with the court as equitable principles may dictate. The appointment of a receiver, accordingly, may not be available as a remedy for the Trustee or the Holders of the Bonds. Moreover, the Act withholds from any receiver the power to pledge additional revenues or income of the Authority to the payment of the Bond Service Charges and excludes the power to take possession of, mortgage, or cause the sale or other disposition of the Project.

All moneys held or received by the Authority, the Trustee or the receiver after an Event of Default occurs, after the payment of the costs and expenses incurred in the collection thereof and the fees, expenses, liabilities and advances of the Trustee or the receiver, are required to be applied as follows: (i) unless the principal of all Bonds has become and been declared due and payable, (a) first to the payment of all installments of interest then due on the Bonds (or the reimbursement of Financial Institutions for such interest payments made pursuant to Credit Support Instruments) in the order of the maturity of the installments of such interest and, if the amount available is not sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or privilege except as to any difference in the respective rates of interest specified in the Bonds; (b) next to the payment of unpaid principal of any Bonds (or the reimbursement of Financial Institutions for such principal payments made pursuant to Credit Support Instruments) which have become due (other than Bonds previously called for redemption for the payment of which moneys are held pursuant to the provisions of the Trust Agreement), whether at stated maturity, by redemption or pursuant to any mandatory sinking fund requirements, in the order of their due dates, with interest, and if the amount is insufficient to pay in full all Bonds (and reimburse in full Financial Institutions for principal payments made pursuant to Credit Support Instruments) then to the payment ratably according to the amount of principal due on that date to the Persons entitled thereto, without discrimination or privilege; and (c) finally, to the payment of all other obligations of the Authority to Financial Institutions; or (ii) if the principal of all Bonds has become or been declared due and payable, to the payment of principal and interest then due and unpaid upon the Bonds (and reimbursement of Financial Institutions for principal and interest payments made pursuant to Credit Support Instruments), without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest to the Persons entitled thereto without any discrimination or privilege (except as to any difference in the respective rates of interest specified in the Bonds) and then to the payment of all other obligations of the Authority to Financial Institutions; or (iii) if the principal of all Bonds has been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled as provided in the Trust Agreement then, subject to clause (ii) of this paragraph in the event that the principal of all such Bonds shall later become due and payable, the moneys shall be deposited in the Bond Service Account and applied in accordance with the provisions of the Resolutions. Whenever moneys are to be applied as set forth above, those moneys are to be applied at the times the Trustee determines, having due regard to the amount of those moneys available for application and the likelihood of additional moneys becoming available for application in the future.

Whenever the Trustee directs the application of those moneys, the Trustee is required to fix the date (which shall be an Interest Payment Date with respect to the Bonds unless the Trustee shall deem another date more suitable) upon which the application is to be made and upon that date interest on the amounts of principal to be paid on that date, and for which moneys are available, shall cease to accrue. The Trustee is required to give notice as it deems appropriate of the deposit of any such moneys and of the fixing of any such date, all consistent with the requirements of the Resolutions for the establishment of, and for giving notice of, a special record date for the payment of overdue interest. The Trustee is not required to direct payment of principal or premium to the Holder of any Bond until that Bond is presented to the Trustee for appropriate notation of partial payment or for cancellation if fully paid.

No Holder of any Bond has any right to institute any suit, action or proceeding for the enforcement of any provision of the Trust Agreement or for the execution of any trust thereof for the appointment of a receiver or any other remedy thereunder unless (i) an Event of Default under the Trust Agreement has occurred and is continuing; (ii) that Holder has previously given to the Trustee written notice of the Event of Default; (iii) the Holders of at least 25% in aggregate principal amount of the Bonds then outstanding have filed a written request with the Trustee and have offered the Trustee reasonable opportunity either to proceed to exercise the Trustee's powers or to institute such action, suit or

proceeding in the Trustee's name; (iv) such Holders have offered the Trustee adequate indemnity as provided in the Trust Agreement; and (v) the Trustee has failed or refused to comply with such request after receipt by the Trustee of such notice, request and offer of indemnity. No one or more Holders of any Bonds have any right in any manner whatsoever to affect, disturb or prejudice the pledge created by the Trust Agreement or to enforce any right thereunder except in the manner therein provided, and all actions, suits and proceedings shall be instituted and maintained in the manner therein provided and for equal benefit of the Holders of all outstanding Bonds.

Notwithstanding the foregoing, the Holders of not less than a majority in aggregate principal amount of the outstanding Bonds have the right with the consent of each Financial Institution not then in default on its obligations with respect to the Bonds, at any time, by an executed instrument delivered to the Trustee, to direct all proceedings to be taken in connection with the enforcement of the Trust Agreement or for the appointment of a receiver, provided that such direction must be in accordance with law and the Trust Agreement, and provided that such Holders have offered to the Trustee indemnity as provided in the Trust Agreement. No Financial Institution will have any rights with respect to the enforcement of remedies against itself.

Waivers of Events of Default

Except as may otherwise be provided in any Supplemental Trust Agreement, at any time the Trustee may in its discretion, with the prior written consent of any Financial Institution providing a Credit Support Instrument in connection with affected Bonds and not then in default on its obligations with respect to such Bonds, waive any Event of Default under the Trust Agreement and its consequences and rescind any declaration of maturity of principal, and the Trustee must waive any Event of Default or rescind any declaration of maturity of principal upon the written request of the Holders of at least a majority in aggregate principal amount of all outstanding Bonds and with the consent of each Financial Institution providing a Credit Support Instrument in connection with the affected Bonds. The Trustee will not, however, waive or rescind any Event of Default resulting from a failure to pay Bond Service Charges when due or rescind any declaration of maturity in connection therewith unless at the time of the waiver or rescission payment of all overdue installments of interest and principal, not including principal and interest due solely by virtue of acceleration, have been made or provided for.

While the Bond Insurance Policy for the Insured Series 2003 A Bonds is in effect and the Bond Insurer is not in default thereunder, the Bond Insurer is entitled to control and direct enforcement of certain rights and remedies granted to the Holders of the Insured Series 2003 A Bonds. See "**RIGHTS OF BOND INSURER.**"

Supplemental Trust Agreements

Without the consent of or notice to the Holders of the Bonds, the Authority and the Trustee may enter into Supplemental Trust Agreements for any one or more of the following purposes: (i) to cure any ambiguity, inconsistency or formal defect or omission in the Trust Agreement; (ii) to grant or to confer upon the Trustee additional rights, remedies, powers, or authority that lawfully may be granted to or conferred upon the Holders of the Bonds or any Financial Institution (to the extent not contrary to the interests of Holders of the Bonds) or the Trustee; (iii) to subject additional revenues or receipts to the pledge of the Trust Agreement; (iv) to add to the covenants of the Authority contained in the Trust Agreement other covenants and agreements to be observed for the protection of the Holders of the Bonds or Financial Institutions (to the extent not contrary to the interests of Holders of the Bonds), or to surrender or limit any right, power or authority reserved to or conferred upon the Authority in the Trust Agreement; (v) to evidence any succession to the Authority and the assumption by that successor of the covenants and agreements of the Authority in the Trust Agreement and the Bonds; (vi) in connection with

the issuance of Additional Bonds in accordance with the Trust Agreement; (vii) to permit the exchange of Bonds, at the option of the Holder for coupon Bonds in accordance with the Trust Agreement if, in the opinion of nationally recognized bond counsel selected by the Authority, that exchange would not result in the interest on any of the Bonds outstanding becoming subject to federal income taxation; (viii) to permit the use of a Book-Entry System to identify the owner of an interest in a Bond; (ix) to permit the Trustee to comply with any obligations imposed by law; (x) to specify further the duties and responsibilities of, and to define further the relationships among, the Trustee and any bond registrar, authenticating agent or paying agent for the Bonds; (xi) to achieve compliance with any applicable federal securities or tax law; (xii) as permitted by the Trust Agreement in connection with providing for compliance with the rebate requirements of Section 148(f) of the Code; (xiii) to permit or provide for interest rate hedges, as defined in Section 9.98(L) of the Ohio Revised Code, as authorized by Section 9.982(B)(3) of the Ohio Revised Code, with respect to obligations issued under the Trust Agreement, provided, however, that prior to any such interest rate hedge becoming effective: (a) any necessary Supplemental Lease shall have been executed and delivered providing for Basic Rent under the Lease estimated to be sufficient to pay the cost and expenses of providing such interest rate hedge and any other fees, costs and expenses in connection therewith, and the rentals to be paid pursuant to the Lease, including such Basic Rent shall have been appropriated in an amount estimated to be sufficient for the remainder of the then State fiscal biennium and (b) the Director of Budget and Management and the Administrator shall have included, in any then existing budget request for the Lessee for the next succeeding fiscal biennium, amounts sufficient to pay all rentals estimated to be due under the Lease during such biennium; and (xiv) to permit any other amendment not prejudicial to the Trustee or the Holders of the Bonds.

In addition, with the consent of the Holders of not less than a majority in aggregate principal amount of the Bonds then outstanding (exclusive of Bonds then held or owned by the Authority), the Trustee and the Authority may enter into other Supplemental Trust Agreements for the purpose of modifying, altering, amending, adding to or rescinding any of the terms or provisions thereof, provided that no Supplemental Trust Agreement may be entered into which provides for (i) an extension of the maturity of the principal of or the interest on any Bond or a reduction in the principal amount of any Bond or the rate of interest or redemption premium on any Bond or reduction in the amount or extension of the time of any payment required by any mandatory sinking fund requirements or mandatory redemption requirements, without the consent of the Holder of each Bond so affected (ii) a reduction in the aggregate principal amount of the Bonds required for consent to such Supplemental Trust Agreements without the consent of the Holders of all Bonds then outstanding.

Where the consent of the Holders of the Bonds is required, procedures are established in the Trust Agreement for notice to the Holders and for the execution and filing of the requisite consents. Any consent is binding upon the Holders of the Bonds giving such consent and upon any subsequent Holders of such Bonds unless that consent is revoked in writing prior to the execution by the Trustee of the Supplemental Trust Agreement. If the Holders of the required percentage in aggregate principal amount of the Bonds then outstanding have consented to the execution of a Supplemental Trust Agreement as provided in the Trust Agreement, no Holder of any Bond has any right to object to the execution of the Supplemental Trust Agreement or to the terms and provisions contained therein or the operation thereof, to question the propriety of the execution thereof or to enjoin or restrain the Authority or the Trustee from executing or taking action pursuant to the same.

Consent of the Bond Insurer is required for certain Supplemental Trust Agreements. See **"RIGHTS OF BOND INSURER"**.

Defeasance

When all the outstanding Bonds and all obligations of the Authority to Financial Institutions with respect thereto and all other sums payable under the Trust Agreement have been paid and discharged (or provisions therefor have been made within the meaning of the Trust Agreement), then the Trust Agreement will be null and void and the obligations, covenants and agreements of the Authority and the pledge created by the Trust Agreement will be fully discharged and satisfied. Any Bonds will be deemed to have been so paid and discharged if the Trustee holds sufficient moneys or direct obligations of the United States which bear such interest as will, without further investment, when added with any moneys also deposited, be sufficient in the aggregate to pay at maturity or upon redemption the Bond Service Charges on those Bonds; provided that, with respect to the Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption has been duly given or provisions satisfactory to the Trustee have been made for the giving of such notice.

Non-presentment of Bonds

If any Bond is not presented for payment when the principal thereof is due or a check or draft for interest is uncashed, and if moneys sufficient to pay that principal or that check or draft has been made available by the Trustee for the benefit of the Holder or payee thereof, all liability of the State or the Authority to the Holder or payee for payment thereof will cease and be completely discharged, and it will be the duty of the Trustee to hold such moneys in trust, without liability for interest thereon, for the benefit of the Holder of that Bond or the payee of that check or draft, who thereafter will be restricted exclusively to such moneys for any claim of whatever nature on its part under the Trust Agreement or on or with respect to that Bond or that check or draft. Moneys so held by the Trustee and which remain unclaimed for three years after the due date of the payment will be paid to the Treasurer and thereafter the Holder of that Bond or the payee of that check or draft may look only to the Treasurer for payment and then only in the amounts so received by the Treasurer without any interest thereon, and the Trustee will have no further responsibility with respect to such moneys.

Payments Due On Saturdays, Sundays and Holidays

If any Interest Payment Date or date of maturity of the principal of any Series 2003 A Bonds is a Saturday, Sunday or a day on which: (i) the Trustee is required, or authorized or not prohibited, by law (including without limitation executive orders) to close and is closed, then payment of Bond Service Charges need not be made by the Trustee or any paying agent on the applicable date, and the applicable payment may be made on the next succeeding Business Day on which the Trustee and the paying agent are open for business with the same force and effect as if the applicable payment were made on the applicable date, and no interest shall accrue for the period after that date, or (ii) a paying agent is required, or authorized or not prohibited, by law (including without limitation executive orders) to close and is closed, then the applicable payment need not be made by that paying agent on the applicable date, and the applicable payment may be made on the next succeeding Business Day on which that paying agent is open for business with the same force and effect as if the applicable payment were made on the applicable date, and no interest shall accrue for the period after that date. If, however, the Trustee is open for business on the applicable date, it shall make any applicable payment required under the Trust Agreement with respect to interest on outstanding Bonds and principal of and premium on Bonds presented to it for payment, regardless of whether any other paying agent shall be open for business or closed on the applicable date.

Trustee

The Trustee, U.S. Bank National Association (formerly known as Firststar Bank, National Association, which was formerly known as Star Bank, National Association), is a national banking association organized and existing under the laws of the United States, and is authorized to exercise corporate trust powers in the State. The Trustee has undertaken to perform such duties as are specifically set forth in the Trust Agreement. The Trustee shall exercise such of the rights and powers vested in it by the Trust Agreement and use the same degree of care and skill in their exercise as an ordinarily prudent corporate trustee under a trust agreement securing securities of a public agency, and is not obligated to take any action until it has received a satisfactory indemnity for its expenses and to protect it against any liability other than liability resulting from its negligence or willful default. The permissive rights of the Trustee to do things under the Trust Agreement will not be construed as a duty and the Trustee will not be answerable for acts or events other than its negligence or willful default.

U.S. Bank National Association is among the banks that serve as depositories for State moneys.

RIGHTS OF BOND INSURER

While the Bond Insurance Policy is in effect and the Bond Insurer is not in default of its obligations thereunder, the following provisions apply to the Series 2003 A Bonds insured thereby provided, however, that such provisions shall not apply to any other bonds or other obligations of the Authority now or hereafter outstanding under the Trust Agreement.

Consent of the Bond Insurer

Any provision of the Second Supplemental Trust Agreement expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer thereunder without the prior written consent of the Bond Insurer.

Consent of the Bond Insurer in Addition to Holder Consent

Unless otherwise provided in the Second Supplemental Trust Agreement, the Bond Insurer's consent shall be required in addition to Holder consent, when required, for the following purposes: (i) execution and delivery of any supplemental trust agreement other than a supplemental trust agreement authorizing the issuance of Additional Bonds and not requiring the consent of the Holders of the Outstanding Bonds; (ii) removal of the Trustee and selection and appointment of any successor Trustee; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Holder consent under the Trust Agreement.

Consent of the Bond Insurer in the Event of Insolvency

Any reorganization or liquidation plan with respect to the Authority must be acceptable to the Bond Insurer. In the event of any reorganization or liquidation, the Bond Insurer shall have the right to vote on behalf of all Holders who hold the Insured Series 2003 A Bonds.

Consent of the Bond Insurer Upon Default

Anything in the Trust Agreement to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default under the Trust Agreement, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Insured Series 2003 A Bonds issued thereunder or the Trustee for the benefit of the Holders of the such Insured Series 2003 A Bonds including, without limitation: (i) the right to accelerate the principal of any of the Insured Series 2003 A Bonds as described in the Trust Agreement, and (ii) the right to annul any declaration of acceleration, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default under the Trust Agreement.

Acceleration Rights

Upon the occurrence of an Event of Default under the Trust Agreement, the Trustee may, with the consent of the Bond Insurer, and shall, at the direction of the Bond Insurer or twenty-five percent (25%) of the Holders of the Insured Series 2003 A Bonds with the consent of the Bond Insurer, by written notice to the Trustee and the Bond Insurer, declare the principal of the Series 2003 A Bonds to be immediately due and payable, whereupon that portion of the principal of the Series 2003 A Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in the Trust Agreement or in the Insured Series 2003 A Bonds to the contrary notwithstanding.

Notices to be Given to the Bond Insurer

The Second Supplemental Trust Agreement requires the Authority to furnish to the Bond Insurer:

- (A) as soon as practicable after the filing thereof, a copy of any financial statement of the Authority and a copy of any audit and annual report of the Authority;
- (B) a copy of any notice to be given to the Holders of the Insured Series 2003 A Bonds including, without limitation, notice of any redemption of or defeasance of Insured Series 2003 A Bonds and any certificate rendered pursuant to the Trust Agreement relating to the security for the Insured Series 2003 A Bonds; and
- (C) such additional information which the Bond Insurer may reasonably request.

The Trustee is required under the Second Supplemental Trust Agreement to notify the Bond Insurer of any failure of the Authority to provide required notices or certificates.

The Second Supplemental Trust Agreement requires the Authority to permit the Bond Insurer to discuss the affairs, finances and accounts of the Authority or any information the Bond Insurer may reasonably request regarding the security for the Insured Series 2003 A Bonds with appropriate officers of the Authority. The Authority also is required to permit the Bond Insurer to have access to and to make copies of all books and records relating to the Insured Series 2003 A Bonds at any reasonable time.

Notwithstanding any other provision of the Trust Agreement, the Authority is required to immediately notify the Bond Insurer if at any time there are insufficient moneys to make any required payments of Bond Service Charges on the Insured Series 2003 A Bonds, and immediately upon the occurrence of any Event of Default thereunder.

Defeasance

Notwithstanding any other provision of the Trust Agreement to the contrary, in the event that the Bond Service Charges on the Insured Series 2003 A Bonds shall be paid by the Bond Insurer pursuant to the Bond Insurance Policy, such Insured Series 2003 A Bonds shall remain outstanding for all purposes, shall not be defeased or otherwise satisfied and shall not be considered paid by the Authority, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Authority to the Holders of such Insured Series 2003 A Bonds shall continue to exist and shall run to the benefit of the Bond Insurer, and the Bond Insurer shall be subrogated to the rights of such Holders.

Trustee-Related Provisions

The Trustee may be removed at any time, at the request of the Bond Insurer, for any breach of the trusts set forth in the Trust Agreement.

The Bond Insurer is entitled to receive prior written notice of any Trustee resignation.

The Second Supplemental Trust Agreement requires that every successor Trustee be a trust company or bank in good standing located in or incorporated under the laws of the State, duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than \$100,000,000.

Notwithstanding any other provision of the Trust Agreement in determining whether the rights of the Holders of the Insured Series 2003 A Bonds will be affected adversely by any action taken pursuant to the terms of the Trust Agreement, the Trustee is required to consider the effect on the Holders of the Insured Series 2003 A Bonds as if there were no Bond Insurance Policy.

Notwithstanding any other provision of the Trust Agreement, no removal, resignation or termination of the Trustee shall take effect until a successor Trustee shall be appointed.

Bond Insurer as Third-Party Beneficiary

To the extent that the Second Supplemental Trust Agreement confers upon or gives or grants to the Bond Insurer any right, remedy or claim under or by reason of the Trust Agreement, the Bond Insurer is explicitly recognized as being a third-party beneficiary under the Second Supplemental Trust Agreement and may enforce any such right, remedy or claim conferred, given or granted thereunder.

Parties Interested

Nothing in the Second Supplemental Trust Agreement expressed or implied, is intended or shall be construed to confer upon, or to give or grant to, any person or entity, other than the Authority, the Trustee and the Holders of the Series 2003 A Bonds any right, remedy or claim under or by reason of the Second Supplemental Trust Agreement or any covenant, condition or stipulation thereof, and all covenants, stipulations, promises and agreements in the Second Supplemental Trust Agreement contained by and on behalf of the Authority shall be for the sole and exclusive benefit of the Authority, the Trustee and the Holders of the Series 2003 A Bonds.

LITIGATION

The Authority and the State are parties to various legal proceedings, seeking damages or injunctive or other relief, generally related to their respective operations but unrelated to the Series 2003 A Bonds or the security for the Series 2003 A Bonds. Though the ultimate disposition of such proceedings is not currently determinable, the Attorney General of the State will deliver an opinion that none of such proceedings involve, or would materially adversely affect, the transactions contemplated in connection with the issuance and sale of the Series 2003 A Bonds and that none of such proceedings would have a material adverse effect on the Authority's performance of its obligations under the Lease, the Trust Agreement or the Series 2003 A Bonds.

The Bureau and the State, from time to time, are parties to various legal proceedings, seeking damages or injunctive or other relief, generally related to their respective operations but unrelated to the Series 2003 A Bonds or the security for the Series 2003 A Bonds. Though the ultimate disposition of such proceedings is not presently determinable, the Attorney General of the State will deliver an opinion that none of such proceedings involve, or would materially adversely affect, the transactions contemplated by the Lease and that none of such proceedings would have a material adverse effect on the performance by the Bureau's performance of its obligations under the Lease.

The State is a party to the school funding litigation discussed in "**Appendix A — SCHOOLS AND MUNICIPALITIES — Schools**".

ELIGIBILITY UNDER OHIO LAW FOR INVESTMENT AND AS SECURITY FOR THE DEPOSIT OF PUBLIC MONEY

To the extent that a particular investor is governed by Ohio law with respect to its investments, and subject to any applicable limitations under other provisions of Ohio law, under the Act the Series 2003 A Bonds are lawful investments for banks, insurance companies (including domestic life and domestic companies other than life), savings and loan associations, deposit guaranty companies, trust companies, fiduciaries, trustees, sinking funds or bond retirement funds of municipal corporations, school districts and counties, the commissioners of the sinking fund, the administrator of workers' compensation, the State teachers' retirement system, the public employees' retirement system, and the school employees retirement system, notwithstanding any other provisions of the Ohio Revised Code with respect to investments by them.

The Act provides that the Series 2003 A Bonds are acceptable under Ohio law as security for the deposit of public moneys.

Each Book-Entry Interest Owner of the Series 2003 A Bonds should make its own determination as to such matters of legality of investment in, or pledge of book-entry interests in the Series 2003 A Bonds.

RATINGS

Insured Series 2003 A Bonds

Moody's Investors Service, Inc., has assigned a rating of "Aaa" to the Insured Series 2003 A Bonds, Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., has assigned a rating of "AAA" to the Insured Series 2003 A Bonds and Fitch Ratings has assigned a rating of "AAA" to the Insured Series 2003 A Bonds, each with the understanding that upon delivery thereof the Bond Insurance Policy insuring the payment when due of the principal of and interest on the Insured Series 2003 A Bonds will be issued by Bond Insurer. See **APPENDIX D - Specimen of Municipal Bond Insurance Policy**. Such ratings reflect only the respective views of such rating agencies. Any explanation of the significance of the ratings may only be obtained from the respective rating agency. The State and the Authority furnished each rating agency with certain information and materials, some of which may not have been included in this Official Statement, relating to the Insured Series 2003 A Bonds, the State, the DAS and the Authority. Generally, rating agencies base their ratings on such information and other investigations, studies and assumptions they deem appropriate. There can be no assurance that the ratings will continue for any period of time or that they will not be revised or withdrawn entirely by the respective rating agency, if in its judgment circumstances so warrant. Any revision or withdrawal of a rating may have an effect on the marketability and market price of the Insured Series 2003 A Bonds.

Uninsured Series 2003 A Bonds

Moody's has assigned a rating of "Aa3" to the Series 2003 A Bonds, S&P has assigned a rating of "AA" to the Series 2003 A Bonds and Fitch has assigned a rating of "AA" to the Series 2003 A Bonds. Such ratings reflect only the respective views of such rating agencies. Any explanation of the significance of the ratings may only be obtained from the respective rating agency. The State, the Authority and the Bureau furnished each rating agency with certain information and materials, some of which has not been included in this Official Statement, relating to the Series 2003 A Bonds, the State, the Bureau and the Authority. Generally, rating agencies base their ratings on such information and other investigations, studies and assumptions they deem appropriate. There can be no assurance that the ratings will continue for any period of time or that they will not be revised or withdrawn entirely by the respective rating agency, if in its judgment circumstances so warrant. Any revision or withdrawal of a rating may have an effect on the marketability and market price of the Series 2003 A Bonds.

TAX STATUS

In the opinion of Bond Counsel for the Series 2003 A Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming continued compliance of the Authority with certain covenants designed to meet the requirements of Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Series 2003 A Bonds will be excludible from gross income for federal income tax purposes. Bond Counsel for the Series 2003 A Bonds is also of the opinion that interest on the Series 2003 A Bonds will not be a specific item of tax preference under Section 57 of the Code for purposes of the federal individual or corporate alternative minimum taxes. Furthermore, Bond Counsel for the Series 2003 A Bonds is of the opinion that interest on the Series 2003 A Bonds is exempt from taxes levied by the State of Ohio and its political subdivisions, including the Ohio personal income tax, and is excludible from the net income base used in calculating the Ohio corporate franchise tax.

A copy of the opinion of Bond Counsel for the Series 2003 A Bonds is set forth in **Appendix C**, attached hereto.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2003 A Bonds. The Authority has covenanted to comply with certain restrictions designed to ensure that interest on Series 2003 A Bonds will not be includable in gross income for federal income tax purposes. Failure to comply with these covenants could result in interest on the Series 2003 A Bonds being includable in income for federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Series 2003 A Bonds. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series 2003 A Bonds may adversely affect the tax status of the interest on the Series 2003 A Bonds.

Certain requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series 2003 A Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Series 2003 A Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Peck, Shaffer & Williams LLP.

Although Bond Counsel for the Series 2003 A Bonds is of the opinion that interest on the Series 2003 A Bonds will be excludible from gross income for federal and Ohio income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2003 A Bonds may otherwise affect a Bondholder's federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion and each Bondholder or potential Bondholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Series 2003 A Bonds on the tax liabilities of the individual or entity.

For example, although Bond Counsel for the Series 2003 A Bonds is of the opinion that interest on the Series 2003 A Bonds will not be a specific item of tax preference for the federal alternative minimum tax, corporations are required to include all tax-exempt interest in determining "adjusted current earnings" under Section 56(c) of the Code, which may increase the amount of any alternative minimum tax owed by such corporation. Receipt of tax-exempt interest, ownership or disposition of the Series 2003 A Bonds may result in other collateral federal, state or local tax consequences for certain taxpayers. Such effects include, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies, under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, increasing the federal tax liability of certain individual recipients of Social Security or Railroad Retirement benefits, under Section 86 of the Code and limiting the use of the Earned Income Credit under Section 32 of the Code that might otherwise be available. Ownership of any Series 2003 A Bonds may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of Series 2003 A Bonds in a state other than Ohio or being subject to tax in a state other than Ohio, may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the Series 2003 A Bonds.

Original Issue Discount

As shown on the cover hereof, certain of the Series 2003 A Bonds (the "Discount Bonds") may be offered and sold to the public at an original issue discount ("OID") from the amounts payable at maturity

thereon. OID is the excess of the stated redemption price of a bond at maturity (the face amount) over the "issue price" of such bond. The issue price is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of bonds of the same maturity are sold pursuant to that initial offering. For federal income tax purposes, OID on each bond will accrue over the term of the bond. The amount accrued will be based on a single rate of interest, compounded semiannually (the "yield to maturity") and during each semi-annual period, the amount will accrue ratably on a daily basis. The OID accrued during the period that an initial purchaser of a Discount Bond at its issue price owns it is added to such purchaser's tax basis for purposes of determining gain or loss at the maturity, redemption, sale or other disposition of that Discount Bond. In practical effect, accrued OID is treated as stated interest, which is excludable from gross income for federal income tax purposes.

Holders of Discount Bonds should consult their own tax advisors as to the treatment of OID and the tax consequences of the purchase of such Discount Bonds other than at the issue price during the initial public offering and as to the treatment of OID for state tax purposes.

Original Issue Premium

As shown on the cover hereof, certain of the Series 2003 A Bonds (the "Premium Bonds") may be initially offered and sold to the public at an "Acquisition Premium". Acquisition Premium is the excess of the cost of a bond over the stated redemption price of such bond at maturity or, for bonds that have one or more earlier call dates, the amount payable at the next earliest call date. The Premium Bonds are not callable prior to their respective maturity dates.

For federal income tax purposes, the amount of Acquisition Premium on each bond the interest on which is excludable from gross income for federal income tax purposes ("tax-exempt bonds") must be amortized and will reduce the bondholder's adjusted basis in that bond. However, no amount of amortized Acquisition Premium on tax-exempt bonds may be deducted in determining a bondholder's taxable income for federal income tax purposes. The amount of any Acquisition Premium paid on the Premium Bonds that must be amortized during any period will be based on the "constant yield" method using the original bondholder's basis in such bonds and compounding semiannually. This amount is amortized ratably over the semiannually period on a daily basis.

Holders of any Series 2003 A Bonds, including any Premium Bonds purchased at an Acquisition Premium, should consult their own tax advisors as to the actual effect of such Acquisition Premium with respect to their own tax situation and as to the treatment of the Acquisition Premium for state tax purposes.

CERTAIN LEGAL MATTERS

Legal matters incident to the issuance of the Series 2003 A Bonds and with regard to the tax-exempt status of the interest thereon (see "TAX STATUS") are subject to the approving legal opinion of Peck, Shaffer & Williams LLP, whose services as Bond Counsel have been retained by the Authority. A signed copy of Bond Counsel's opinion, dated as of, and speaking only as of, the date of initial issuance of the Series 2003 A Bonds will be delivered to the Underwriters at the time of that initial issuance. The proposed text of Bond Counsel's opinion is attached hereto as **Appendix C**. The legal opinions to be delivered may vary from that text if necessary to reflect facts and law on the date of delivery of the Series 2003 A Bonds. The opinion will speak only as of its date, and subsequent distribution of the opinion by recirculation of the Official Statement or otherwise shall create no implication that Bond Counsel has reviewed or expresses any opinion concerning any of the matters referred to in the opinion subsequent to its date.

Certain legal matters will be passed upon for the Underwriters by Bricker & Eckler LLP. Certain legal matters will be passed upon for the Authority by its General Counsel, Jim Petro, Attorney General of Ohio, and its Issuer's Counsel, Calfee, Halter & Griswold LLP. Certain legal matters also will be passed upon for the Bureau by the Attorney General of Ohio.

INFORMATION CONCERNING THE STATE OF OHIO

Attached hereto as **Appendix A** is a discussion of certain matters relating to State finances, debt, population, employment, agriculture, resources, tax bases and related subjects. **Appendix A** has been provided by the State from its official records, except for information expressly attributed to other sources. The information is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial or other positions of the State. No representation is made that past experience, as might be shown by such financial or other information, will necessarily continue in the future.

UNDERWRITING

Morgan Stanley & Co. Incorporated, as representative of the Underwriters, has agreed, subject to certain conditions, to purchase the Series 2003 A Bonds from the Authority at the following price: \$153,344,591.15 (consisting of the par amount thereof plus original issue premium of \$11,680,048.35 on certain Series 2003 A Bonds, less underwriting discount of \$805,454.25 and less original issue discount of \$30,002.95 on certain Series 2003 A Bonds). The Underwriters are obligated to purchase all the Series 2003 A Bonds if any are purchased. The Series 2003 A Bonds may be offered and sold by the Underwriters to certain dealers at prices lower than the public offering price, and the public offering price may be changed from time to time.

CONTINUING DISCLOSURE

The Authority has agreed, for the benefit of the Holders and Book-Entry Owners of the Series 2003 A Bonds, in accordance with SEC Rule 15c2- 12 (the "Rule") to provide or cause to be provided such financial information and operating data (the "Annual Information"), audited financial statements and notices, in such manner as may be required for purposes of paragraph (b)(5)(i) of the Rule (the "Continuing Disclosure Agreement"), including specifically the following.

1. To each SEC-designated nationally recognized municipal securities information repository ("NRMSIR") and to the Ohio state information depository ("SID"):

(a) Annual Information for each Fiscal Year (beginning with Fiscal Year 2003) not later than the 90th day following the end of the Fiscal Year (or, if that not a State business day, the next State business day), consisting of annual financial information and operating data of the type included in **Appendix A** of this Official Statement under the captions "**FISCAL MATTERS**", "**STATE DEBT**" and "**TAX LEVELS AND TAX BASES**". The Director of Budget and Management has agreed to provide that Annual Information. The Annual Information may be provided by reference to other documents, such as the State's Comprehensive Annual Financial Report, the Authority's annual financial statements, and subsequent final official statements relating to other bonds issued by the State.

(b) When and if available, audited general purpose financial statements of the State for each Fiscal Year (beginning with Fiscal Year 2003). The Authority expects such financial statements to be provided by the Director of Budget and Management, that they will be available separately

from the Annual Information, and that the accounting principles to be applied in their preparation will be as described under and by reference in **"FISCAL MATTERS - Accounts and Controls; Financial Reports" in Appendix A.**

2. To each NRMSIR or to the Municipal Securities Rule Making Board ("MSRB"), and to the SID, in a timely manner, notice of:

- (a) The occurrence of any of the following events, within the meaning of the Rule, with respect to the Series 2003 A Bonds, if material; principal and interest payment delinquencies; non-payment related defaults; unscheduled draws on any debt service reserves or credit enhancements reflecting financial difficulties; substitution of credit or liquidity providers, or their failure to perform; adverse tax opinions or events affecting the tax-exempt status of the Series 2003 A Bonds; modifications to rights of Holders or Book-Entry Interest Owners; bond calls; defeasances; release, substitution, or sale of property securing repayment of the Series 2003 A Bonds; and rating changes. There are initially no bond service reserves, liquidity providers or credit enhancements applicable to the Series 2003 A Bonds, or any property (except the Pledged Receipts), securing their repayment;
- (b) The failure to provide the Annual Information within the time specified above; and
- (c) Any change in the accounting principles applied in the preparation of the annual financial statements, any change in Fiscal Year, any failure of the General Assembly to appropriate moneys for the purpose of paying costs to be incurred by the State to perform its obligations pursuant to the Continuing Disclosure Agreement for the applicable fiscal period (biennium), and termination of the Continuing Disclosure Agreement.

The Authority will reserve the right to amend the Continuing Disclosure Agreement, and to obtain the waiver of noncompliance with any provision of the Continuing Disclosure Agreement, as may be necessary or appropriate to achieve its compliance with any applicable federal securities law or rules, to cure any ambiguity, inconsistency or formal defect or omission, and to address any change in circumstances arising from a change in legal requirements, change in law, or change in the identity, nature, or status of the Authority. Any such amendment or waiver will not be effective unless the Continuing Disclosure Agreement (as amended or taking into account such waiver) would have complied with the requirements of the Rule at the time of the primary offering of the Series 2003 A Bonds, after taking into account any applicable amendments to or official interpretations of the Rule, as well as any change in circumstances, and until the Authority shall have received either (i) a written opinion of bond counsel or other qualified independent special counsel selected by the Authority that the amendment or waiver would not materially impair the interest of Holders or Book-Entry Interest Owners of the Series 2003 A Bonds, or (ii) the written consent to the amendment, or waiver, by the Holders of at least a majority of the aggregate outstanding principal amount of the Series 2003 A Bonds.

The Continuing Disclosure Agreement will be solely for the benefit of the Holders and Book-Entry Interest Owners of the Series 2003 A Bonds. The right to enforce the provisions of the Continuing Disclosure Agreement is limited to the extent permitted by law to an action for mandamus or specific performance to compel compliance with the obligations of the Authority and the State under it.

Any noncompliance with the Continuing Disclosure Agreement will not be a default or failure to comply for purposes of the default provisions of the Trust Agreement. The Trustee has no responsibility for monitoring compliance with the Continuing Disclosure Agreement.

The Continuing Disclosure Agreement will remain in effect for the Series 2003 A Bonds only for such period that the Series 2003 A Bonds are outstanding in accordance with their terms and the State remains an obligated person with respect to the Series 2003 A Bonds within the meaning of the Rule.

Pursuant to the Lease, the Bureau has agreed to provide to OBM audited financial statements of the Ohio Bureau of Workers' Compensation and the Industrial Commission of Ohio for each Fiscal Year (beginning with Fiscal Year 2003) not later than September 30th of the following Fiscal Year. OBM has agreed to provide those financial statements to the NRMSIRs and the SID at the times that OBM provides the audited general purpose financial statements of the State to the NRMSIRs and the SID.

The performance by the State of the Continuing Disclosure Agreement and by the Bureau and OBM of their respective undertakings relating to financial statements of the Bureau and the Industrial Commission, as the only obligated persons with respect to the Series 2003 A Bonds, will be subject to the biennial appropriations by the General Assembly of moneys for the applicable purposes.

The Authority or OBM, on behalf of the Authority, has in a timely manner made all filings and given all notices heretofore required under the Rule. The Bureau has not heretofore been required to make any filings under the Rule.

CONCLUDING STATEMENT

Quotations in this Official Statement from, and summaries and explanations of, the Ohio Constitution, the Ohio Revised Code, the Trust Agreement, the Lease and the Resolutions do not purport to be complete. Reference is made to the pertinent provisions of the Ohio Constitution and Ohio Revised Code and those documents for all complete statements of their provisions. Copies of the Trust Agreement, the Lease and the Resolutions are available upon request from the Ohio Building Authority, 30 East Broad Street, 40th Floor, Columbus, Ohio 43215 (Telephone 614/466-5959).

To the extent that any statements in this Official Statement involve matters of opinion or estimates, whether or not expressly stated to be such, those statements are made as such and not as representations of fact or certainty, and no representation is made that any of those statements will be realized. Information in this Official Statement has been derived by the State, the Authority and the Bureau from official and other sources and is believed by the State, the Authority and the Bureau to be reliable, but information other than that obtained from official records of the State has not been independently confirmed or verified by the State, the Authority or the Bureau and its accuracy is not guaranteed. This Official Statement is not to be construed as a contract or agreement between the State or the Authority and the Original Purchaser or subsequent Holders of any of the Series 2003 A Bonds or owners of any interests therein.

This Official Statement has been prepared, approved and delivered by the Authority, and executed for and on its behalf and in his official capacity by the official indicated below.

OHIO BUILDING AUTHORITY

By: /s/ Paul Goggin
Executive Director

GLOSSARY

When used herein the following terms shall have the meanings set forth below. The definitions set forth below are qualified in their entirety by reference to the Trust Agreement and the Lease, copies of which are available from the Authority and the Underwriters. Use of the singular includes plural and use of the plural includes singular, where applicable.

"Acquisition and Construction Fund" means the Ohio Building Authority Acquisition and Construction Fund established pursuant to the Trust Agreement.

"Act" means Chapter 152 of the Ohio Revised Code, as the same may be amended, modified, revised, or superseded from time to time, together with the provisions of any other act or resolution of the General Assembly authorizing or limiting the issuance of the Bonds or the use of the proceeds thereof, as applicable.

"Additional Bonds" means any Bonds other than the Series 2003 A Bonds.

"Additional Rent" means (i) on each Rental Payment Date, an amount estimated by the Authority to be equal to the estimated Operating Expenses of the Authority and (ii) when needed, amounts constituting the Rebate Amount with respect to the Bonds which are not paid from other sources.

"Administrative Cost Fund" means the fund established and maintained by the Bureau pursuant to Section 4123.341 of the Ohio Revised Code for the payment of administrative costs (and not workers' compensation benefits) of the Bureau, the Workers' Compensation Board and the Industrial Commission.

"Administrative Service Fund" means the Ohio Building Authority Administrative Service Fund established pursuant to the Trust Agreement.

"Administrator" means the Administrator of Workers' Compensation appointed pursuant to Section 4121.12 of the Ohio Revised Code, who is responsible for the management of the Bureau and for the discharge of administrative duties imposed by the Workers' Compensation Board.

"Authority" means the Ohio Building Authority, a body both corporate and politic performing essential governmental functions of the State and created and operating under the Act.

"Authorized Officer" means any officer, member or employee of the Authority or the Bureau authorized by or pursuant to a resolution of the Authority or a certificate of the Authority signed by its Chairman, Vice-Chairman, Secretary-Treasurer or Executive Director, or a resolution of the Workers' Compensation Board or a certificate signed by the Administrator, as the case may be, to perform any act or sign any document in question, and, if there is no such resolution or certificate means the Chairman of the Authority or the Administrator of the Bureau, respectively.

"Basic Rent" means the amount payable by the Bureau to the Authority on or before each Rental Payment Date, and includes (i) an amount equal to the Bond Service Charges on all outstanding Bonds, whether due as scheduled, as a result of a call for redemption or as a result of an acceleration of principal of and interest on such Bonds; (ii) such sums, if any as may be necessary to maintain any required reserve in a bond service reserve account (none is provided for or is required with respect to the Series 2003 A Bonds); (iii) such sums, if any, as may be necessary to purchase any Bonds which the Authority is obligated to purchase pursuant to any agreement with a Financial Institution and (iv) such sums, if any, as

may be necessary to make payments to any Financial Institution issuing a Credit Support Instrument for one or more series of Bonds.

"Bond Insurance Policy" means, with respect to the Series 2003 A Bonds, the Municipal Bond Insurance Policy issued by the Bond Insurer for the benefit of the Holders of the Insured Series 2003 A Bonds, and which guarantees the payment of the principal of and interest on the Insured Series 2003 A Bonds as provided therein.

"Bond Insurer" or "FGIC" means, with respect to the Insured Series 2003 A Bonds, Financial Guaranty Insurance Company, a New York domiciled insurance company.

"Bond Proceedings" or "bond proceedings" means the Resolutions, the Trust Agreement, the Lease, and other resolutions, leases and agreements, and amendments and modifications of and supplements to the foregoing, or any combination thereof, authorizing or providing for the terms and conditions applicable to, or providing for the security or sale of, the Series 2003 A Bonds, and the terms contained in the Series 2003 A Bonds.

"Bond Service Account" means the Bond Service Account in the Bond Service Fund established pursuant to the Trust Agreement for the payment of Bond Service Charges on the Bonds.

"Bond Service Charges" or "Bond service charges" means the principal, including any mandatory sinking fund requirements and interest and any redemption premium required to be paid on the Bonds, (whether or not held by any Financial Institution or its designee), and when used in reference to the Bond Service Charges on unissued Bonds in anticipation of the issuance of which notes are or are to be issued, means the estimated Bond Service Charges on those Bonds set forth in the proceedings for those notes.

"Bond Service Fund" means the Ohio Building Authority Bond Service Fund established pursuant to the Trust Agreement.

"Bonds" means the Series 2003 A Bonds and any and all Additional Bonds issued by the Authority pursuant to the Trust Agreement.

"Book-Entry Form" or "Book-Entry System" means a form or system under which (i) the beneficial, book-entry ownership of Series 1993A Bonds and the right to Bond Service Charges may be transferred only through a book-entry, and (ii) physical bond certificates in fully registered form are issued by the Authority only to a Securities Depository or its nominee as Holder, with the Bonds held by and "immobilized" in the custody of the Securities Depository, and with the book-entry system maintained by persons other than the Authority or the Trustee being the record that identifies the owners of beneficial interests in those Series 2003 A Bonds and rights to Bond Service Charges.

"Book-Entry Interest Owner" means an owner of a beneficial interest in the Bonds under a Book-Entry System.

"Bureau" means the Ohio Bureau of Workers' Compensation established by Chapter 4121 of the Ohio Revised Code.

"Business Day" means any day other than Saturday, Sunday, a legal holiday or a day on which banking institutions located in the State are authorized or required by law to close or a day on which the Trustee or any applicable paying agent is unable to open or be open for reasons not related to its financial condition.

"Code" means the Internal Revenue Code of 1986, as amended from time to time. References to the Code and sections of the Code include relevant, applicable regulations (including temporary regulations and proposed regulations thereunder and any successor provisions to those Sections, regulations or proposed regulations).

"Credit Support Instrument" means an insurance policy, letter of credit or other credit enhancement, support or liquidity device provided pursuant to an agreement with any Financial Institution to enhance the security or liquidity of any Bonds or series or part of any series of Bonds or to provide, in whole or part, a Required Reserve.

"Director of Budget and Management" means that officer of the State, appointed pursuant to Section 121.03 of the Ohio Revised Code, who administers and is the executive head of the Office of Budget and Management of the State.

"DTC" means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, or its nominee, and the initial registered Holder of and Securities Depository for the Series 2003 A Bonds.

"Eligible Investments" means, unless varied by the terms of a Series Resolution as to a particular series of Bonds, any of the following securities:

- (i) direct obligations of the United States of America;
- (ii) obligations, whether representing principal and interest or either principal or interest, guaranteed as to payment by the United States of America, or to the payment of which the faith of the United States of America is pledged;
- (iii) obligations issued by any agency or instrumentality of the United States of America which are accepted by the Rating Services for refunding purposes generally to result in the particular refunded obligations being assigned the highest rating of the particular Rating Service;
- (iv) general obligations of the State or any political subdivision of the State that are rated at one of the two highest ratings of the Rating Services;
- (v) certificates of deposit, whether negotiable or nonnegotiable, issued by a national bank located in the State or a bank (as defined in Section 1101.01 of the Ohio Revised Code) subject to inspection by the State Superintendent of Banks, which bank has a combined capital and surplus of at least One Hundred Million Dollars (\$100,000,000) in dollars of the United States of America and is rated at least "A" (or its equivalent) by the Rating Services, provided, that such certificates of deposit (a) do not exceed in the aggregate ten percent (10%) of the combined capital, surplus and undivided profits of the issuing bank and (b) shall be in the possession of the Trustee or its agents and shall be either (A) continuously and fully insured by the Federal Deposit Insurance Corporation, or its successors and (B) to the extent not so insured, continuously and fully secured by securities ("Pledged Securities") as are described in clauses (i) through (iii), inclusive, above which shall have a market value (exclusive of any accrued interest) at all times at least equal to the principal amount of the certificates of deposit; and the bank issuing a certificate of deposit required to be secured as provided in clause (B) above shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such Pledged Securities securing each such certificate of deposit will at all times be an amount at least equal to the principal amount of each such certificate of deposit and the Trustee shall be entitled to rely on each such undertaking;

(vi) any repurchase agreement for a period not to exceed thirty (30) days with any eligible institution described in clause (v) above having capital and surplus of at least One Hundred Million Dollars (\$100,000,000) in dollars of the United States of America and is rated at least "A" (or its equivalent) by the Rating Services and described in Section 135.03 of the Ohio Revised Code that is fully and continuously collateralized at all times by interest bearing Pledged Securities based upon the market value of such Pledged Securities; and

(vii) any no front end load money market fund that is rated at least "A" (or its equivalent) by the Rating Services invested solely in obligations described in clauses (i), (ii) and (iii) above;

provided that for the purposes of clauses (v) and (vi), the respective Pledged Securities are to be in the possession of the Trustee or its agent and are to be free and clear of all liens or rights of any third party, and in which Pledged Securities the Trustee is to have a first perfected security interest.

"Escrow Account" means the "State of Ohio (Ohio Building Authority) Workers' Compensation Facilities Bonds (William Green Building), 1993 Escrow Account established pursuant to the provisions of the Original Trust Agreement and the Series 2003 A Resolution.

"Escrow Agent" means the bank or trust company serving as Escrow Agent under the Escrow Agreement, being initially the Trustee.

"Escrow Agreement" means the Escrow Agreement, dated as of April 1, 2003, between the Authority and the Escrow Agent.

"Financial Institution" means any financial institution or institutions, including but not limited to any insurance company, providing any Credit Support Instrument in connection with one or more series of Bonds then outstanding.

"Fiscal Year" means a period of twelve consecutive months commencing on the first day of July of any year and ending on the last day of June of the following year, or such other period of twelve (12) consecutive months as may by law be designated as the fiscal year for general State fiscal purposes.

"Fitch" means Fitch Ratings, and its successors and assigns.

"Fully Registered Bonds" or "fully registered form" means Bonds without coupons registered as to both principal and interest in the name of the Holder thereof.

"General Assembly" means the body in which the legislative power of the State is vested.

"General Bond Resolution" means Resolution No. 1993-19 adopted by the Authority on October 15, 1993, as the same may be amended from time to time in accordance with its provisions or the provisions of the Original Trust Agreement.

"General Revenue Fund" means the general revenue fund of the State.

"Governor" means the Governor of the State or the person who by law performs the functions of that office.

"Holder" or "holder" or "bondholder" or any similar term means any person in whose name a Series 2003 A Bond is registered on the Register.

"Industrial Commission" means the Industrial Commission of the State.

"Insured Series 2003 A Bonds" means the Series 2003 A Bonds maturing October 1, 2007 through October 1, 2014.

"Interest Payment Date" means, as to the Series 2003 A Bonds, the first day of each April and October, commencing on October 1, 2003, and means, as to Additional Bonds, the dates set forth as Interest Payment Dates in the respective Supplemental Trust Agreements.

"Lease" means the Original Lease, as amended and supplemented to date and by the Second Supplemental Lease.

"Mail" or "mailing" or "mailed" means sending by first class United States mail, postage prepaid.

"Moody's" means Moody's Investors Service, Inc. and its successors and assigns.

"Operating Expenses" means the reasonable administrative fees incurred by the Authority and reasonable administrative expenses and other fees, expenses and obligations, other than Bond Service Charges, incurred by the Authority in carrying out its duties and meeting its obligations hereunder and under the Lease, the Trust Agreement and any agreement between the Authority and the Bureau relating to the Project, between the Authority and any Financial Institution, between the Authority and any party providing remarketing services in connection with one or more series of Bonds, or any other agreement relating to one or more series of Bonds, including, without limitation, accounting, insurance premiums, administrative (including overhead reasonably allocated to such Bonds), financial advisory and legal expenses and the fees and expenses of the Trustee and any bond registrar, paying agents, authenticating agents, tender agent or any other fiduciary or agent acting under the Trust Agreement.

"Original Lease" means the Lease Agreement dated as of October 1, 1993 between the Authority and the Bureau.

"Original Trust Agreement" means the Trust Agreement dated as of October 1, 1993 between the Authority and the Trustee.

"Outstanding Bonds", "Bonds outstanding" or "outstanding" means as of the applicable date, all Bonds which have been authenticated and delivered or are then being delivered, by the Trustee under the Trust Agreement, except:

(i) Bonds canceled on surrender, exchange or transfer or canceled because of payment or redemption at or prior to such date;

(ii) Bonds for the payment, redemption or purchase for cancellation of which sufficient moneys have been deposited and credited for the purpose on or prior to that date in the Bond Service Account, a bond redemption and purchase account, or other Special Fund or Account, or with the Trustee or any paying agents (whether upon or prior to the maturity or redemption date of those Bonds); provided that if any of the Bonds are to be redeemed prior to their maturity, notice of that redemption shall have been given or arrangements satisfactory to the Trustee, shall have been made for giving notice of that redemption, or waiver by the affected bondholders of that notice satisfactory in form to the Trustee shall have been filed with the Trustee, and provided further that if any of the Bonds are to be purchased for cancellation a firm offer of sale stating the price has been received and accepted;

(iii) Bonds which are deemed to have been paid pursuant to the provisions of Article IX of the Original Trust Agreement, or Bonds which are deemed to have been paid pursuant to the provisions of the Series Resolution, pertaining thereto; and

(iv) Bonds in lieu of which others have been authenticated (or payment of which, when due, has been made without replacement) under the Original Trust Agreement.

"Person" or "person" or words importing persons mean firms, associations, partnerships (including, without limitation, general and limited partnerships), joint ventures, societies, estates, trusts, corporations, public or governmental bodies, other legal entities and natural persons.

"Pledged Receipts" means (a) all rentals and other revenues and receipts of the Authority under the Lease, excepting only the portions thereof to be deposited in the Administrative Service Fund and the Rebate Fund as provided in the Trust Agreement; (b) all amounts standing to the credit of the Bond Service Fund including any Bond Service Reserve Account (other than subaccounts in any Bond Service Reserve Account which is limited to certain series of obligations) and all unencumbered amounts standing to the credit of the Acquisition and Construction Fund and the Replacement and Improvement Fund; (c) any gifts, grants, appropriations, donations and pledges received by the Authority for or relating to the Project, to the extent not previously pledged and to the extent not prohibited by the terms of such gifts, grants, appropriations, donations and pledges, (d) all other rents, revenues and receipts, including fees and charges, derived or to be derived by the Authority from the Project to the extent not previously pledged; and (e) any other available receipts, as defined in Section 152.09(A)(8) of the Ohio Revised Code, which are pledged to the payment of Bond Service Charges by a Series Resolution.

"Project" means those capital facilities, or portions thereof, described in the Lease, as generally described herein under the heading "**THE PROJECT**".

"Project Costs", "project costs" or "costs of capital facilities" means the "costs of capital facilities" as defined in the Act, for which the Bonds may be issued by the Authority under the Act.

"Rating Services" means Moody's and S&P, or if either shall be dissolved or no longer assigning credit ratings to long term debt, then any other nationally recognized entity assigning credit ratings to long term debt designated by the Authority and satisfactory to the Trustee.

"Rebate Amount" means for each series of Bonds as of any date the excess of the future value, as of that date, of all receipts on nonpurpose investments acquired with gross proceeds of the issue over the future value, as of that date, of all payments on nonpurpose investments acquired with gross proceeds of the issue, computed in accordance with Section 148(f) of the Code and Treasury Regulations §1.148-3.

"Rebate Fund" means the Ohio Building Authority Rebate Fund established pursuant to the Trust Agreement.

"Renewal Term" means each term commencing contemporaneously with the State's fiscal biennium for which the Bureau has the right (or shall be deemed to have exercised the right) to renew the Lease.

"Rental Payment Date" means the twentieth day prior to the date Bond Service Charges are due and payable on the Bonds, or as otherwise required to comply with the terms of Additional Bonds.

"Replacement and Improvement Fund" means the Ohio Building Authority Replacement and Improvement Fund established pursuant to the Trust Agreement.

"Required Reserve" means the amount, if any, specified in a Series Resolution, required to be deposited in a Bond Service Reserve Account for the Bonds authorized by that Series Resolution. There is no Required Reserve for the Series 2003 A Bonds.

"Resolutions" means the General Bond Resolution, the Series 1993 A Resolution and the Series 2003 A Resolution.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, and its successors and assigns.

"Second Supplemental Lease" means the Second Supplemental Lease dated as of April 1, 2003 between the Authority and the Bureau.

"Second Supplemental Trust Agreement" means the Second Supplemental Trust Agreement dated as of April 1, 2003 between the Authority and the Trustee.

"Securities Depository" means any securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a Book-Entry System to record beneficial ownership of Bonds or Bond Service Charges and to effect transfers of Bonds in Book-Entry Form. Initially, with respect to the Series 2003 A Bonds, the Securities Depository is The Depository Trust Company (a limited purpose trust company), New York, New York.

"Series 1993 A Bonds" means the State of Ohio (Ohio Building Authority) Workers' Compensation Facilities Bonds (William Green Building), 1993 Series A.

"Series 2003 A Bonds" means the State of Ohio (Ohio Building Authority) Workers' Compensation Facilities Refunding Bonds (William Green Building), 2003 Series A, authorized by the Series 2003 A Resolution to be issued in the principal amount stated on the cover page hereof.

"Series Resolution" means a resolution of the Authority authorizing the issuance of a series of Bonds in accordance with the General Bond Resolution, and includes any resolutions providing for the award, sale, terms or forms of the Bonds authorized by a Series Resolution.

"Series 1993 A Resolution" means the Resolution No. 1993-20 adopted by the Authority on October 15, 1993, providing for the issuance of the Series 1993 A Bonds.

"Series 2003 A Resolution" means the Resolution No. 2003-3 adopted by the Authority on April 10, 2003, as the same may be amended from time to time, providing for the issuance of the Series 2003 A Bonds.

"State" means the State of Ohio.

"State Insurance Fund" means the fund established and maintained by the Bureau pursuant to Section 4123.29 of the Ohio Revised Code.

"Supplemental Lease" means any lease supplementing the Original Lease in accordance with the terms thereof.

"Supplemental Trust Agreement" means any trust agreements supplementing the Original Trust Agreement in accordance with the terms thereof.

"Treasurer" means that officer of the State, elected pursuant to Section 113.01 of the Ohio Revised Code, who serves as Treasurer of State.

"Trust Agreement" means the Original Trust Agreement, as amended and supplemented to date and by the Second Supplemental Trust Agreement.

"Trustee" means U.S. Bank National Association, Cincinnati, Ohio (formerly known as Firststar Bank, National Association, which was formerly known as Star Bank, National Association) and any successor Trustee as determined or designated under or pursuant to the Trust Agreement

"Underwriters" means, as to the Series 2003 A Bonds, Morgan Stanley & Co. Incorporated, Citigroup Global Markets Inc., First Albany Corporation, McDonald Investments Inc., Melvin Securities, LLC, Mesirow Financial, Inc. and SBK-Brooks Investment Corp.

"Uninsured Series 2003 A Bonds" means the Series 2003 A Bonds maturing October 1, 2005 and October 1, 2006.

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INFORMATION CONCERNING THE STATE OF OHIO

The following discusses certain matters relating to State finances, debt, population, employment, agriculture, resources, tax bases and related subjects. It has been provided by the State from its official records, except for information expressly attributed to other sources, to summarize and describe current and recent historical information. It is not intended to indicate future or continuing trends in the financial or other positions of the State. No representation is made that past experience, as might be shown by this financial and other information, will necessarily continue in the future.

Owners of the Series 2003 A Bonds have no right to have taxes or excises levied by the General Assembly to pay Bond Service Charges.

FISCAL MATTERS

General

Consistent with the constitutional provision that no appropriation may be made for a period longer than two years, the State operates on the basis of a fiscal biennium for its appropriations and expenditures. Under current law that biennium for operating purposes runs from July 1 in an odd-numbered year to June 30 in the next odd-numbered year; for example, the current fiscal biennium began July 1, 2001 and ends June 30, 2003. Within a fiscal biennium, the State operates on the basis of a July 1 to June 30 Fiscal Year. (The biennium for general capital appropriations purposes runs from July 1 in an even-numbered year to June 30 in the next even-numbered year.) See **Recent and Current Finances – Current Biennium** the General Assembly's ongoing consideration of the Executive Budget proposed for the 2004-05 biennium.

The Constitution requires the General Assembly to "provide for raising revenue, sufficient to defray the expenses of the state, for each year, and also a sufficient sum to pay the principal and interest as they become due on the state debt." The State is effectively precluded by law from ending a Fiscal Year or a biennium in a "deficit" position. State borrowing to meet casual deficits or failures in revenues or to meet expenses not otherwise provided for is limited by the Constitution to \$750,000.

Most State operations are financed through the general revenue fund (GRF). Personal income and sales-use taxes are the major GRF sources. The last complete fiscal biennium ended June 30, 2001 with a GRF fund balance of \$219,413,500. The State also maintains a "rainy day" fund -- the Budget Stabilization Fund (BSF) -- generally funded by transfer from the Fiscal Year GRF surplus, if any, and which under current law and until used is intended to carry a balance of approximately 5% of the GRF revenue for the preceding Fiscal Year. See the discussion below under **Recent and Current Finances – Current Biennium** of appropriations made of the entire July 1, 2001 BSF balance of \$1,015,595,000. Of the current BSF balance of \$427,904,000, all but \$62,255,000 has been committed as described below.

The Revised Code provides that if the Governor ascertains that the available revenue receipts and balances for the GRF or other funds for the then current Fiscal Year will in all probability be less than the appropriations for that Fiscal Year, he shall issue such orders to State agencies as will prevent their expenditures and incurred obligations from exceeding those revenue receipts and balances. As discussed under **Recent and Current Finances**, the Governor did implement this directive in some prior Fiscal Years, and has implemented it in both years of the current fiscal biennium.

Authority for appropriating State moneys subject to appropriation rests in the bicameral General Assembly, which consists of a 99-member House of Representatives (elected to two-year terms) and a 33-member Senate (elected to overlapping four-year terms). Members of both houses are subject to term limits, with a maximum of eight consecutive years in either. The Governor has veto power, including the power to make line-item vetoes in bills making appropriations. Vetoes may be overridden by a three-fifths vote of each house.

Listed in the tables below under **Recent Receipts and Disbursements** are the major categories of State revenue sources, including taxes and excises, and the amounts received from those categories. There is no present constitutional limit on the rates of those State levied taxes and excises, except for taxes on intangible property.

At present the State itself does not levy ad valorem taxes on real or tangible personal property. Those taxes are levied by political subdivisions and local taxing districts. The Constitution has since 1934 limited the amount of the aggregate levy of ad valorem property taxes on particular property, without a vote of the electors or municipal charter provision, to 1% of true value in money, and statutes limit the amount of that aggregate levy without a vote or charter provision to 10 mills per \$1 of assessed valuation -- commonly referred to in the context of Ohio local government finance as the "ten-mill limitation."

The Constitution directs or restricts the use of certain revenues. Highway fees and excises, including gasoline taxes, are limited in use to highway-related purposes. Not less than 50% of the receipts from State income taxes and estate taxes must be returned to the originating political subdivisions and school districts. State net lottery profits are allocated to elementary, secondary, vocational and special education program purposes including application to debt service on obligations issued to finance capital facilities for a system of common schools.

Constitutional amendments relating to taxation, revenues, expenditures, debt or other subjects may be proposed by action of three-fifths of the members elected to each house of the General Assembly or by initiative petition signed by electors numbering at least 10% of the total number of votes last cast for the office of governor. Adoption of a proposed amendment requires approval by a majority of electors voting on it at a statewide election.

The Ohio Constitution expressly provides that the General Assembly has no power to pass laws impairing the obligation of contracts.

The State has enacted legislation allocating its anticipated share of the proceeds of the national tobacco settlement. A comprehensive allocation has been made through Fiscal Year 2012 and a partial allocation has been made thereafter through Fiscal Year 2025. (In light of the constitutional two-year limitation on appropriations, those allocations are subject to the General Assembly making biennial appropriations to fund them, and those allocations themselves are subject to adjustment by the General Assembly.) As currently allocated and except for Fiscal Years 2002 and 2003, none of the moneys is to be applied to existing operating programs of the State. (As discussed below under **Recent and Current Finances – Current Biennium**, there has been and is to be a use of a portion of settlement moneys to assist in addressing the State's recent and current GRF revenue shortfall situation.) Under current allocations, the main portion of the moneys in future bienniums is to go to assist in the financing of elementary and secondary school capital facilities. Other amounts are targeted for new programs for smoking cessation and other health-related purposes, biomedical research and technology transfer, and assistance to the tobacco growing areas in the State.

Accounts and Controls; Financial Reports

With each office performing specific functions relating to State expenditures, the Office of Budget and Management (OBM) and the Treasurer of State account for and report on the State's fiscal affairs.

OBM maintains records of the appropriations made by the General Assembly, and its Director certifies the availability of unencumbered appropriations as a condition of contract validity. OBM fiscal functions include the development and oversight of operating and capital budgets as well as the review, processing, and reporting of financial transactions for most state departments and agencies (excluding, among others, higher education institutions). The OBM Director's certification is required for all expenditure vouchers before the Auditor of State may issue State warrants. Upon certification, OBM updates its accounting records to reflect the level of vouchered expenditures.

The Treasurer of State maintains the cash and investments that comprise the State treasury, and invests State funds. The Treasurer redeems the warrants issued by the Auditor of State when presented for payment by financial institutions and monitors the amounts and the timing of payments to determine the State's cash flow position for investment purposes.

State financial reporting practices have been and are in accordance with generally accepted accounting principles (GAAP basis). Each Comprehensive Annual Financial Report (CAFR) includes the State's General Purpose Financial Statements (GPFS) for that Fiscal Year as examined by the Auditor of State. The State has delivered the CAFR for Fiscal Year 2002 to each nationally-recognized municipal securities information repository and to the Ohio State Information Depository. The most recent CAFRs are accessible via OBM's home page on the Internet at <http://www.state.oh.us/obm> under "Media", and copies may be obtained by

contacting the State Debt Coordinator at OBM, 30 E. Broad Street, 34th Floor, Columbus, Ohio 43215, phone (614) 466-4034. The 1990 through 2001 CAFRs received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting.

The GPFS are presented in accordance with a fund classification system prescribed by the Governmental Accounting Standards Board. The GAAP basis financial statement presentation is comprehensive in scope and includes organizations and activities defined within Ohio's reporting entity that are not subject to the State's appropriation process. The "General Fund" as reported in the GPFS includes more than just the GRF; it also encompasses the Budget Stabilization Fund and those reimbursement-supported funds that account for activities administered by State agencies and departments and for which special revenue or proprietary fund classifications are considered inappropriate.

OBM also has published *The Ohio Budgetary Financial Report* for Fiscal Year 2002. The most recent Budgetary Financial Reports are accessible via OBM's home page on the Internet at <http://www.state.oh.us/obm> under "Media", and copies are available upon request to OBM.

In accordance with State law, financial statements and analyses (with supporting schedules) of State agencies' transactions, based on official records maintained by OBM, are incorporated into the Governor's Executive Budget. That budget, along with other information, is the subject of extended hearings and reviews in the General Assembly during the biennial appropriation process. See **Recent and Current Finances – Current Biennium** the General Assembly's ongoing consideration of the Executive Budget proposed for the 2004-05 biennium.

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Recent Receipts and Disbursements

The following summary statements, prepared by OBM and based on its records, include: (i) governmental and proprietary appropriated funds, cash receipts and cash disbursements, and (ii) GRF cash basis activity.

Governmental and Proprietary Appropriated Funds Summary Statement of Cash Receipts and Disbursements

The following summary presents all Fiscal Year cash transactions for the governmental and proprietary funds. These encompass the General Fund (which includes the GRF), as well as special revenue, debt service, capital projects, and enterprise and internal service fund types, all as defined and included in each GPFS.

SUMMARY STATEMENT GOVERNMENTAL AND PROPRIETARY APPROPRIATED FUNDS (\$ in 000,000)

Cash Receipts

SOURCE OF RECEIPTS	Fiscal Year				
	1998	1999	2000	2001	2002
Taxes:					
Personal Income	\$6,946.1	\$7,173.8	\$8,084.6	\$8,119.3	\$8,157.1
Sales and Use.....	5,547.0	5,840.0	6,227.2	6,250.7	6,357.1
Corporate Franchise.....	1,268.7	1,150.3	1,029.9	973.0	774.4
Gasoline.....	1,328.4	1,370.7	1,404.9	1,307.3	1,383.3
Public Utilities (a).....	708.0	670.6	675.3	712.3	869.2
Cigarette	296.6	290.6	287.7	282.5	281.3
Foreign Insurance	287.5	278.8	260.2	232.3	230.2
Highway Use	64.9	64.3	66.9	75.3	69.4
Estate	114.8	141.4	140.0	166.0	116.3
Alcoholic Beverages.....	53.1	54.5	56.0	55.7	56.4
Liquor Gallonage.....	27.3	27.6	28.5	29.0	29.3
Domestic Insurance Franchise.....	63.4	77.6	88.7	109.4	132.5
Other	<u>46.1</u>	<u>46.7</u>	<u>52.2</u>	<u>55.3</u>	<u>50.0</u>
Total Taxes	16,751.9	17,186.9	18,402.1	18,368.1	18,506.5
Licenses, Permits and Fees	1,066.9	1,086.3	1,352.9	1,356.9	1,699.5
Sales, Services and Charges	1,551.8	1,533.6	1,544.9	1,436.4	1,502.0
Federal Government	8,186.2	8,516.2	9,207.5	10,794.0	11,633.7
Other(b)	2,177.3	2,245.2	2,481.3	2,714.0	3,741.4
Proceeds from Sale of Bonds and Notes.....	<u>1,826.2</u>	<u>1,274.8</u>	<u>1,104.0</u>	<u>1,110.8</u>	<u>1,231.0</u>
Total Cash Receipts	\$31,560.3	\$31,843.0	\$34,092.7	\$35,780.2	\$38,314.1

(a) Includes the kilowatt-hour excise tax imposed beginning in May of Fiscal Year 2001.

(b) Includes investment income in all Fiscal Years, and tobacco settlement receipts beginning in Fiscal Year 2000 and in Fiscal Year 2002 transfers from the BSF to the GRF.

Cash Disbursements

FUND TYPE

General Fund:

General Revenue Fund(c).....	\$17,088.5	\$18,018.3	\$19,243.6	\$21,144.2	\$21,627.4
General Services Fund(d).....	498.9	496.0	578.3	565.0	1,081.3
Special Revenue Fund(e).....	9,781.4	10,162.3	11,044.8	12,423.5	14,536.0
Capital Projects Fund(f).....	1,023.7	1,021.5	1,057.6	864.8	448.5
Debt Service Fund(g).....	231.2	248.0	281.2	383.3	434.3
Enterprise Fund.....	1,063.2	1,109.7	1,320.6	1,198.1	1,175.3
Internal Service Fund.....	<u>242.2</u>	<u>256.9</u>	<u>273.0</u>	<u>275.0</u>	<u>0.0</u>
Total Cash Disbursements	\$29,929.1	\$31,312.7	\$33,799.1	\$36,853.9	\$39,837.1

(c) Includes balances in the Education Improvement Fund for Fiscal Years 1998 and 1999.

(d) Includes the Internal Service Fund, beginning in Fiscal Year 2002.

(e) Includes local government support disbursements.

(f) Includes amounts disbursed from proceeds of general obligation bonds, and of certain other obligations issued by the Ohio Public Facilities Commission, Ohio Building Authority and the State Treasurer.

(g) Includes the several bond retirement funds for bonds secured by a pledge of taxes and excises.

General Revenue Fund -- Summary Statement of Cash Basis Activity

The following statement portrays all GRF cash activity.

SUMMARY STATEMENT GENERAL REVENUE FUND CASH BASIS ACTIVITY (\$ in 000,000)

	Fiscal Year				
	1998	1999	2000	2001	2002
Beginning Cash Balance	\$1,367.7	\$1,649.0	\$1,512.5	\$1,506.2	\$817.1
Cash Receipts:					
Taxes:					
Personal Income	6,212.5	6,416.8	7,232.0	7,263.4	7,304.1
Sales and Use	5,265.5	5,545.3	5,913.7	5,935.6	6,038.0
Public Utilities(a)	673.0	637.6	642.1	663.3	583.4
Corporate Franchise	1,196.6	1,084.1	969.4	915.3	712.3
Cigarette	296.6	290.6	287.7	282.5	281.3
Foreign Insurance	281.0	271.6	252.3	220.6	214.3
Other	<u>264.2</u>	<u>306.6</u>	<u>320.6</u>	<u>368.8</u>	<u>340.9</u>
Total Taxes	14,189.4	14,552.6	15,617.8	15,649.5	15,474.3
Licenses, Permits and Fees	36.3	36.1	33.7	32.9	31.1
Federal Government	3,292.4	3,428.6	3,729.5	4,527.9	4,387.2
Investment Income	129.0	148.4	122.6	153.4	79.0
Other(b)	<u>122.0</u>	<u>129.4</u>	<u>110.9</u>	<u>181.7</u>	<u>982.4</u>
Total Cash Receipts	17,769.1	18,295.2	19,614.5	20,545.4	20,954.0
Cash Disbursements:					
Current					
Primary, Secondary and Other Education(c)	4,319.3	4,715.9	5,068.4	5,512.9	6,044.7
Higher Education(d)	1,863.3	1,938.9	2,076.3	2,194.2	2,113.0
Public Assistance and Medicaid	6,276.5	6,476.8	6,898.2	8,033.1	8,102.9
Health and Human Services	993.6	1,021.6	1,071.3	1,059.0	1,056.3
Justice and Public Protection	1,383.3	1,472.0	1,618.4	1,673.1	1,668.0
Environmental Protection and Natural Resources	106.0	105.0	119.6	116.7	102.5
Transportation	34.2	33.5	39.2	37.5	43.3
General Government	246.5	256.8	263.9	273.5	264.0
Community and Economic Development	113.0	117.9	134.6	153.0	140.2
Tax Relief(e) and Other	985.0	1,028.7	1,082.0	1,145.9	1,190.2
Capital Outlay	4.2	9.8	17.4	50.8	0.0
Debt Service(f)	<u>762.1</u>	<u>840.0</u>	<u>854.3</u>	<u>894.5</u>	<u>902.3</u>
Total Cash Disbursements	17,087.0	18,016.9	19,243.6	21,144.2	21,627.4
Cash Transfers:					
Transfers-in(g)	368.8	770.1	436.2	763.9	508.5
Transfers-out(h)	<u>(769.6)</u>	<u>(1,184.9)</u>	<u>(813.4)</u>	<u>(854.2)</u>	<u>(33.0)</u>
Total Cash Transfers (Net)	(400.8)	(414.8)	(377.2)	(90.3)	475.5
Ending Cash Balance	\$1,649.0	\$1,512.5	\$1,506.2	\$817.1	\$619.2

- (a) Includes the kilowatt-hour excise tax imposed beginning in May of Fiscal Year 2001.
- (b) Includes fines and penalties, rental receipts, refunds and certain intrastate transfers, and in Fiscal Year 2002 \$534.3 million from the BSF and \$183.9 million from tobacco settlement receipts.
- (c) Mainly subsidies to local school districts.
- (d) Mainly subsidies to colleges and universities. Higher education institutions maintain their own discrete funds and accounts.
- (e) The State currently reimburses taxing subdivisions for the 10% property tax rollback granted to owners of real property (12.5% to homeowners), for partial real property tax exemptions for the elderly and handicapped, and for a portion of revenue reductions resulting from exempted (or reduced tax value) tangible personal property. This program's cost to the State is determined by total property taxes levied on the local level.
- (f) Debt service on general obligations, lease-rental obligations, and certain other State debt paid from the GRF. Excludes highway-related debt, and OBA-issued obligations for Department of Transportation and Department of Public Safety facilities and a Bureau of Workers Compensation facility, debt service on which is paid from non-GRF sources.
- (g) Includes transfers from liquor profits, from the Income Tax Reduction Fund in Fiscal Years 1998-2001, and in Fiscal Year 2002 \$48.4 million from the BSF, \$100 million from the Family Services Stabilization Fund, and \$105.7 million from tobacco settlement receipts.
- (h) Includes transfers to the BSF in Fiscal Years 1998 to 2001, and to the Income Tax Reduction Fund in Fiscal Years 1998 to 2000.

Recent and Current Finances

Introductory Information

The summary statements above identify receipts from specific taxes and excises that are sources of significant amounts of revenue to the State, and particularly to the GRF. As noted, there are constitutional limitations on the use of some taxes and excises, and mandated allocations of portions of some others. As the statements portray, a substantial amount of total State-level revenue is distributed to local governments and school districts under ongoing programs, including local property tax relief.

Economic activity in Ohio, as in other industrially-developed states, tends to be slightly more cyclical than in some other states and in the nation as a whole. The GRF ending (June 30) biennial fund balance is reduced during less favorable national economic periods and then increases during more favorable economic periods. For example, following the 1974-75 nationwide recession, the 1977 GRF ending fund balance was \$21,600,000. The balance (without assistance from any significant tax rate increases) rose to \$245,700,000 in 1979, and then, paralleling the nation's stagnant economic situation, declined to \$200,000 in 1981. Reflective of the strengthening economy, fund balances generally increased during the 1980's and the State ended the 1988-89 biennium with a GRF fund balance of \$475,100,000. Recent biennium-ending GRF balances were:

Biennium	Fund Balance	Cash Balance
1992-93	\$111,013,000	\$393,634,000
1994-95	928,019,000	1,312,234,000
1996-97	834,933,000	1,367,750,000
1998-99	976,778,000	1,512,528,000
2000-01	219,414,000	817,069,000

Actions have been and may be taken by the State during less favorable economic periods (such as currently) to ensure resource/expenditure balances (particularly in the GRF), some of which are described below. None of those actions were or are being applied to appropriations or expenditures needed for debt service or lease payments relating to any State obligations.

The appropriations acts for the 2002-03 biennium include all necessary appropriations for debt service on State obligations and for lease payments relating to lease obligations issued by the Ohio Building Authority and the Treasurer of State, and previously by the Ohio Public Facilities Commission.

The following is a selective general discussion of State finances, particularly GRF receipts and expenditures, for recent and the current bienniums. As evidenced by actions discussed, the State administrations and both houses of the General Assembly have been and are committed to and have taken and are taking actions that ensure a balance of GRF resources and expenditures.

Recent Bienniums

1992-93

State and national fiscal uncertainties necessitated several actions to achieve the ultimate GRF positive ending balances. An interim appropriations act was enacted effective July 1, 1991 that included appropriations for both years of the biennium for debt service and lease rental payments on obligations of the State payable from the GRF, even though most other GRF appropriations were made for only one month. The general appropriations act for the entire biennium was then passed on July 11, 1991. Included in the resources appropriated was \$200,000,000 from the BSF to the GRF.

To address a projected Fiscal Year 1992 imbalance, the Governor ordered most State agencies to reduce GRF spending in the final six months of that Fiscal Year by a total of \$184,000,000, the entire \$100,400,000 BSF balance and additional amounts from certain other funds were transferred to the GRF, and other revenue and spending actions were taken.

Steps to ensure positive biennium-ending GRF balances for Fiscal Year 1993 included the Governor ordering selected GRF spending reductions totaling \$350,000,000 and tax revisions that produced additional

revenue of \$194,500,000. As a first step toward BSF replenishment, \$21,000,000 from the GRF ending balance was deposited in the BSF.

1994-95

Expenditures were below those authorized, primarily as the result of lower than expected Medicaid spending, and tax receipts (primarily auto sales/use) were significantly above estimates. Transfers from the biennium-ending GRF fund balance included \$535,200,000 to the BSF and \$322,800,000 to other funds, including a family services stabilization fund in anticipation of possible federal programs changes.

1996-97

From a higher than forecasted mid-biennium GRF fund balance, \$100,000,000 was transferred for elementary and secondary school computer network purposes and \$30,000,000 to a new State transportation infrastructure fund. Approximately \$400,800,000 served as a basis for temporary 1996 personal income tax reductions aggregating that amount. Of the GRF biennium-ending fund balance, \$250,000,000 was directed to school buildings, \$94,400,000 to the school computer network, \$44,200,000 to school textbooks and instructional materials and a distance learning program, \$34,400,000 to the BSF, and \$262,900,000 to the State Income Tax Reduction Fund (ITRF).

1998-99

GRF appropriations of approximately \$36 billion provided for significant increases in funding for primary and secondary education. Of the first Fiscal Year (ended on June 30, 1998) ending fund balance of over \$1.08 billion, approximately \$701,400,000 was transferred to the ITRF, \$200,000,000 into public school assistance programs, and \$44,184,200 into the BSF. Of the GRF biennium-ending fund balance, \$325,700,000 was transferred to school building assistance, \$293,185,000 to the ITRF \$85,400,000 to SchoolNet (a program to supply computers for classrooms), \$4,600,000 to interactive video distance learning; and \$46,374,000 to the BSF.

2000-01

The State's financial situation varied substantially in the 2000-01 biennium. The first Fiscal Year (2000) of the biennium ended with a GRF cash balance of \$1,506,211,000 and a fund balance of \$855,845,000. A transfer of \$49,200,000 from the balance increased the BSF to \$1,002,491,000 (or 5% of GRF revenue for the preceding Fiscal Year). An additional \$610,400,000 was transferred to the State Income Tax Reduction Fund.

In the middle of the second year of the biennium, the State enacted supplemental appropriations of \$645.3 million to address shortfalls in its Medicaid and disability assistance programs. The State's share of this additional funding was \$247.6 million, with \$125 million coming from Fiscal Year 2001 GRF spending reductions and the remainder from available GRF moneys. The reductions were implemented by OBM prior to March 1, 2001 by a 1 to 2% cut applying to most State departments and agencies. Expressly excluded from the reductions, in addition to debt service and rental payments relating to obligations, were elementary and secondary education.

Then in March 2001 new preliminary lowered revenue estimates for Fiscal Year 2001 and for Fiscal Years 2002 and 2003 were announced. Based on indications that the Ohio economy continued to be affected by the national economic downturn, GRF revenue estimates for Fiscal Year 2001 were reduced by \$288,000,000. In addition, OBM projected higher than previously anticipated Medicaid expenditures. Among the more significant steps taken to ensure the positive GRF ending fund balance at June 30, 2001 were further reductions in expenditures and appropriations spending (with the same exceptions mentioned above for debt service and education) and authorization to transfer by June 30, 2001 from the BSF to the GRF amounts necessary to ensure an ending GRF fund balance of \$188,200,000 (representing the historical 0.5% year end cash flow allowance). The State ended Fiscal Year 2001 with a GRF fund balance of \$219,414,000, making that transfer unnecessary.

Current Biennium

Ongoing and rigorous consideration has been and continues to be given by the Governor and the General Assembly to revenues and expenditures for Fiscal Years 2002-03, primarily as a result of continuing economic conditions. Ongoing budgetary pressures have been and are primarily due to continuing lower than previously anticipated levels of receipts from certain major revenue sources.

Prior consideration came in three general time frames – the June 2001 biennial appropriation act, then late fall and early winter 2001, and then May 2002. Significant remedial steps have included authorization to draw down and use the entire BSF balance, increased cigarette taxes, and use of tobacco settlement moneys previously earmarked for other purposes.

The biennial GRF appropriations act passed in June 2001 provided for biennial GRF expenditures of approximately \$45.1 billion without increases in any major State taxes. Some of the major program funding increases over the original appropriations for the preceding 2000-01 biennium were: Medicaid, 29%; primary and secondary education, 17%; adult and juvenile corrections, 6.2%; mental health and mental retardation, 2.8%; and higher education, 2.4%.

That original appropriations act provided for the following uses of certain reserves, aimed at achieving Fiscal Year and biennium ending positive GRF fund balances, based on then current estimates and projections:

- Transfer of up to \$150,000,000 from the BSF to the GRF for increased Medicaid costs.
- An additional \$10,000,000 from the BSF to an emergency purposes fund.
- Transfer to the GRF in Fiscal Year 2002 of the entire \$100,000,000 balance in the Family Services Stabilization Fund.

Necessary GRF debt service and lease rental appropriations for the biennium were requested in the Governor's proposed budget, incorporated in the related appropriations bills as introduced, and included in the versions as passed by the House and the Senate and in the act as passed and signed. The same was true for separate appropriations acts that included lease-rental appropriations for certain OBA-financed projects for the departments of Transportation and Public Safety, and Bureau of Workers' Compensation.

The Ohio economy continued to be negatively affected by the national economic downturn and by national and international events, and in October 2001 OBM lowered its GRF revenue estimates. Based on reduced revenue collections in certain categories (particularly personal income taxes and, at that time, sales taxes), OBM then projected GRF revenue shortfalls of \$709,000,000 for Fiscal Year 2002 and \$763,000,000 for current Fiscal Year 2003. Executive and legislative actions were taken based on those new estimates, including:

- The Governor promptly ordered reduced appropriations spending by most State agencies (expressly excepted were appropriations for or relating to debt service on State obligations), and limits on hiring and major purchases. Reductions were at the annual rate of 6% for most State agencies (including higher education institutions), with lesser reductions for correctional and other institutional agencies, and with exemptions for primary and secondary education and the adjutant general.
- December 2001 legislation, the more significant aspects of which included:
 - Authorizing transfer of up to \$248,000,000 from the BSF to the GRF during the current biennium. This was in addition to the \$160,000,000 in transfers from the BSF provided for in the original appropriations act (and would reduce the BSF balance to approximately \$604,000,000).
 - Reallocating to the GRF a \$260,000,000 portion of tobacco settlement receipts in Fiscal Years 2002 and 2003, intended to be replenished from settlement receipts in Fiscal Years 2013 and 2014.
 - Reducing appropriation spending authorizations for the legislative and judicial branches.
 - Making certain tax-related changes (including accelerating the time for certain payments).
 - Authorizing Ohio's participation in a multi-state lottery game, estimated to generate \$41,000,000 in Fiscal Year 2003. This participation has begun, although litigation has sought, to date unsuccessfully, to enjoin the authorization on State constitutional grounds.

Continuing economic conditions, among other factors, then led OBM in the spring of 2002 to project a higher than previously estimated GRF revenue shortfall. Among areas of continuing concern were lower than anticipated levels of receipts from personal income and corporate franchise taxes. These updated GRF

shortfall estimates were approximately \$763,000,000 in Fiscal Year 2002 and \$1.15 billion in Fiscal Year 2003. Further executive and legislative actions were taken for Fiscal Year 2002 to ensure a positive GRF fund balance for the biennium. In addition to further administrative and management steps, such as additional restraints on spending, those actions included legislation that provides for among other things:

- Authorization of additional transfers to the GRF from the BSF of its entire previously unappropriated balance (\$607,000,000) as needed in Fiscal Years 2002 and 2003, and of \$50,800,000 of unclaimed funds to the GRF.
- \$50,000,000 reduction in the Fiscal Year 2002 ending GRF balance (to \$100,000,000 from its previously budgeted level of \$150,000,000).
- Increased cigarette tax by 31¢ per pack (to a total 55¢ a pack), estimated by OBM to produce approximately \$283,000,000 in Fiscal Year 2003.
- Transfers to the GRF of \$345,000,000 from tobacco settlement money received in Fiscal Years 2002 and 2003. That amount had previously been earmarked and appropriated for elementary and secondary school facilities construction; moneys for that purpose will instead be provided by way of \$345,000,000 in additionally authorized general obligation bonds.
- Extension of the State income tax to Ohio-based trusts (a “sunset” provision ends this tax December 31, 2004), and exemption of certain Ohio business taxes from recent federal tax law “economic stimulus changes” by modifying existing State law tie-ins to the federal tax base. The combination was and is estimated by OBM to produce approximately \$283,000,000 in Fiscal Year 2003.
- Selective additional appropriation cuts for certain departments.

Certain other provisions of the legislation are aimed at the future, rather than the current biennium, including the indexing of State income tax brackets to the Gross Domestic Product beginning in July 2005.

As shown in the summary statements above (under **Fiscal Matters**), several categories of Fiscal Year 2002 GRF tax receipts were below those in the prior Fiscal Year. Overall, total GRF tax receipts were 1.1% below those in Fiscal Year 2001. Fiscal Year 2002 nevertheless did end with positive GRF balances of \$108,306,000 (fund) and \$619,217,000 (cash). This was accomplished by the remedial steps described above, including significant transfers from the BSF (\$534,300,000) and from tobacco settlement moneys (\$289,600,000). The Fiscal Year ending BSF balance was \$427,904,000, with all but \$65,255,000 already committed and appropriated to GRF use if needed in Fiscal Year 2003.

On July 1, 2002, the first day of the new Fiscal Year, the Governor issued an executive order directing a total of approximately \$375,000,000 in GRF spending cutbacks for Fiscal Year 2003 (based on prior appropriations) by agencies and departments in his administration, as well as limitations on hiring, travel and major purchases. This cutback order reflected and was consistent with prior budget balancing discussions between the Governor and General Assembly. Annual cutbacks ranged generally from 7.5% to 15%, with allocation of amounts and manners determined by the OBM Director in consultation with the affected agencies and departments. Excluded from those cutbacks were elementary and secondary education, higher education, alcohol and drug addiction services, and the adjutant general. Also expressly excluded are appropriations for debt service including lease rental contracts and all State office building rent, and ad valorem property tax relief payments (made to local taxing entities).

Based on continuing reduced revenue collections (particularly, personal income taxes and sales tax receipts for the holidays) and projected additional Medicaid spending of \$40,000,000, OBM in late January announced an additional GRF shortfall of \$720,000,000 for Fiscal Year 2003. The Governor ordered immediate additional reductions in appropriations spending expected to aggregate \$121,600,000 of GRF savings through the end of the Fiscal Year (expressly excepted were appropriations for or relating to debt service on State obligations). The Governor also proposed for the General Assembly’s prompt consideration the following additional revenue enhancements, transfers and expenditure reduction for Fiscal Year 2003 requiring legislative authorization to achieve the indicated financial effects as estimated by OBM:

- A 2.5% reduction in local government fund distributions to most subdivisions and local libraries, producing an estimated \$30,000,000 savings. This reduction is in addition to the prior local government fund distribution adjustments noted below.
- Transfers to the GRF from unclaimed funds (\$35,000,000) and various rotary funds (\$21,400,000).
- A one-month acceleration in sales tax collections by vendors filing electronically, to produce \$286,000,000.
- An additional increase in the cigarette tax of 45 cents per pack (to a total of \$1.00 a pack), to produce approximately \$140,000,000.
- A doubling of the current taxes on spirituous liquor and beer and wine, to net an additional \$18,700,000.

The Governor proposed enactment of these legislative authorizations by March 1 in order to produce the indicated financial effects by the June 30 end of the Fiscal Year and biennium. The General Assembly gave its final approval on February 25 to legislation authorizing the first three elements (see above) of the Governor's proposal, but that legislation did not include the proposed additional taxes on cigarettes and spirituous liquor and beer and wine.

OBM projected that the Governor's proposal to the General Assembly and the additional expenditure reductions ordered by the Governor in January, coupled with the previously authorized transfer to the GRF of the uncommitted balance in the BSF (\$65,255,000), would result in positive GRF fund balance at June 30, 2003. To offset the General Assembly's enactment of legislation that did not include the proposed additional taxes on cigarettes and liquor, beer and wine, the Governor on March 25 ordered additional reductions in GRF appropriations spending aggregating \$142.5 million for the balance of Fiscal Year 2003. Included are reductions (generally at an annualized rate of 2.5%) of \$90.6 million in State foundation and parity aid to school districts and an additional \$9.3 million in Department of Education administration spending, \$39.2 million in instructional support to higher education institutions, and other selected reductions totaling \$3.4 million. The Governor also identified approximately \$20 million in excess food stamp administration funds available to offset the need for further expenditure reductions. Expressly excepted from those reductions are appropriations for or relating to debt service on State obligations. The foregoing expenditure reductions in State foundation and parity aid to school districts are being contested in a March 17, 2003 filing in the Ohio Supreme Court. It is not possible at this time to state what or when the Court's response will be to that filing, or what effect it may have on the State's overall financial condition (particularly in the current fiscal biennium).

All of the revenue enhancements proposed by the Governor in late January were also reflected in the Executive Budget for the 2004-05 biennium (released on February 3), together with other measures including proposed adjustments in bases of and rates for taxes that are significant sources of GRF receipts. That Executive Budget proposal, which includes all necessary GRF debt service and lease rental amounts for the biennium, is accessible via OBM's home page on the Internet at <http://www.state.oh.us/obm>. That budget proposal was incorporated in appropriations legislation introduced in the General Assembly for consideration and enactment after modification by both houses.

As discussed above, the State is effectively precluded by law (including its Constitution) from ending a Fiscal Year or a biennium in a "deficit" position. The Governor and his administration, and the General Assembly, continue to monitor developments on both the revenue and expenditure sides and evaluate pending and further actions to respond to financial developments to ensure a positive GRF ending fund balance. Similar ongoing consideration is being given revenues (including revenue enhancements of various forms and durations) and expenditures for the 2004-05 biennium for which the general appropriations bill is currently pending in the General Assembly.

Additional appropriations actions, affecting most subdivisions and local libraries in the State, relate to the various local government assistance funds. The original appropriations act capped the amount to be distributed in Fiscal Years 2002 and 2003 to essentially the equivalent monthly payment amounts in Fiscal Years 2000 and 2001. Subsequent legislation amended the level to the lesser of those prior Fiscal Year amounts or the amount that would have been distributed under the standard formula.

Litigation pending in the Ohio Court of Claims contests the Ohio Department of Human Services (ODHS, now Ohio Department of Job and Family Services) former Medicaid financial eligibility rules for married couples when one spouse is living in a nursing facility and the other resides in the community. ODHS promulgated new eligibility rules effective January 1, 1996. ODHS appealed an order of the federal court directing it to provide notice to persons potentially affected by the former rules from 1990 through 1995, and the Court of Appeals ruled in favor of ODHS; plaintiff's petition for certiorari was not granted by the U.S. Supreme Court. As to the Court of Claims case, it is not possible to state the period (beyond the current Fiscal Year) during which necessary additional Medicaid expenditures would have to be made. Plaintiffs have estimated total additional Medicaid expenditures at \$600,000,000 for the retroactive period and, based on current law, it is estimated that the State's share of those additional expenditures would be approximately \$240,000,000. The Court of Appeals has certified the class action and notice has been sent to the members of the class. Trail for liability only was completed in the Court of Claims in January 2003 and all post-trial briefs have been filed with that Court.

Cash Flow

Because GRF cash receipts and disbursements do not precisely coincide, temporary GRF cash flow deficiencies often occur in some months, particularly the middle months, of a Fiscal Year. Statutory provisions provide for effective management by permitting the adjustment of payment schedules (as was done during some prior Fiscal Years) and the use of the Total Operating Fund (TOF). The State has not done and does not do external revenue anticipation borrowing.

The TOF includes the total consolidated cash balances, revenues, disbursements and transfers of the GRF and several other specified funds (including the BSF). The TOF cash balances are consolidated only for the purpose of meeting cash flow requirements, and, except for the GRF, a positive cash balance must be maintained for each discrete fund included in the TOF. The GRF is permitted to incur a temporary cash deficiency by drawing upon the available consolidated cash balance in the TOF. The amount of that permitted GRF cash deficiency at any time is limited to 10% of GRF revenues for the then preceding Fiscal Year.

The State has planned for and has encountered some monthly GRF cash flow deficiencies in all recent Fiscal Years. For example, GRF cash flow deficiencies have ranged from occurring in 10 months in Fiscal Year 1992 to four months in Fiscal Years 1995, 1997 and 2000. The highest GRF end-of-month cash flow deficiencies were \$827,127,000 in 2000, \$1,152,152,000 in 2001 and \$1,449,546,000 in 2002. GRF cash flow deficiencies have been and are expected by OBM to remain within the TOF limitations discussed above.

STATE DEBT

The incurrence or assumption of debt by the State without a popular vote is, with limited exceptions, prohibited by the State Constitution. The State may incur debt to cover casual deficits or to address failures in revenues or to meet expenses not otherwise provided for, but limited in amount to \$750,000. The Constitution expressly precludes the State from assuming the debts of any county, city, town or township, or of any corporation. (An exception in both cases is for debts incurred to repel invasion, suppress insurrection, or defend the State in war.) The Constitution provides that "Except the debts above specified . . . no debt whatever shall hereafter be created by, or on behalf of the state."

By 17 constitutional amendments approved from 1921 to present, Ohio voters have authorized the incurrence of State debt and the pledge of taxes or excises to its payment. All related to capital facilities financing, except for three that funded bonuses for veterans and one that funded coal technology research and development. Currently, tax-supported debt is authorized to be incurred for the following purposes: highways, local infrastructure, coal development, natural resources, higher education, common schools, and conservation, all as discussed below.

A 1999 constitutional amendment provides an annual debt service "cap" applicable to future issuances of State general obligation bonds and other State direct obligations payable from the GRF or net State lottery proceeds. Generally, those new bonds may not be issued if future Fiscal Year debt service on those new and the then outstanding bonds of those categories would exceed 5% of the total estimated GRF revenues plus net State lottery proceeds during the Fiscal Year of issuance. Those direct obligations of the State include, for

example, special obligation bonds issued by the Ohio Building Authority and the Treasurer of State, and previously by the Ohio Public Facilities Commission (OPFC), as described below and that are paid from GRF appropriations, but exclude bonds such as highway bonds that are paid from highway user receipts. Pursuant to the amendment and implementing legislation, the Governor has designated the OBM Director as the State official to make the 5% determinations and certifications. Application of the cap may be waived in a particular instance by a three-fifths vote of each house of the General Assembly and may be changed by future constitutional amendments.

To assist in the financing of selected highway infrastructure projects, the State has used financing arrangements that call for State payments to be made from federal transportation funds allocated to the State. OBM estimates the highest future Fiscal Year payments under those current arrangements to be \$62,376,425. In the event of any insufficiency in those anticipated federal allocations to make payments on State bonds, the payments are to be made from any lawfully available moneys appropriated to ODOT for the purpose, and in the case of continued insufficiency the ODOT Director is to request a General Assembly appropriation for the purpose.

State agencies also have participated in office building and non-highway transportation projects that have some local as well as State use and benefit, in connection with which the State has entered into lease-purchase agreements with terms ranging from 7 to 20 years. Certificates of participation (COPs) are issued that represent fractionalized interests in or are payable from the State's anticipated payments. OBM estimates the highest future Fiscal Year payments under those agreements, which are primarily made from GRF appropriations, to be \$4,603,524.

Payments by the State under those agreements and financing arrangements are subject to biennial appropriations by the General Assembly, with the lease or payment terms as to the State being two years subject to renewal if appropriations are made. The number and amount of indirect obligations issued in connection with those agreements and arrangements have varied and will continue to vary. Generally, the OBM Director's approval of those agreements and arrangements is required, particularly if there are to be publicly offered indirect obligations representing fractionalized interests in or payable from the State's anticipated payments.

A statewide economic development program assists the financing of facilities for industry, commerce, research and distribution by providing loans and loan guarantees. The law authorizes the issuance of State bonds and notes secured by a pledge of portions of the State profits from liquor sales. The General Assembly has authorized the issuance of these obligations with a general maximum of \$300,000,000 to be outstanding at any one time (excluding bonds issued to meet guarantees, but less any amount by which 4% of the unpaid principal amount of guaranteed loan payments exceeds the funded amount applicable to the guarantees). The aggregate amount from the liquor profits to be used in any Fiscal Year in connection with these bonds (except for bonds issued to meet guarantees) may not exceed \$25,000,000 under present law. The total of unpaid guaranteed loan amounts and unpaid principal of direct loans may not exceed \$500,000,000. A 1996 issue of \$168,740,000 (\$139,345,000 outstanding) of taxable bonds refunded outstanding bonds and provided additional moneys for the program. \$101,980,000 of taxable forward purchase bonds were issued in 1998 to refund, as of 2006, term bonds of the 1996 issue stated to mature in 2016 and 2021. The highest future Fiscal Year debt service on the outstanding bonds of those issues, which are payable through 2021, is \$16,166,827 in 2008.

Certain State agencies issue revenue bonds that are payable from revenues from or relating to revenue producing facilities, such as those issued by the Ohio Turnpike Commission. By judicial interpretation, such revenue bonds do not constitute "debt" under the constitutional provisions described above. The Constitution authorizes State bonds for certain housing purposes (issued by the Ohio Housing Finance Agency) to which tax moneys may not be obligated or pledged. See the discussion of expanded housing finance authority, and permitted pledges to it, below under **Additional Authorizations**.

A current summary of State obligations, including the Series 2003 A Bonds, is as follows:

General Obligation Bonds

Source of Payment and Purpose	Authorized by General Assembly	Issued(a)	Outstanding(b)
<u>GRF</u>			
Coal Development(c)	\$150,000,000	\$137,000,000	\$41,170,000
Infrastructure(d)	2,040,000,000	1,799,986,136	1,201,530,555(e)
Natural Resources(f)	287,000,000	210,000,000	154,230,000
Common School Facilities	1,860,000,000	1,190,000,000	1,141,915,000
Higher Education Facilities	1,798,000,000	950,000,000	882,285,000
Conservation(f)	100,000,000	50,000,000	48,000,000
<u>Highway User Receipts</u>			
Highway(g)	\$1,745,000,000	\$1,745,000,000	\$87,000,000
Highway(h)	1,350,000,000	1,135,000,000	837,500,000

Special Obligation Bonds

Source of Payment and Purpose	Authorized by General Assembly	Issued(a)	Outstanding(b)
<u>GRF</u>			
DRC Prison Facilities	\$1,828,000,000	\$1,602,100,000	\$937,760,346
DYS Facilities	257,000,000	232,000,000	185,350,000
DAS Facilities(i)	1,461,000,000	1,188,300,000	748,710,231
ASFC Facilities	384,000,000	323,690,000	214,075,000
DNR Facilities	12,160,000	12,160,000	5,600,000
Higher Education Facilities	4,817,590,000	4,817,590,000	1,371,235,000
Mental Health Facilities	1,315,000,000	1,207,085,000	290,185,000
Parks & Recreation Facilities	313,000,000	264,900,000	110,350,000
Elementary & Secondary Education	333,640,000	333,640,000	146,965,000
<u>Highway User Receipts</u>			
ODOT Facilities	155,800,000	155,800,000	61,500,000
DPS Facilities	143,000,000	123,200,000	87,645,000
<u>Other</u>			
BWC Facilities(j)	214,255,000	214,255,000	142,500,000
Revitalization Projects(k)	100,000,000	50,000,000	50,000,000

- (a) Excludes refunding bonds; includes bonds refunded.
- (b) Excludes bonds refunded; includes refunding bonds.
- (c) Not more than \$100,000,000 may be outstanding at any time.
- (d) Not more than \$120,000,000 may be issued in any Fiscal Year, and the total issued may not exceed \$2.4 billion.
- (e) Includes \$168,215,000 in adjustable rate bonds.
- (f) Not more than \$50,000,000 may be issued in any Fiscal Year and not more than \$200,000,000 may be outstanding at any time.
- (g) Authority to issue expired in 1996.
- (h) Not more than \$220,000,000 may be issued in any year and not more than \$1.2 billion may be outstanding at any time.
- (i) Primarily for State office buildings in Columbus, Cleveland, Akron and Toledo, and a State computer center in Columbus. Debt service for the Akron and Toledo office buildings is supported in part by payments from local government agencies using portions of those facilities.
- (j) Debt service paid from appropriations from BWC Administrative Cost Fund.
- (k) The General Assembly has designated net liquor profits as the source of payment of debt service.

The General Assembly appropriated sufficient moneys to meet debt service requirements for the current biennium (ending June 30, 2003) on all of the special obligations included in the above and accompanying tables. Except for ODOT, DPS, and BWC facility obligations and revitalization projects, all those appropriations have been from the GRF.

The following table shows total Fiscal Year debt service on State bonds secured by a pledge of taxes or excises and on those special obligation State bonds issued by the OBA and the Treasurer of State, and previously by the OPFC, listed in the table above under **State Debt**. This table includes the Series 2003 A Bonds.

Annual Debt Service Requirements on Certain State Obligations

General Obligations				Special Obligations			Total Debt Service		
FY	Highway(a)	Education(b)	All Other(c)	Treasurer(d)	OBA		Principal	Interest	Total
					ODOT/DPS Facilities(e)	Other Facilities(f)			
2003	\$184,453,546	\$129,370,145	\$171,897,866	\$369,070,039	\$25,837,759	\$289,151,627	\$761,437,101	\$408,343,882	\$1,169,780,982
2004	184,970,821	184,652,159	171,033,007	341,445,426	25,424,204	297,563,513	798,895,409	406,193,721	1,205,089,130
2005	154,563,126	183,157,380	169,525,376	303,415,466	25,012,004	297,630,567	753,404,482	379,899,437	1,133,303,919
2006	138,790,098	176,604,418	167,602,714	286,120,595	24,677,603	281,932,338	729,327,525	346,400,239	1,075,727,764
2007	128,406,900	175,874,674	164,976,005	286,112,916	22,527,900	259,782,572	735,680,726	302,000,241	1,037,680,967
2008	110,586,675	175,210,703	164,100,261	277,288,355	22,197,871	230,369,284	711,761,587	267,991,562	979,753,148
2009	85,839,960	174,500,038	163,765,907	170,873,035	15,261,753	211,361,794	582,734,042	238,868,444	821,602,486
2010	62,015,491	173,940,491	163,623,076	163,271,005	15,054,678	192,661,660	564,168,599	206,397,803	770,566,402
2011	36,585,005	173,203,061	149,471,681	138,544,728	12,481,641	176,446,123	511,300,913	175,431,324	686,732,238
2012	14,898,980	172,429,813	149,394,236	108,734,486	8,883,788	168,222,668	460,456,933	162,107,037	622,563,970
2013	14,199,750	171,903,598	131,747,129	78,608,963	1,564,209	144,297,243	397,697,649	144,623,242	542,320,891
2014	0	171,424,948	120,771,053	22,450,025	1,563,600	128,072,036	338,081,268	106,200,394	444,281,662
2015	0	157,433,082	98,393,194	15,078,963	1,564,588	114,154,725	302,688,397	83,936,154	386,624,551
2016	0	131,423,137	85,216,992	10,356,050	1,567,025	92,091,103	254,408,600	66,245,707	320,654,307
2017	0	131,103,591	74,416,041	5,194,475	1,565,888	75,979,000	235,945,000	52,313,995	288,258,995
2018	0	130,883,971	60,177,277	0	1,566,038	67,096,656	218,500,000	41,223,941	259,723,941
2019	0	130,631,443	38,582,133	0	1,567,200	44,072,806	183,675,000	31,178,582	214,853,582
2020	0	130,713,471	28,364,231	0	1,567,875	19,629,750	157,650,000	22,625,327	180,275,327
2021	0	114,775,546	18,659,846	0	1,568,250	19,633,500	140,010,000	14,627,142	154,637,142
2022	0	102,636,033	18,638,801	0	0	9,765,000	123,190,000	7,849,834	131,039,834
2023	0	73,462,893	9,124,125	0	0	0	79,955,000	2,632,018	82,587,018
							\$ 9,040,968,232	\$ 3,467,090,025	\$ 12,508,058,257

Note: Rows are rounded.

- (a) Debt service is paid entirely from highway user receipts which are constitutionally restricted in use to highway related purposes.
- (b) Includes common schools and higher education general obligation bonds.
- (c) Includes general obligation bonds for natural resources, coal development, and infrastructure improvement (which includes estimated debt service on \$168,215,000 of adjustable rate bonds).
- (d) Includes lease-rental bonds formerly issued by the OPFC.
- (e) Lease rentals paid to date from highway user receipts, and are anticipated to be paid from those receipts as appropriated for the purpose in future bienniums.
- (f) Excludes debt service on bonds for BWC facilities which is paid from BWC Administrative Cost Fund.

The following table shows the principal amount of those obligations that were or are scheduled to be outstanding as of July 1 of the indicated years, including the Series 2003 A Bonds:

<u>Year</u>	<u>General Obligations</u>			<u>Special Obligations</u>	
	<u>Highway</u>	<u>Education(a)</u>	<u>All Other</u>	<u>Treasurer(b)</u>	<u>OBA</u>
2003	\$781,000,000	\$2,000,995,000	\$1,444,930,555	\$1,816,315,000	\$2,236,290,577
2005	510,500,000	1,825,685,000	1,247,735,046	1,328,500,000	1,814,811,194
2010	60,500,000	1,356,010,000	741,928,762	344,950,000	900,170,000
2015	-0-	786,535,000	293,428,600	14,560,000	298,810,000
2020	-0-	270,745,000	43,095,000	-0-	29,315,000

(a) Includes common schools and higher education capital facilities.

(b) Includes lease-rental bonds formerly issued by the OPFC.

The following tables show certain historical debt information and comparisons. These tables include only outstanding bonds of the State secured by pledges of taxes and excises, and those special obligations issued by the OBA and the Treasurer (and, previously, by the OPFC) that are paid from the GRF. Highway obligations, and obligations issued by the OBA for ODOT, DPS and BWC facilities, are not included since they are paid from non-GRF sources.

<u>Year</u>	<u>Principal Amount Outstanding (as of July 1)</u>	<u>Outstanding Debt Per Capita</u>	<u>Outstanding Debt As % of Annual Personal Income</u>
1980	\$1,991,915,000	\$184	1.83%
1990	3,707,054,994	341	1.82
1998	5,682,827,565	506	1.93
1999	6,007,699,710	534	1.96
2000	6,308,680,025	556	1.96
2001	6,570,863,174	578(a)	2.02(b)
2002	7,086,317,648	623(a)	2.18(b)

(a) Based on July 2001 population estimate.

(b) Based on 2001 personal income data.

<u>Fiscal Year</u>	<u>Debt Service Payable</u>	<u>Total GRF Revenue and Net State Lottery Proceeds</u>	<u>Debt Service as % of GRF Revenue and Lottery Proceeds</u>	<u>Debt Service as % of Annual Personal Income</u>
1980	\$187,478,382	\$ 4,835,670,223	3.88%	0.17%
1990	488,676,826	12,230,681,298	4.00	0.24
1998	771,014,893	18,833,027,486	4.09	0.26
1999	843,207,365	19,736,607,701	4.27	0.28
2000	871,313,814	20,711,678,217	4.21	0.27
2001	918,248,422	21,921,275,724	4.19	0.28(a)
2002	926,142,216	22,072,703,100	4.20	0.28(a)

(a) Based on 2001 personal income data.

Additional Authorizations

Only a portion of State capital needs can be met by direct GRF appropriations, and so additional State borrowing for capital purposes has been and will continue to be required. Until recently, under constitutional limitations most of that borrowing has been by lease-rental supported obligations.

Capital appropriations for the 2003-04 capital biennium provided for the following additional GRF-supported borrowings for the various purposes, all of which are reflected in the preceding tables:

General Obligation

- \$910,000,000 for capital improvements for elementary and secondary public schools.
- \$586,690,000 for higher education capital facilities projects, including \$50,000,000 for research and technology development facilities.
- \$240,000,000 for local infrastructure projects.
- \$15,000,000 for natural resources facilities.
- \$50,000,000 for conservation purposes.

Special Obligation

- \$25,000,000 for prisons and local jails.
- \$5,000,000 for DYS facilities.
- \$68,000,000 for DAS facilities.
- \$43,000,000 for ASFC facilities (including both arts and sports facilities).
- \$34,000,000 for mental health facilities (including local projects).
- \$22,000,000 for parks and recreation facilities.
- \$50,000,000 for revitalization purposes.

Currently applicable constitutional authorizations are:

- 2000 – authorizes the issuance of State bonds for land conservation and revitalization purposes (including statewide brownfields clean-up). For each of the two purposes, the amendment authorizes not more than \$50,000,000 in principal amount to be issued in any Fiscal Year and not more than \$200,000,000 to be outstanding at any time. The bonds for conservation purposes are State general obligations, and those for revitalization purposes are special obligations of the State payable from revenues and receipts designated by the General Assembly (currently a portion of the State's profit from liquor sales). In January 2002, the State issued its first series of bonds for conservation purposes and in October 2002 the State issued its first series of bonds for revitalization purposes.
- 1999 – authorizes State general obligation debt to pay costs of facilities for a system of common schools throughout the state and for state supported and state assisted institutions of higher education. The amendment also provides for the 5% direct obligation debt service cap described above.
- 1995 – authorizes additional highway bonds and extended the local infrastructure bond program. For the latter, it authorized an additional \$1.2 billion of State full faith and credit obligations to be issued over 10 years, with not more than \$120,000,000 to be issued in any Fiscal Year. The highway finance portion authorizes not more than \$1.2 billion to be outstanding at any time and not more than \$220,000,000 to be issued in any Fiscal Year.
- 1994 – pledges the State's full faith and credit and taxing power to meet certain guarantees under the State's tuition credit program, a program that provides for the purchase of tuition credits, for the benefit of State residents, which are guaranteed to cover a specified amount when applied to the cost of higher education tuition. Under the amendment, to secure the tuition guarantees the General Assembly shall appropriate moneys sufficient to offset any deficiency that may occur from time to time in the trust fund that provides for the guarantees and at any time necessary to make payment of the full amount of any tuition payment or refund required by a tuition payment contract. (A 1965 constitutional provision that authorized, but did not require, State student loan guarantees payable from available State moneys has never been implemented, apart from a "guarantee fund" approach funded essentially from program revenues.)

- 1990 – authorizes greater State and political subdivision participation in the provision of individual and family housing. This supplements the previous constitutionally authorized loans-for-lenders and other housing assistance programs, financed in part with State revenue bonds. The amendment authorizes the General Assembly to provide for State assistance for housing in a variety of ways, including authorizing State borrowing for the purpose by the issuance of obligations secured by a pledge of all or such portion of State revenues or receipts as it authorizes (but not by a pledge of the State’s full faith and credit).

Section 2i of Article VIII of the Constitution authorizes the issuance, for certain purposes, of State obligations the owners or holders of which are not given the right to have excises or taxes levied by the General Assembly to pay principal and interest. Those special obligations include those bonds that have been issued by the OBA and certain obligations issued by the Treasurer of State (and previously by the OPFC). OBA issues obligations for facilities to house branches and agencies of State government and their functions, including: State office buildings and facilities for the Department of Administrative Services (DAS) and others; juvenile detention facilities for the Department of Youth Services (DYS) and other governmental entities; Ohio Department of Transportation (ODOT) buildings; Department of Rehabilitation and Correction (DRC) prisons and correctional facilities including certain local and community-based facilities; office facilities for the Bureau of Workers' Compensation (BWC) and Department of Natural Resources (DNR); Ohio Arts and Sports Facilities Commission (ASFC) and Department of Public Safety (DPS) facilities; and school district technology and security facilities. The Treasurer (replacing OPFC for the purpose) issues obligations for mental health and parks and recreation purposes, and has previously issued obligations for certain elementary and secondary school facilities.

1997 legislation provided for two new categories of revenue-type financing. OBA was authorized to issue lease revenue obligations to assist in the financing of up to 15% of the estimated cost of certain sports facilities in Ohio. In addition, a revolving fund was created to assist in financing local transportation projects, funded with deposits of \$40,000,000 of GRF moneys and supplemented by the issuance of bonds (to be paid from federal transportation funds), with four issuances to date totaling \$325,000,000.

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ECONOMY AND EMPLOYMENT

Although manufacturing (including auto-related manufacturing) in Ohio remains an important part of the State's economy, the greatest growth in Ohio's economy in recent years has been in the non-manufacturing sectors. In 1999, Ohio's gross state product (GSP) totaled \$362 billion, ranking it seventh among all states. The State ranks third within the manufacturing sector (\$93 billion) and second in durable goods (\$63 billion). As a percent of Ohio's 1999 GSP, manufacturing was responsible for 26%, with 18% attributable to the services sector and 16% to the finance, insurance and real estate sector. Ohio is the eighth largest exporting state, with 2000 merchandise exports totaling \$26 billion. The State's two leading export industries are transportation equipment and industrial machinery, which together accounted for approximately 51% of the value of Ohio's merchandise exports.

Payroll employment in Ohio, in a diversifying employment base, showed a steady upward trend until 1979, then decreased until 1982. It increased through 1991, decreased slightly in both early 1992 and late 1993, but otherwise has increased steadily through 2000. Growth in recent years has been concentrated among non-manufacturing industries, with manufacturing employment tapering off since its 1969 peak. The "non-manufacturing" sector employs approximately 81% of all non-agricultural payroll workers in Ohio. The growth in employment and changing mix of employment sectors nationally and in Ohio are shown in the following tables.

Ohio Nonfarm Payroll Jobs by Industry Type Not Seasonally Adjusted (in 000)

	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2001</u>
Services.....	568	831	1,189	1,592	1,602
Wholesale, Retail Trade.....	773	957	1,172	1,348	1,331
Manufacturing.....	1,410	1,264	1,112	1,083	1,027
Government	566	690	722	785	794
Finance, Insurance, Real Estate.....	154	204	256	308	313
Transportation & Public Utilities	225	223	219	251	250
Construction.....	164	167	195	245	237
Other (including Mining).....	<u>21</u>	<u>31</u>	<u>18</u>	<u>13</u>	<u>13</u>
TOTAL	3,881	4,367	4,882	5,625	5,566

Source: U.S. Department of Labor, Bureau of Labor Statistics, National and State Current Employment Statistics.

Distribution of Nonfarm Payroll Jobs by Industry Type (%)

	<u>1970</u>		<u>1980</u>		<u>1990</u>		<u>2000</u>		<u>2001</u>	
	<u>Ohio</u>	<u>U.S.</u>								
Services.....	14.6	16.3	19.0	19.8	24.4	25.5	28.3	30.7	28.8	31.1
Wholesale, Retail Trade.....	19.9	21.2	21.9	22.5	24.0	23.6	24.0	23.0	23.9	23.0
Manufacturing.....	36.3	27.3	28.9	22.4	22.8	17.4	19.3	14.0	18.5	13.4
Government	14.6	17.7	15.8	18.0	14.8	16.7	13.9	15.7	14.3	15.9
Finance, Insurance, Real Estate	4.0	5.1	4.7	5.7	5.2	6.1	5.5	5.8	5.6	5.9
Transportation & Public Utilities..	5.8	6.4	5.1	5.7	4.5	5.3	4.5	5.3	4.5	5.4
Construction.....	4.2	5.1	3.8	4.8	4.0	4.7	4.4	5.1	4.3	5.0
Mining	0.5	0.9	0.7	1.1	0.4	0.6	0.2	0.4	0.2	0.4

Source: The information on Ohio in this table is calculated by OBM based on information in the preceding table.

Ohio and U.S. unemployment rates have been as follows:

Average Monthly Unemployment Rates (Seasonally Adjusted)

<u>Year</u>	<u>Ohio</u>	<u>U.S.</u>
1980.....	8.4%	7.1%
1985.....	8.9	7.2
1990.....	5.7	5.5
1995.....	4.8	5.6
1998.....	4.3	4.5
1999.....	4.3	4.2
2000.....	4.0	4.0
2001.....	4.2	4.7
2002.....	5.7	5.8
2003 January.....	5.6	5.7
February.....	6.0	5.8

Source: Ohio Department of Job and Family Services, Labor Market Information.

The following are the private sector employers that had the highest number of full-time equivalent employees (estimated and rounded) in Ohio in 2001:

OHIO'S TOP 25 PRIVATE SECTOR EMPLOYERS – 2001

<u>Company</u>	<u>Estimated FTE Employees in Ohio</u>	<u>Sector</u>
General Motors Corporation	26,210	Motor Vehicles
Kroger Company	25,000	Food Stores
Delphi Automotive	23,870	Motor Vehicles
Cleveland Clinic Health System	21,120	Health
Wal-Mart Stores, Inc.	20,960	General Merchandiser
General Electric Company	19,860	Aerospace/Electrical Equipment
University Hospitals Health System	17,280	Health
Meijer, Inc.	15,930	Food Stores
Ohio Health	15,000	Health
Ford Motor Company*	14,510	Motor Vehicles
Honda Motor Company	14,000	Motor Vehicles
Proctor & Gamble Company	13,700	Soaps and Cosmetics
Health Alliance of Greater Cincinnati	13,420	Health
Banc One Corporation	13,000	Financial Services
DaimlerChrysler Corporation	12,950	Motor Vehicles
ProMedica Health Systems	12,000	Health
KeyCorp	10,700	Financial Services
Kmart Corporation	10,640	General Merchandiser
Ameritech Corporation	10,540	Telecommunications
National City Corp.	10,320	Financial Services
United Parcel Service of America, Inc.	10,110	Package and Freight Delivery
Bob Evans Farms, Inc.	10,000	Restaurants
Sears, Roebuck and Co.	10,000	Retail Department Stores
FirstEnergy Corporation	9,570	Electric Utilities
Nationwide Insurance	9,310	Insurance

* Proposed employment cutbacks announced in January 2002.

Note: Boldface indicates headquartered in Ohio.

Source: Ohio Department of Development, Office of Strategic Research.

POPULATION

Ohio's 2000 decennial census population of 11,353,140 indicated a 4.7% population growth over 1990 and ranked Ohio seventh among the states in population. The following tables show selected census figures.

Ohio Population — Total and by Age Group

Year	Total	Rank Among States	Decennial Growth Rate	1-19 Years	20-64 Years	65 and Over
1970	10,657,500	6	9.7%	4,124,400	5,539,600	993,500
1980	10,797,600	6	1.4	3,502,900	6,125,200	1,169,500
1990	10,847,100	7	0.5	3,141,000	6,299,100	1,407,000
2000	11,353,140*	7	4.7	3,216,000	6,629,400	1,507,800

* Census population estimate July 2001 is 11,373,541.

Source: U.S. Bureau of Census Web Site, State Population Estimates, Population and Reports, Demographic Profiles.

Population of Ohio Metropolitan Areas(a)

	1970	1980	1990	2000
Cleveland.....	2,063,729	1,898,825	2,202,069(b)	2,250,871
Cincinnati.....	1,106,821	1,100,983	1,526,092(c)	1,646,395
Columbus.....	1,017,847	1,093,316	1,345,450(d)	1,540,157
Dayton.....	852,531	830,070	951,270(e)	950,558
Akron.....	679,239	660,328	657,575	694,960
Toledo.....	643,443	656,940	614,128	618,203
Youngstown-Warren.....	537,124	531,350	600,895(f)	594,746
Canton.....	393,789	404,421	394,106	406,934
Lorain-Elyria.....	256,843	274,909	(b)	(b)
Hamilton-Middletown.....	226,207	258,787	291,479	332,807
Lima.....	210,074	218,244	154,340	155,084
Mansfield.....	129,997	131,205	174,007(f)	175,818
Steubenville.....	96,193	91,564	142,523(g)	132,008

(a) SMSAs in 1970 & 1980, MSAs in 1990 and 2000 (PMSA's for Cleveland, Cincinnati, Akron, and Hamilton-Middletown).

(b) Lorain-Elyria included with Cleveland.

(c) Includes 12 counties (two in Indiana and six in Kentucky).

(d) Newark added.

(e) Springfield added.

(f) Includes three counties.

(g) Weirton added; includes two counties in West Virginia.

Source: U.S. Bureau of the Census Web Site, Metropolitan Area Population Estimates.

AGRICULTURAL AND RESOURCES BASES

With 14.9 million acres (of a total land area of 26.4 million acres) in farmland and an estimated 80,000 individual farms, agriculture combined with related agricultural sectors is an important segment of Ohio's economy. Ohio's 2000 crop production value of \$2.6 billion represented 3.7% of the U.S. total value. Ohio ranks in the top five states in the production of soybeans, wheat, corn, tomatoes, eggs, swiss and cottage cheese, milk sherbet, and mushrooms. In 1999, Ohio's agricultural sector output (consisting of crops, animal and dairy, and services and forestry) totaled \$5.1 billion with agricultural exports (primarily soybeans, feed grains and wheat, and their related products) estimated at a value of \$1.2 billion.

The availability of natural resources, such as water and energy, is of vital nationwide concern. Ohio has large quantities of these important natural resources. With Lake Erie and the Ohio River on its borders, and many lakes and streams throughout the State, water is readily available for all uses. Additionally, Ohio has sizable coal resources, ranking seventh among the states in coal reserves and ninth in coal production.

[Source: Statistical Abstract of the United States, 2001, Section 18 Natural Resources.]

STATE EMPLOYEES AND RETIREMENT SYSTEMS

The following table shows the number of regular State employees, computed on an average monthly/Fiscal Year basis from OBM records. The figures do not include employees who are not paid by State warrant, such as state university employees. For comparative national figures, see "Government Payrolls" in the table of "Comparative Government Statistics" below. Census data for 2000 shows Ohio as having the eighth lowest cost per capita for state personal services payroll among all states.

Number of Regular State Employees (Average Monthly)

<u>Fiscal Year</u>		<u>Fiscal Year</u>	
1980.....	60,167	2000	63,114
1985.....	55,326	2001	63,693
1990.....	59,995	2002	62,233
1995	63,431	2003 (March).....	60,878

The State engages in employee collective bargaining and is operating under three-year agreements, expiring at the end of June 2003, with all of its 20 bargaining units.

The State has established five public retirement systems to provide retirement, disability retirement, and survivor benefits. The Public Employees Retirement System (PERS), the largest of the five, covers both State and local public employees. The State Teachers Retirement System (STRS) and School Employees Retirement System (SERS) primarily cover school district and public higher education employees. The Highway Patrol Retirement System (HPRS) covers State troopers, and the Police and Fire Pension Fund (PFPF) covers local safety forces.

These retirement systems were created by and operate pursuant to State law. The General Assembly has the power to amend the format and benefit levels, impose or revise contribution rates or amounts, or to make other changes. The systems are not currently subject to the funding and vesting requirements of the federal Employee Retirement Income Security Act (ERISA). Federal law requires new hires to participate in the Medicare program, with matching employer and employee contributions, each now 1.45% of the wage base. Otherwise, State employees covered by a State retirement system are not currently covered under the federal Social Security Act. Congress has from time to time considered legislation relating to retirement funds of public bodies and to other aspects of public employee retirement.

State appropriations include amounts to pay the employer contributions to the retirement systems for most State employees. Estimated employer contributions of \$727,300,000 were included for the 2000-01 biennium and \$802,800,000 for the current 2002-03 biennium. The State has also appropriated subsidies (most allocated to specific groups of retirants) to the systems to pay for new or additional benefits mandated by law and not otherwise funded. The aggregate subsidies were \$52,519,877 in the 2000-01 biennium and are appropriated at \$53,073,000 in the 2002-03 biennium.

The following table presents summary State and local membership and financial data for each of the retirement systems for the most recent year reported by the particular system (not including liabilities for post-employment healthcare benefits):

	<u>PERS</u>	<u>STRS</u>	<u>SERS</u>	<u>PFPF</u>	<u>HPRS</u>
As Of:	12/31/01	6/30/02	6/30/02	12/31/01	12/31/01
Active Members.....	360,313	178,557	120,254	27,936	1,520
Retirants and Beneficiaries	136,456	105,300	67,772	23,013	1,205
Employer/Employee Contribution Rates (% of Salary)(a)	13.3/8.5(b)	14.0/9.3	14.0/9.0	(c)	24.5/10.0
Active Member Payroll	\$10,782.0	\$8,747.1	\$2,175.6	\$1,407.6	\$76.3
Actuarial Accrued Liability (AAL)	\$47,492.0	\$63,215.6	\$9,986.3	\$9,506.3	\$636.7
Value of Assets (d)	\$48,748.0	\$48,958.8	\$8,879.0	\$8,498.0	\$551.3
Unfunded Actuarial Accrued Liability (UAAL)	(\$1,256.0)	\$14,256.8	\$1,107.3	\$1,008.3	\$85.4
Funding Ratio (Assets to AAL (%))	103.0	77.4	88.9	89.4	86.6

Note: \$ in millions.

(a) For PERS, STRS, and SERS the maximum employer and employee contribution rates under law are 14% and 10% respectively.

(b) State employee rates. PERS local is 13.55/8.5% and law enforcement is 16.7/10.1%.

(c) Police 19.5/10%, fire 24/10%.

(d) Recognizes the cost of assets adjusted for realized and unrealized gains and losses amortized over a four-year period.

Sources: Retirement systems' comprehensive annual financial reports and annual actuarial valuations.

TAX LEVELS AND TAX BASES

The variety of taxes and excises levied by the State is indicated in several tables in this Official Statement. Census figures for 2000 showed that Ohio then ranked 33rd in state taxes per capita. As examples of rates of major taxes, the State sales tax is currently levied at the rate of 5%. The highest potential aggregate of State and permissive local sales taxes is currently 8%, and the highest currently levied in any county is 7%. The State gasoline tax is currently 22¢ per gallon, one cent of which is specifically directed to local highway-related infrastructure projects.

Two major tax bases in the State, personal income (taxed by the State and municipalities, and, with voter approval, by certain school districts) and real and tangible personal property (taxed by local governments), are described below.

Personal Income

Current State personal income tax rates, applying generally to federal adjusted gross income, range from 0.743% on \$5,000 or less with increasing bracketed base rates and percentages up to a maximum on incomes over \$200,000 of \$11,506 plus 7.5% on the amount over \$200,000. Reflecting amounts transferred from Fiscal Year ending GRF balances to the Income Tax Reduction Fund, reductions in personal income tax rates for each of the 1996 through 2000 tax years were 6.61%, 3.99%, 9.34%, 3.63% and 6.93%, respectively. Based on Fiscal Years 2001 and 2002 financial results no transfer was made to the Income Tax Reduction Fund in Fiscal Year 2002.

Under current law, beginning in July 2005 the State income tax brackets will be indexed to Gross Domestic Product figures.

The Constitution requires 50% of State income tax receipts to be returned to the political subdivisions or school districts in which those receipts originate. There is no present constitutional limit on income tax rates.

Municipalities and school districts may also levy certain income taxes. Any municipal rate (applying generally to wages and salaries and net business income) over 1%, and any school district income tax (applying generally to the State income tax base for individuals and estates), requires voter approval. Most cities and villages levy a municipal income tax. The highest municipal rate in 2002 was 2.85%. A school district income tax is currently approved in 127 districts.

Since 1960 the ratio of Ohio to U.S. aggregate personal income has declined, with Ohio's ranking among the states moving from fifth in 1960 and 1970 to eighth in 1990, and increasing to seventh in 1994 and thereafter. This movement, portrayed below, in significant measure reflects "catching up" by several other states and a trend in Ohio toward more service sector employment.

Personal Income (Total \$ in Billions)

		<u>U.S.</u>	<u>Ohio</u>	<u>Ohio Percent</u> <u>of U.S.</u>	<u>Ohio Rank</u> <u>Among States</u>
1970	Total	\$ 834.5	\$ 43.7	5.2%	5
	per capita.....	4,095	4,101	100.1	16
1980	Total	2,313.9	109.1	4.7	6
	per capita.....	10,183	10,103	99.2	21
1990	Total	4,885.5	204.1	4.2	7
	per capita.....	19,572	18,788	96.0	21
2000	Total	8,314.0	317.8	3.8	7
	per capita.....	29,469	27,977	94.9	20
2001	Total	8,621.0	325.5	3.8	7
	per capita.....	30,271	28,619	94.5	21

Note: District of Columbia included in U.S. total, excluded in ranking.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Property

The following table lists, for informational purposes only, the non-exempt real and tangible personal property tax base in the State and taxes levied on that base (on a calendar year basis). Only local taxing subdivisions, and not the State, currently tax the real and tangible personal property included in this table. Reported figures for 2000 show that these property taxes represent 3.53% of Ohio personal income.

		<u>Assessed Value (a)</u>	<u>Percent of True Value (b)</u>	<u>Taxes Charged</u>
1970	Real(c).....	\$24,817,430,805	31.2%	\$1,175,288,092
	Tangible(d).....	10,393,488,318	54.1	58,830,992
	Public Utility(c).....	5,140,995,900	82.0	223,864,399
1980	Real(c).....	56,457,842,607	27.1	2,343,384,488(e)
	Tangible(d).....	15,649,200,844	39.2	765,047,826
	Public Utility(c).....	8,670,052,613	83.3	411,321,235
1990	Real.....	93,857,482,000	35.0	4,593,147,000(e)
	Tangible(d).....	18,473,055,000(f)	28.0	1,149,643,000(f)
	Public Utility(c)(g).....	12,934,191,000	88.6	799,396,000
2000	Real.....	167,857,657,350	35.0	8,697,809,112(e)
	Tangible(d).....	23,298,302,564(f)	25.0	1,720,740,378(f)
	Public Utility(c)(g).....	13,635,709,860	67.0	967,674,709
2001	Real.....	173,975,282,762	35.0	9,183,387,507(e)
	Tangible(d).....	24,046,239,068(f)	25.0	1,802,487,771(f)
	Public Utility(c)(g).....	971,739,920(h)	49.8	715,307,242

- (a) Increases in assessed value of "Real" are in part products of reappraisals.
 (b) Regular annual reductions for "Tangible" (except for most public utility tangible) were scheduled until 25% was reached in 1993. The Constitution permits separate classes of land and improvements (one class being residential and agricultural, the second being all other uses) for certain taxation purposes.
 (c) Excludes public utility real property.
 (d) Includes machinery, inventories, fixtures; excludes public utility.
 (e) Includes the statutory 10% rollback (12.5% for owner-occupied residences since 1984) and elderly/handicapped partial exemption amounts, paid by the State to local taxing entities to compensate for statutory reductions in local tax collections.
 (f) A new exemption took effect in 1984. State reimbursement of resulting local revenue losses is not included in "Taxes Charged".
 (g) Beginning in 1990, the true value of most public utility property is based on annual composite allowances that vary according to the type and age of property.
 (h) Beginning in 2001, the statutory assessment rate for electric and gas utilities decreased from 88% to 25%.

Source: Ohio Department of Taxation.

Recent State legislation schedules reductions in the assessed (tax) valuation of general categories of tangible personal property. Effective for collection year 2002, the assessed valuation of electric utility production equipment decreased from 100% and natural gas utility property from 88% of true value, both to 25%; makeup payments in varying and declining amounts are to be made through 2016 to taxing subdivisions by the State from State resources. Effective in 2002, the assessed valuation of personal property constituting "inventory" is being reduced over time from the rate of 24% of true value to zero; annual adjustments are to be made through 2007 based on certain historic collection figures and beginning in 2008 the rate is to be reduced annually in 1% increments.

Property tax relief payments by the State to local subdivisions totaled \$2.17 billion in the 2000-01 biennium, and are projected by OBM to increase to \$2.44 billion in the 2002-03 biennium.

SCHOOLS AND MUNICIPALITIES

Schools

Litigation, similar to that in other states, has been pending in Ohio courts since 1991 questioning the constitutionality of Ohio's system of school funding and compliance with the constitutional requirement that the State provide a "thorough and efficient system of common schools". On December 11, 2002, the Ohio Supreme Court, in a 4-3 decision on a motion to reconsider its own decision rendered in September 2001, concluded (as it had in its 1997 and 2000 opinions in that litigation) that the State did not comply with that requirement, even after again noting and crediting significant State steps in recent years.

In its prior decisions, the Court stated as general base threshold requirements that every school district have enough funds to operate, an ample number of teachers, sound and safe buildings, and equipment sufficient for all students to be afforded an educational opportunity.

With particular respect to funding sources, the Court concluded in 1997 and 2000 decisions that property taxes no longer may be the primary means of school funding in Ohio.

On March 4, 2003, the plaintiffs filed with the original trial court a motion to schedule and conduct a conference to address compliance with the orders of the court in that case, the State petitioned the Supreme Court to issue a writ prohibiting that conference on compliance, and the trial court subsequently petitioned the Supreme Court for guidance as to the proper course to follow. It is not possible at this time to state what or when the Court's responses will be to those filings, or what or when the General Assembly's further responses will be, or what effect they or any related actions may have on the State's overall financial condition (particularly in the current fiscal biennium) or on specific State operations or functions.

The General Assembly has taken several steps, including significantly increasing State funding for public schools, as discussed below. In addition, at the November 1999 election electors approved a constitutional amendment authorizing the issuance of State general obligation debt for school buildings and for higher education facilities (see discussion under State Debt). December 2000 legislation addressed certain mandated programs and reserves, characterized by the plaintiffs and the Court as "unfunded mandates."

Under the current financial structure, Ohio's 612 public school districts and 49 joint vocational school districts receive a major portion (but less than 50%) of their operating moneys from State subsidy appropriations (the primary portion of which is known as the Foundation Program) distributed in accordance with statutory formulas that take into account both local needs and local taxing capacity. The Foundation Program amounts have steadily increased in recent years, including small aggregate increases even in those Fiscal Years in which appropriations cutbacks were imposed.

School districts also rely upon receipts from locally voted taxes. In part because of provisions of some State laws, such as that partially limiting the increase (without further vote of the local electorate) in voted property tax collections that would otherwise result from increased assessed valuations, some school districts have expressed varying degrees of difficulty in meeting mandated and discretionary increased costs. Local electorates have largely determined the total moneys available for their schools. Locally elected boards of education and their school administrators are responsible for managing school programs and budgets within statutory requirements.

The State's present school subsidy formulas are structured to encourage both program quality and local taxing effort. Until the late 1970's, although there were some temporary school closings, most local financial difficulties that arose were successfully resolved by the local districts themselves by some combination of voter approval of additional property tax levies, adjustments in program offerings, or other measures. For more than 20 years, requirements of law and levels of State funding have sufficed to prevent school closings for financial reasons, which in any case are prohibited by current law.

To broaden the potential local tax revenue base, local school districts also may submit for voter approval income taxes on the district income of individuals and estates. Many districts have submitted the question, and income taxes are currently approved in 127 districts.

Original State basic aid appropriations for the 1992-93 biennium of \$9.5 billion provided for 1.5% and 4.8% increases in the two Fiscal Years of the biennium over appropriations in the preceding biennium. The reduction in appropriations spending for Fiscal Year 1992 (discussed under Fiscal Matters—Recent Bienniums) included a 2.5% overall reduction in annual Foundation Program appropriations, and a 6% reduction in other primary and secondary education programs. The reductions were in varying amounts, and had varying effects, with respect to individual districts; there were no reductions for the 172 districts with the lowest per pupil tax valuations. Foundation payments were excluded from the Governor's Fiscal Year 1993 cutback order.

Subsequent biennial school funding appropriations were:

- 1994-95 – \$8.9 billion (not including federal and other special revenue funds) provided for 2.4% and 4.6% increases, respectively, in State aid in the biennium's two Fiscal Years.
- 1996-97 – \$10.1 billion in GRF and lottery appropriations represented a 13.6% increase over the preceding biennium total.

- 1998-99 – \$11.6 billion (18.3% over the previous biennium).
- 2000-01 – \$13.3 billion (15% over the previous biennium).

State appropriations for the purpose made to date for the 2002-03 biennium are \$15.2 billion (17% over the previous biennium), and represent an increase of 8.1% in Fiscal Year 2002 over 2001 and 4.9% in Fiscal Year 2003 over 2002. The most recently announced reductions in State appropriations spending for the remainder of Fiscal Year 2003 (discussed under Fiscal Matters – Current Biennium) include a 2.5% annualized reduction (approximately \$90.6 million) in foundation program appropriations spending.

Those total State appropriations exclude non-GRF and federal appropriations, but include appropriations from the GRF and the lottery profits education fund (LPEF). The amount of lottery profits transferred to the LPEF totaled \$686,020,000 in Fiscal Year 2000, \$655,036,000 in Fiscal Year 2001 and \$635,150,000 in Fiscal Year 2002. Lottery profits (from the existing State lottery and from new participation by the State in a multi-state lottery) are projected by OBM to be \$662,722,600 in Fiscal Year 2003. Ohio participation in the multi-state lottery commenced in May 2002; it cannot be predicted with any degree of certainty what receipts (currently projected to produce \$41,000,000 in Fiscal Year 2003) actually will be, or what effect, if any, the multi-state lottery participation will have on the State-level lottery. A constitutional provision requires that net lottery profits be paid into LPEF to be used solely for the support of elementary, secondary, vocational and special education purposes, including application to debt service on general obligation bonds to finance common school facilities.

In response to the 1997 Ohio Supreme Court decision holding certain provisions for local school district borrowing unconstitutional, the General Assembly created the school district solvency assistance program. Beginning in Fiscal Year 1999, local school districts in fiscal emergency status as certified by the Auditor of State could apply for an advancement of future year Foundation Program distributions. The amount advanced was then deducted, interest free, from the district's foundation payments over the following two-year period. Six school districts received a total of approximately \$12,100,000 in solvency assistance advancements during Fiscal Year 1999, with another six districts receiving a total of approximately \$8,657,000 in Fiscal Year 2000. This solvency assistance program was held to be not in compliance with the Constitution by the Supreme Court. In Fiscal Year 2001 four districts received approximately \$3,800,000 under a restructured solvency assistance program. The program was further modified in December 2000 to allow districts that experience an unforeseen catastrophic event to apply for a grant. In Fiscal Year 2002, three districts received catastrophic grants totaling \$2,569,970 and one district received a solvency advance in the amount of \$421,000.

Legislation was enacted in 1996 to address school districts in financial straits. It is similar to that for municipal "fiscal emergencies" and "fiscal watch" discussed below under **Municipalities**, but is particularly tailored to certain school districts and their then existing or potential fiscal problems. There are currently four school districts in fiscal emergency status and five in fiscal watch status. New legislation has created a third, more preliminary, category of "fiscal caution." A current listing of school districts in each status is on the Internet at <http://www.auditor.state.oh.us>.

Federal courts have ruled that the State shared joint liability with the local school districts for segregation in Cincinnati, Cleveland, Columbus, Dayton and Lorain. Subsequent trial court orders directed that some remedial costs be shared by the State and the respective local districts. For that purpose, recent appropriations, decreasing in each biennium, were \$100,800,000 in 1998-99 and \$23,700,000 in 2000-01, and are at the \$1,000,000 level in 2002-03.

Municipalities

Ohio has a mixture of urban and rural population, with approximately three-quarters urban. There are 943 incorporated cities and villages (municipalities with populations under 5,000) in the State. Five cities have populations of more than 100,000 and 16 cities exceed 50,000 in population.

A 1979 act established procedures for identifying and assisting those few cities and villages experiencing defined "fiscal emergencies". A commission composed of State and local officials, and private sector members experienced in business and finance appointed by the Governor, is to monitor the fiscal affairs of a municipality facing substantial financial problems. That act requires the municipality to develop, subject to approval and monitoring by its commission, a financial plan to eliminate deficits and cure any defaults and otherwise remedy fiscal emergency conditions and to take other actions required under its financial plan. It also provides enhanced protection for the municipality's bonds and notes and, subject to the act's stated

standards and controls, permits the State to purchase limited amounts of the municipality's short-term obligations (used only once, in 1980).

As noted in the discussion above under **Current Biennium**, the amount of distributions in that biennium to most local governments, including municipalities, from the several State local government revenue assistance funds are generally capped at the equivalent monthly amounts in Fiscal Years 2000 and 2001.

The fiscal emergency legislation has been amended to extend its potential application to counties (88 in the State) and townships. This extension is on an "if and as needed" basis and is not aimed at particularly identified existing fiscal problems of those subdivisions. There are currently nine municipalities and one township in fiscal emergency status and five municipalities in fiscal watch status. A current listing in each status is on the Internet at <http://www.auditor.state.oh.us>.

COMPARATIVE GOVERNMENT STATISTICS

The following table, prepared by OBM, sets forth selected comparative Ohio and U.S. statistics (from federal government sources, not verified by the State) for 2000.

Selected State Government Statistics - 2000 Comparative Ohio and U.S.

	<u>United States</u>	<u>Ohio</u>	<u>Ohio Rank Among States</u>
Government Revenues:			
General Revenues (millions)	\$983,784.6	\$36,165.9	7
per capita	3,502.9	3,185.6	34
Taxes (millions)	539,157.2	19,676.4	8
per capita	1,919.7	1,733.1	33
Per Capita:			
Sales taxes	621.2	551.7	31
Personal income taxes	691.0	725.9	20
Corporate income taxes	115.8	55.6	43
Government Expenditures:			
Total Expenditure (millions)	\$1,084,548.3	\$44,630.6	6
per capita	3,861.7	3,931.2	23
Direct Expenditure (millions)	757,028.0	31,698.5	5
per capita	2,695.5	2,792.1	26
Payments to other Government Units (millions)	327,520.3	12,932.1	6
per capita	1,166.2	1,139.1	14
Personal Services Payroll (millions)	\$154,551.2	\$5,186.8	8
per capita	550.3	456.9	44
Debt:			
Outstanding Debt (Year End in millions)	\$547,875.8	\$18,087.4	11
per capita	1,950.8	1,593.2	33
State Government Assets:			
Cash and Securities, All Funds (millions)	\$2,518,935.8	\$147,209.4	4
per capita	8,969.0	12,966.6	6

Source: U.S. Bureau of the Census, Federal, State, and Local Governments, State Government Finances 2000.

**OHIO BUREAU OF WORKERS' COMPENSATION
AND
THE INDUSTRIAL COMMISSION OF OHIO
(A COMPONENT UNIT OF THE STATE OF OHIO)**

**Management's Discussion and Analysis,
Financial Statements and Supplemental Schedules**

June 30, 2002 and 2001

(With Independent Auditors' Report Thereon)

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**Auditor of State
Betty Montgomery**

Board of Commissioners
Ohio Bureau of Workers' Compensation
and Industrial Commission of Ohio
30 W. Spring Street, 28th Floor
Columbus, Ohio 43215

We have reviewed the Independent Auditor's Report of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio, Franklin County, prepared by KPMG, for the audit period July 1, 2001 through June 30, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

February 27, 2003

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**OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A COMPONENT UNIT OF THE STATE OF OHIO)**

Management's Discussion and Analysis,
Financial Statements and Supplemental Schedules

June 30, 2002 and 2001

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OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A COMPONENT UNIT OF THE STATE OF OHIO)

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the Ohio Bureau of Workers' Compensation's (BWC's) and the Industrial Commission of Ohio's (IC's) financial performance for fiscal year 2002, which ended on June 30, 2002. BWC and IC are collectively referred to as BWC/IC. This information is based on BWC/IC's financial statements, which begin on page 7.

Financial highlights

- BWC/IC's total assets at June 30, 2002 were \$22.2 billion, a decrease of \$767 million or 3.3 percent compared to June 30, 2001.
- BWC/IC's total liabilities at June 30, 2002 were \$20.3 billion, an increase of \$1.9 billion or 10.1 percent compared to June 30, 2001.
- BWC/IC's operating revenues for fiscal year 2002 were \$2.3 billion, an increase of \$340 million or 17.3 percent from fiscal year 2001.
- BWC/IC's operating expenses for fiscal year 2002 were \$4.5 billion, an increase of \$287 million or 6.8 percent from fiscal year 2001.
- BWC/IC's total net assets declined \$2.6 billion in fiscal year 2002, compared to a \$1.9 billion decline in fiscal year 2001.

Financial statements overview

BWC/IC's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Management's discussion and analysis is intended to serve as an introduction to BWC/IC's financial statements, which are prepared using the accrual basis of accounting and the economic resources measurement focus.

- **Statement of Net Assets** - This statement presents information reflecting BWC/IC's assets, liabilities and net assets. Net assets represent the amount of total assets less total liabilities. The statement is categorized by current and noncurrent assets and liabilities. For the purpose of the accompanying financial statements, current assets and liabilities are defined as those assets and liabilities with immediate liquidity or those that are collectible or will be due within 12 months of the statement date.
- **Statement of Revenues, Expenses and Changes in Net Assets** - This statement reflects the operating revenues and expenses, as well as non-operating revenues and expenses, for the fiscal year. Major sources of operating revenues are premium and assessment income. Major sources of operating expenses are workers' compensation benefits, compensation adjustment expenses and premium reductions and refunds. Revenues and expenses related to capital and investing activities are reflected in the non-operating component of this statement.
- **Statement of Cash Flows** - The statement of cash flows is presented using the direct method of reporting, which reflects cash flows from operating, capital and related financing, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the fiscal year.
- **Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of BWC/IC's financial position and results of operations presented in the financial statements.
- **Supplemental Information** - This section includes supplemental schedules presenting the statement of net assets and the statement of revenues, expenses and changes in net assets for the individual accounts administered by BWC/IC. This section also includes required supplemental information that presents 10 years of revenue and reserve development information.

Continued

OHIO BUREAU OF WORKERS' COMPENSATION
AND
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(A COMPONENT UNIT OF THE STATE OF OHIO)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial analysis

Components of BWC/IC's Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets as of June 30, 2002 and June 30, 2001, and for the years then ended were as follows (000's omitted):

	<u>2002</u>	<u>2001</u>
Current assets	\$ 6,128,638	\$ 4,713,674
Noncurrent assets	16,064,088	18,246,109
Total assets	<u>\$22,192,726</u>	<u>\$22,959,783</u>
Current liabilities	\$6,758,984	\$5,536,750
Noncurrent liabilities	13,544,252	12,907,015
Total liabilities	<u>\$20,303,236</u>	<u>\$18,443,765</u>
Net assets invested in capital assets, net of related debt	\$8,682	\$6,852
Restricted net assets	1,880,808	4,509,166
Total net assets	<u>\$1,889,490</u>	<u>\$4,516,018</u>
Net premium and assessment income, including provision for uncollectibles	\$2,296,132	\$1,955,604
Other operating income	13,567	13,599
Total operating revenues	<u>\$2,309,699</u>	<u>\$1,969,203</u>
Workers' compensation benefits and compensation adjustment expenses	\$2,934,353	\$2,498,499
Premium reductions and refunds	1,473,880	1,624,921
Other operating expenses	93,999	91,615
Total operating expenses	<u>\$4,502,232</u>	<u>\$4,215,035</u>
Net investment income (loss)	\$(430,147)	\$313,997
Loss on disposal of capital assets	<u>(3,848)</u>	<u>(1,469)</u>
Decrease in net assets	<u>\$(2,626,528)</u>	<u>\$(1,933,304)</u>

BWC/IC's total net assets at June 30, 2002 were \$1.9 billion, which is a decrease of \$2.6 billion compared to June 30, 2001. This decrease primarily is due to:

- A \$1.1 billion decrease in the fair value of the investment portfolio due to downturns in world equity markets;
- Premium reduction and refund expenses of \$1.5 billion. The Workers' Compensation Oversight Commission approved a one-time 75 percent premium reduction for Ohio private employers for the policy year July 1, 2001 through June 30, 2002, which produced estimated savings of \$1.3 billion to these employers. A one-time 50 percent premium reduction was approved by the Workers' Compensation Oversight Commission for public taxing district employers for their policy year beginning January 1, 2002, which produced estimated savings of \$144 million to these employers through December 31, 2002. Additionally, public taxing district employers qualified for an additional 25 percent cash refund by attending a BWC-hosted Public Employer Summit. Approximately \$66.5 million will be returned to employers attending these meetings. These reductions and refunds follow the January 1, 2001 policy year's one-time 75 percent premium reduction, which produced an estimated \$200 million in savings for public employer taxing districts.

Continued

OHIO BUREAU OF WORKERS' COMPENSATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS

In fiscal year 2002, premium and assessment income increased \$341 million, primarily due to growth in the payroll base and an increase in assessment rates for administrative costs. In fiscal year 2002, BWC/IC experienced a net investment loss of \$430 million, compared to net investment income of \$314 million in fiscal year 2001. The decrease in investment income was primarily attributable to the downturn in the world equity markets during this period.

Workers' compensation benefits and compensation adjustment expenses were \$2.9 billion in fiscal year 2002 compared to \$2.5 billion in fiscal year 2001. The increase in workers' compensation benefits is due in part to increased utilization of medical services and medical cost inflation. A decline in the number of newly awarded permanent total disability claims has helped to reduce the impact of the increased medical costs.

Conditions expected to affect financial position or results of operations

Management estimates the 75 percent premium reduction granted to private employers for the July 1, 2002 to December 31, 2002 payroll period will reduce the premium obligations of private employers by \$600 million.

The 75 percent premium reduction is based on reduced frequency of claims, BWC's streamlined processes to reduce costs for employers, and investment returns. Premiums are based on rates that, on average, are more than 39 percent lower than those in effect seven years ago.

Investment-related savings are impacted to a degree by external factors beyond management control and, consequently, may not provide premium reduction possibilities on a continuing basis. There has been continued volatility in the investment markets as evidenced by the S&P 500 declining 13.8 percent, with the treasury bond markets increasing 5.0 percent during the first two months of fiscal year 2003. Importantly, BWC offers employers a variety of safety programs and cost-control programs that can help employers create a safer workplace, reduce accidents, and lower costs. An employer's commitment to maintaining a safe workplace is one key element in controlling costs because claims drive workers' compensation premium rates. The more claims costs employers incur, the higher their workers' compensation premiums.

BWC continues to control workers' compensation costs through cost-cutting reform efforts, claims-process improvements, increased investigation of suspected fraud cases, and medical managed-care initiatives. These programs will take on added importance in reducing costs, as actuarial assumptions as of June 30, 2002 include long-term medical inflation of 8.0 percent for payments during fiscal year 2003 and 9.0 percent for payments after June 30, 2003.

BWC's safety and cost-control programs include:

- Drug-Free Workplace Program (DFWP) and Drug-Free EZ Program - DFWP offers private and public state-fund employers premium discounts of between 10 percent and 20 percent for up to five years for establishing a safer, more cost-effective workplace through a substance-free environment. Like DFWP, the Drug-Free EZ Program enables employers with 25 or fewer employees to receive premium discounts of up to 20 percent for up to five years by implementing a substance-free environment in their workplaces. The Drug-Free EZ Program can be used in conjunction with other premium discount programs and group-rating programs.

Continued

OHIO BUREAU OF WORKERS' COMPENSATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS

- Premium Discount Program Plus (PDP+) - This incentive program is designed to assist experience-rated qualifying employers establish a safer, more cost-effective workplace. For implementing BWC's 10-Step Business Plan, employers will receive premium discounts of up to 10 percent for each of the first two years of participation and up to 5 percent for the third year of participation, upon meeting program requirements. An employer participating in PDP+ can also participate in DFWP and obtain additional credits, and both discounts will apply.
- SafetyGRANT\$ - Employers can receive matching funds to help set up BWC's DFWP and fund research to prevent cumulative trauma disorders. Over \$4 million in safety grants were awarded to employers during fiscal year 2002.
- Transitional WorkGRANT\$ - BWC will reimburse up to 80 percent in funding to employers who develop a transitional work program designed specifically for their business to gradually return injured workers to their jobs sooner, thereby reducing disability costs. Employers received reimbursements of \$1.4 million during fiscal year 2002.

BWC's investment strategies embrace diversity

The investment portfolio of the State Insurance Fund, whose assets are held and invested to provide future benefit payments to injured workers, has been managed under an investment policy that was approved by the Workers' Compensation Oversight Commission in February 1997 and has been monitored by that body thereafter. The execution of that investment policy is the responsibility of the BWC Administrator/CEO and his professional staff. The portfolio is invested in a diversified investment structure through external investment managers retained and monitored by BWC staff. A broad array of equity, fixed income, and private capital vehicles are employed. For the 5-year period ending June 30, 2002, investment returns of the State Insurance Fund have exceeded both the actuarial return assumptions and the returns of most public sector investment funds (the portfolio earned a higher return than 82% of U.S. public sector funds for the 5-year period ending June 30, 2002).

Included in the investment management group are minority, women-owned, and smaller emerging firms. The Workers' Compensation Oversight Commission has made a conscious effort to utilize these firms by policy.

At June 30, 2002, 25 minority firms (including 6 women-owned firms) managed \$1.4 billion and 17 emerging firms (including 10 women-owned firms) managed \$366 million for BWC. A recent internal case study reflected very competitive returns by minority and emerging firms in all investment sectors utilized by BWC, indicating that the use of minority and emerging investment firms has added value to BWC's investment holdings. This study reinforces management's intentions to maintain its diverse investment structure in the future management of the State Insurance Fund.



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Independent Auditors' Report

The Honorable Bob Taft
Governor of the State of Ohio,
The Honorable Jim Petro
Auditor of State of Ohio:

We have audited the accompanying statements of net assets of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC/IC), a component unit of the State of Ohio, as of June 30, 2002 and 2001, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of BWC/IC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BWC/IC as of June 30, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 1 to the financial statements, in 2002, BWC/IC adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*. Also, as described in note 1 to the financial statements, BWC/IC adopted GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, in 2002.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 20, 2002 on our consideration of BWC/IC's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

The management's discussion and analysis and required supplemental revenue and reserve development information on pages 1 through 4 and 27 through 28, are not a required part of the basic financial statements but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedule of net assets and schedule of revenues, expenses and changes in net assets included on pages 29 through 31 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

September 20, 2002

**OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A COMPONENT UNIT OF THE STATE OF OHIO)**

STATEMENTS OF NET ASSETS

June 30, 2002 and 2001

(000's omitted)

	<u>2002</u>	<u>2001</u>		<u>2002</u>	<u>2001</u>
ASSETS			LIABILITIES		
Current assets:			Current liabilities:		
Cash and cash equivalents (Note 2)	\$2,377,053	\$1,686,131	Reserve for compensation (Note 4)	\$ 1,631,590	\$ 1,528,212
Collateral on loaned securities (Note 2)	2,111,450	1,972,713	Reserve for compensation adjustment expenses (Notes 4 and 10)	437,955	419,725
Premiums in course of collection	133,294	65,338	Warrants payable	34,301	28,748
Assessments in course of collection	229,624	205,583	Deferred revenue (Note 6)	14,263	18,353
Accounts receivable, net of allowance for uncollectibles of \$565,307 in 2002; \$514,505 in 2001	160,538	155,874	Bonds payable (Notes 5 and 6)	10,000	9,000
Investment trade receivables	1,014,193	506,890	Investment trade payables	2,433,261	1,538,047
Accrued investment income	100,383	119,352	Accounts payable	11,635	14,442
Other current assets	<u>2,103</u>	<u>1,793</u>	Premium refund payable (Note 11)	66,539	-
Total current assets	<u>6,128,638</u>	<u>4,713,674</u>	Obligations under securities lending (Note 2)	2,111,450	1,972,713
Noncurrent assets:			Other current liabilities (Note 6)	<u>7,990</u>	<u>7,510</u>
Fixed maturities, at fair value (cost \$8,870,744 in 2002; \$10,039,404 in 2001) (Note 2)	8,939,843	10,089,088	Total current liabilities	<u>6,758,984</u>	<u>5,536,750</u>
Domestic equity securities:			Noncurrent liabilities:		
Common stocks, at fair value (cost \$4,159,092 in 2002; \$4,813,481 in 2001) (Note 2)	3,977,781	5,099,458	Reserve for compensation (Note 4)	11,635,582	10,977,763
Preferred stocks, at fair value (cost \$62,803 in 2002; \$59,921 in 2001) (Note 2)	47,125	44,260	Reserve for compensation adjustment expenses (Notes 4 and 10)	1,182,379	1,186,994
International securities, at fair value (cost \$1,617,523 in 2002; \$1,808,334 in 2001) (Note 2)	1,500,545	1,713,685	Premium payment security deposits (Note 6)	81,272	80,081
Investments in limited partnerships, at fair value (Note 2)	359,562	247,483	Deferred revenue (Note 6)	398,823	409,664
Unbilled premiums receivable	830,076	641,300	Bonds payable (Notes 5 and 6)	158,770	168,472
Retrospective premiums receivable	230,592	226,502	Other noncurrent liabilities (Notes 6 and 14)	<u>87,426</u>	<u>84,041</u>
Capital assets (Notes 3 and 5)	165,653	170,642	Total noncurrent liabilities	<u>13,544,252</u>	<u>12,907,015</u>
Restricted cash	<u>12,911</u>	<u>13,691</u>	Total liabilities	<u>20,303,236</u>	<u>18,443,765</u>
Total noncurrent assets	<u>16,064,088</u>	<u>18,246,109</u>	NET ASSETS		
Total assets	<u>\$ 22,192,726</u>	<u>\$ 22,959,783</u>	Invested in capital assets, net of related debt	8,682	6,852
			Restricted net assets	<u>1,880,808</u>	<u>4,509,166</u>
			Total net assets (Notes 8, 9 and 10)	<u>\$ 1,889,490</u>	<u>\$ 4,516,018</u>

Commitments and contingencies (Notes 4, 5, 11 and 13)

The accompanying notes are an integral part of the financial statements.

**OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A COMPONENT UNIT OF THE STATE OF OHIO)**

**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS**

For the years ended June 30, 2002 and 2001

(000's omitted)

	<u>2002</u>	<u>2001</u>
Operating revenues:		
Premium income	\$1,880,463	\$ 1,597,489
Special premium income	-	8,634
Assessment income	482,222	414,935
Provision for uncollectibles	(66,553)	(65,454)
Other income	<u>13,567</u>	<u>13,599</u>
Total operating revenues	<u>2,309,699</u>	<u>1,969,203</u>
Operating expenses:		
Workers' compensation benefits (Note 4)	2,494,009	2,064,473
Compensation adjustment expenses (Note 4)	440,344	434,026
Premium reductions and refunds (Note 11)	1,473,880	1,624,921
Personal services	45,042	48,484
General and administrative	15,976	15,353
Other expenses	<u>32,981</u>	<u>27,778</u>
Total operating expenses	<u>4,502,232</u>	<u>4,215,035</u>
Net operating loss	<u>(2,192,533)</u>	<u>(2,245,832)</u>
Non-operating revenues (expenses):		
Net investment income (loss) (Note 2)	(430,147)	313,997
Loss on disposal of capital assets (Note 3)	<u>(3,848)</u>	<u>(1,469)</u>
Total non-operating revenues (expenses)	<u>(433,995)</u>	<u>312,528</u>
Decrease in net assets	(2,626,528)	(1,933,304)
Net assets, beginning of year	<u>4,516,018</u>	<u>6,449,322</u>
Net assets, end of year	<u>\$ 1,889,490</u>	<u>\$ 4,516,018</u>

The accompanying notes are an integral part of the financial statements.

**OHIO BUREAU OF WORKERS' COMPENSATION
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(A COMPONENT UNIT OF THE STATE OF OHIO)**

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2002 and 2001

(000's omitted)

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Cash receipts from premiums and assessments	\$ 717,790	\$ 1,453,693
Cash receipts - other	11,566	28,541
Cash disbursements for claims	(1,964,515)	(1,816,226)
Cash disbursements to employees for services	(235,122)	(252,169)
Cash disbursements for maintenance and equipment	(90,895)	(105,893)
Cash disbursements for employer refunds	<u>(73,034)</u>	<u>(223,122)</u>
Net cash used for operating activities	<u>(1,634,210)</u>	<u>(915,176)</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets, net of retirements	(5,158)	(2,590)
Construction in progress	(8,155)	(672)
Principal payments on bonds	<u>(9,000)</u>	<u>(8,000)</u>
Net cash used for capital and related financing activities	<u>(22,313)</u>	<u>(11,262)</u>
Cash flows from investing activities:		
Investments sold	39,971,162	37,140,855
Investments matured	1,352,122	963,739
Investments purchased	(39,633,271)	(38,071,074)
Interest and dividends received	757,543	1,045,600
Investment expenses	<u>(100,111)</u>	<u>(200,573)</u>
Net cash provided by investing activities	<u>2,347,445</u>	<u>878,547</u>
Net increase (decrease) in cash and cash equivalents	690,922	(47,891)
Cash and cash equivalents, beginning of year	<u>1,686,131</u>	<u>1,734,022</u>
Cash and cash equivalents, end of year	<u>\$ 2,377,053</u>	<u>\$ 1,686,131</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENTS OF CASH FLOWS, Continued

For the years ended June 30, 2002 and 2001

(000's omitted)

	<u>2002</u>	<u>2001</u>
Reconciliation of net operating loss to net cash used for operating activities:		
Net operating loss	\$ (2,192,533)	\$ (2,245,832)
Adjustments to reconcile net operating loss to net cash used for operating activities:		
Provision for uncollectible accounts	66,553	65,454
Depreciation	14,454	13,686
Amortization of discount and issuance costs on bonds payable	298	317
Other	(1,594)	(3,706)
(Increases) decreases in assets and increases (decreases) in liabilities:		
Premiums and assessments in course of collection	(91,997)	789,423
Special premiums receivable	-	575,989
Unbilled premiums receivable	(188,776)	(34,600)
Accounts receivable	(71,217)	(59,586)
Retrospective premiums receivable	(4,090)	77,573
Other assets	(310)	(246)
Restricted cash	780	2,337
Reserves for compensation and compensation adjustment expenses	774,812	474,151
Special premiums credit payable	-	(575,989)
Premium refund payable	66,539	-
Premium payment security deposits	1,191	1,629
Warrants payable	5,553	644
Accounts payable	(2,807)	8,605
Deferred revenue	(14,931)	(7,824)
Other liabilities	<u>3,865</u>	<u>2,799</u>
Net cash used for operating activities	<u>\$ (1,634,210)</u>	<u>\$ (915,176)</u>

The accompanying notes are an integral part of the financial statements.

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1. Background and Summary of Significant Accounting Policies

Organization

The Ohio Bureau of Workers' Compensation (BWC) and the Industrial Commission of Ohio (IC) were created in 1912 and 1925, respectively, and are the exclusive providers of workers' compensation insurance to private and public employers in Ohio who are not granted the privilege of paying compensation and medical benefits directly (self-insured employers). BWC and IC are collectively referred to herein as BWC/IC. BWC/IC was created and is operated pursuant to Chapters 4121, 4123, 4127, and 4131 of the Ohio Revised Code (the Code) and is a component unit of the State of Ohio (the State).

The Governor of the State appoints the BWC Administrator, five of the nine members of the Workers' Compensation Oversight Commission (of which four are non-voting legislative members), and the three members of the IC. The BWC Administrator, with the advice and consent of the Workers' Compensation Oversight Commission, is responsible for the operations of the workers' compensation system, while the IC is responsible for administering claim appeals.

Basis of Presentation

BWC/IC has prepared its financial statements in accordance with accounting principles generally accepted in the United States of America. Accordingly, these financial statements were prepared using the accrual basis of accounting and the economic resources measurement focus. The accompanying financial statements include all accounts, activities, and functions of BWC/IC as a component unit of the State in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity". For internal reporting purposes, BWC/IC maintains separate internal accounts (hereafter referred to as funds) as required by the Code. For external financial reporting purposes, BWC/IC has elected to report as a single column business type activity as the individual funds do not have external financial reporting accountability requirements. All significant interfund balances and transactions have been eliminated.

BWC/IC administers the following funds:

- State Insurance Fund (SIF)
- Disabled Workers' Relief Fund (DWRF)
- Coal-Workers Pneumoconiosis Fund (CWPF)
- Public Work-Relief Employees' Fund (PWREF)
- Marine Industry Fund (MIF)
- Intentional Tort Fund (ITF)
- Self-Insuring Employers' Guaranty Fund (SIEGF)
- Occupational Safety Loan Fund (OSLF)
- Administrative Cost Fund (ACF)

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Description of the Funds

SIF, CWPFF, PWREF, and MIF are insurance funds providing workers' compensation benefits to injured workers.

DWRF is an assessment fund providing supplemental cost of living benefits to persons permanently and totally disabled and are receiving benefits from SIF or PWREF. The maximum benefit levels are changed annually based on the United States Department of Labor National Consumer Price Index.

SIEGF is an assessment fund providing for payment of compensation and medical benefits to employees of self-insured employers in order to cover any default in payments by self-insured employers.

ACF provides for the payment of administrative and operating costs of all funds except DWRF, CWPFF, and MIF, which pay such costs directly.

ITF was established in 1986 to provide for the payment of punitive damages to employees and employer legal fees in intentional tort actions filed by employees having rights to receive workers' compensation benefits where such benefits result from an intentional tort of the employer. In August 1991, the Ohio Supreme Court declared ITF unconstitutional. As a result of this decision, the related unpaid intentional tort benefits may not be paid. The cumulative assessments collected from employers were expected to be prorated as a credit to the administrative assessment of the participants for the rating year beginning July 1, 1993. However, on September 24, 1992, the United States District Court issued an order prohibiting BWC/IC from disbursing ITF assets until such order is lifted or amended by the court. As of June 30, 2002, no such action had taken place. See Note 14.

OSLF was established to make low-interest loans available to employers to improve, install, or erect equipment that reduces hazards to the health and safety of workers. A \$1 million transfer in November 1995 from Safety & Hygiene assessments provided funding for OSLF. In accordance with the provisions of Amended Substitute House Bill 75 signed into law on April 10, 2001, the cash balance of OSLF was transferred to the Safety & Hygiene account within ACF in November 2001. A portion of premiums paid by employers is earmarked for safety and loss prevention activities performed by the Safety & Hygiene Division, which is included in ACF.

Effective July 1, 2001, BWC/IC adopted the provisions of GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" (GASB 34), as amended by GASB Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus". The adoption of GASB 34 required BWC/IC to make several changes to the presentation of the financial statements, in addition to requiring the presentation of BWC/IC's management's discussion and analysis (MD&A). The MD&A is considered to be required supplementary information and is presented before the financial statements. The statements of net assets (formerly, balance sheets) have been prepared to report current and noncurrent asset and liability classifications and net assets (formerly, fund balance) have been classified as invested in capital assets and restricted net assets. The

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statements of revenues, expenses and changes in net assets (formerly, statements of operations and changes in fund balance) distinguishes between operating revenues and expenses and non-operating items. Operating revenues and expenses generally result from providing services in connection with ongoing operations. Operating revenues are primarily derived from premiums and assessments. Operating expenses include the costs of claims and related administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. BWC/IC retroactively applied the provisions of GASB 34 to the 2001 financial statements.

Effective July 1, 2001, BWC/IC also adopted the provisions of GASB Statement No. 38, "Certain Financial Statement Note Disclosures".

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," BWC/IC follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

Cash and cash equivalents in the accompanying statements of net assets and for the purposes of the statements of cash flows include cash and all highly liquid debt instruments purchased with a maturity of three months or less, except for cash and cash equivalents included in international securities. Cash equivalents are stated at amortized cost, which approximates fair value.

Investments

Investments in fixed maturities include bonds and notes. Fixed maturities, domestic equity securities, and international securities are stated at fair value. Fair values of fixed maturities are based on quotations from national security exchanges or, in the event such quotations are not available, from "matrixed" prices which are calculated using the coupon interest rate, maturity date, credit rating, market indices, and other market data as it relates to the issue being valued. Fair values of equity securities are based on quotations from national or international exchanges and are valued at the last reported sales price at current exchange rates. Dividends, interest earnings, the net increase (decrease) in the fair value of investments (which includes both the change in fair value and realized gains and losses), and investment expenses are aggregated and reported as net investment income in the statements of revenues, expenses and changes in net assets. The cost of securities sold is determined using the average cost method. Purchases and sales of investments are recorded as of the trade date.

BWC/IC invests in international equity securities through the use of outside money managers. It is the intent of BWC/IC and the international money managers to be fully invested in non-cash equivalent international securities; however, cash and cash equivalents are often held temporarily. Accrued investment income and investment trade receivables

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and payables for international securities are included in the international securities balance reported in the statements of net assets. See Note 2.

BWC/IC participates as a limited partner in partnerships investing in equities, bonds, notes, and other assets. Investments in limited partnerships are carried at fair value.

BWC/IC participates in a securities lending program, administered by the custodial agent bank, whereby certain securities are transferred to an approved independent broker/dealer (borrower) in exchange for collateral. Securities under loan are included with fixed maturities and equity securities in the statements of net assets. BWC/IC has minimized its exposure to credit risk due to borrower default by requiring the custodial agent to ensure that BWC/IC's loaned securities are collateralized at 102% of the fair value. Securities received as collateral cannot be sold by BWC/IC unless the borrower defaults, as such, these amounts are not reflected in the financial statements. Cash received as collateral, as well as the related liability, is reflected in the financial statements. Cash received as collateral is invested in short-term obligations, which must have an average weighted maturity of 45 days or less. The contract with the custodial agent bank does not provide indemnification in cases of borrower default; however, BWC/IC has not experienced any losses due to credit or market risk on securities lending activity since the implementation of the program in November 1993.

Derivatives are generally defined as a contract whose value depends on, or derives from, the values of an underlying asset, reference rate, or index. BWC/IC has classified the following as derivatives:

- Mortgage and Asset-Backed Securities – As of June 30, 2002 and 2001, BWC/IC held the following mortgage and asset-backed securities that are categorized as derivative securities:
 - GNMA, FNMA, and FHLMC pass-throughs with amortization terms of 15 and 30 years;
 - Collateralized mortgage obligation securities backed by FNMA and FHLMC with 15 and 30 year pass-throughs;
 - Commercial mortgage-backed securities backed by commercial mortgages and leases on a variety of property types; and
 - Asset-backed securities backed by auto loans, credit card receivables, home equity loans, and electric-utility receivables.

The overall return or yield on mortgage and asset-backed securities depends on the amount of interest collected over the life of the security and the change in the fair value. Although BWC/IC expects to receive the full amount of principal, if prepaid, the interest income that would have been collected during the remaining period to maturity is lost. Accordingly, the yields and maturities of mortgage and asset-backed securities generally depend on when the underlying loan principal and interest are repaid. If interest rates fall below the loan's contractual rate, it is generally to the borrower's advantage to repay the existing loan and obtain new, lower interest rate financing. The fair value of mortgage and asset-backed securities was \$5.4 billion and \$6.0 billion as of June 30, 2002 and 2001, respectively, and are reported within fixed maturities in the statements of net assets.

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- BWC/IC, through the use of international money managers, enters into various foreign currency exchange contracts to manage exposure to changes in foreign currency exchange rates on its international securities holdings. A foreign currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risk associated with such contracts includes movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. The fair value of the foreign currency exchange contracts receivable for (payable by) BWC/IC was \$803 thousand and (\$39 thousand) as of June 30, 2002 and 2001, respectively.

Premium Income

SIF, CWPF, PWREF, and MIF premium income is recognized over the coverage period and is collected in subsequent periods for all funds except MIF, which collects premiums in advance of the coverage period. Premiums earned but not yet due are reflected as premiums in course of collection in the statements of net assets. Premiums are based on rates that are approved by the Workers' Compensation Oversight Commission and on the employers' payroll, except self-insured employer premiums, which are based on paid compensation. SIF rates for private and public taxing district employers meeting certain size criteria are adjusted automatically based on their own claims experience.

Retrospective rating plans and group rating plans are offered to qualified employers. SIF recognizes estimated ultimate premium income on retrospectively rated business during the coverage period. Retrospective rating adjustments related to the coverage period are collected in subsequent periods, as experience develops on injuries incurred during the coverage period. The estimated future retrospective rating adjustments are reflected in the statements of net assets as retrospective premiums receivable.

The Code permits state employers to pay into SIF on a terminal funding (pay-as-you-go) basis. Additionally, certain benefits are paid from the SIF Surplus Fund (see Note 8) for self-insured employers. As BWC/IC has the statutory authority to assess premiums against the state and self-insured employers in future periods, an unbilled premiums receivable equal to their share of the discounted reserve for compensation and compensation adjustment expenses, less BWC/IC's portion of the discounted reserve, is reflected in the statements of net assets.

Assessment Income

DWRF I (DWRF benefits awarded for injuries incurred prior to January 1, 1987) and ACF assessment income is recognized over the period for which the assessment applies and is collected in subsequent periods. These amounts are reflected as assessments in course of collection in the statements of net assets. Deferred revenue in the statements of net assets represents DWRF II (DWRF benefits awarded for injuries incurred on or after January 1, 1987) and SIEGF assessments received or in the course of collection, but not yet recognized. DWRF II and SIEGF assessments are recognized as revenues at such time and to the extent that DWRF II and SIEGF claims are paid (terminal funding basis).

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DWRF I assessments are based on employers' payroll and a statutorily determined rate. DWRF II and ACF assessments are based on rates that are approved by the Workers' Compensation Oversight Commission and on employers' payroll, except for ACF assessments of self-insured employers, which are based on paid workers' compensation benefits. SIEGF assessments are based on the financial strength of self-insured employers and paid workers' compensation benefits with the exception of new self-insured employers, which are based on a percentage of base-rated premium.

Premium Payment Security Deposits

Premium payment security deposits are collected in advance from private employers to reduce credit risk for premiums collected in subsequent periods. A deposit is submitted upon application for coverage and generally represents 30% of an estimated eight month premium, with a maximum deposit of \$1 thousand. The deposit is applied to outstanding premiums or refunded to the employer upon cancellation of coverage.

Allowance for Doubtful Accounts

BWC/IC provides an allowance for doubtful accounts by charging operations for estimated receivables that will not be collected. The adequacy of the allowance is determined by management based on a review of aged receivable balances.

Capital Assets

Capital assets are carried at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

<u>Description</u>	<u>Estimated Useful Lives (Years)</u>
Buildings	30
Furniture and fixtures	10
Vehicles and equipment	5

When assets are disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the financial statements. The cost of maintenance and repairs is charged to operations as incurred; significant renewals and betterments are capitalized.

Reserves for Compensation and Compensation Adjustment Expenses

The reserve for compensation includes actuarial estimates for both reported claims and claims incurred but not reported (IBNR). The reserve for compensation adjustment expenses is determined by estimating future expenses to be incurred in settlement of the claims. The

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reserve for compensation is based on historical claims experience data and assumptions and projections as to future events, including claims frequency, severity, persistency, and inflationary trends for medical claim reserves. The reserve for compensation adjustment expenses is based on projected claim-related expenses, estimated costs of the managed care Health Partnership Program, and the reserve for compensation. The methods of making such estimates and for establishing the resulting liabilities are reviewed quarterly and updated based on current circumstances. Any adjustments resulting from changes in estimates are recognized in the current period. The reserves for compensation and compensation adjustment expenses were discounted at 5.8% in 2002 and 6.0% in 2001 to reflect the present value of future benefit payments. The selected discount rate approximates an average yield on United States government securities with a duration similar to the expected claims underlying BWC/IC's reserves.

A reserve is not provided in DWRP I and II or SIEGF for workers' compensation benefit awards granted or IBNR as both funds are operated on a terminal funding basis and, as such, are not required to match revenues and expenses but rather to match assessments to claims disbursements. Future DWRP benefits to be paid for injuries, which have occurred, as of June 30, 2002 were estimated to be \$5.2 billion undiscounted and \$2.3 billion discounted at 5.8%. These same DWRP benefits were estimated to be \$6.9 billion undiscounted and \$2.7 billion discounted at 6.0% as of June 30, 2001. Future assessments and transfers of investment income from SIF will fund future DWRP benefits. Future SIEGF benefits to be paid for injuries, which have occurred, as of June 30, 2002 were estimated to be \$233 million undiscounted and \$144 million discounted at 5.8%. The liability for SIEGF benefits as of June 30, 2001 was estimated to be \$243 million undiscounted and \$145 million discounted at 6.0%. Future SIEGF benefits will be funded by future assessments from self-insured employers.

Management believes that the recorded reserves for compensation and compensation adjustment expenses are adequate. While management uses available information to estimate the reserves for compensation and compensation adjustment expenses, future changes to the reserves for compensation and compensation adjustment expenses may be necessary based on claims experience and changing claims frequency and severity conditions.

Income Taxes

As a component unit and integral part of the State, the income of BWC/IC is not subject to federal or state income tax.

Use of Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported

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amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates.

2. Cash and Investments

BWC/IC is authorized by Section 4123.44 of the Code to invest using an investment policy established by the Workers' Compensation Oversight Commission, which uses the prudent person standard. The prudent person standard requires investments be made with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent and informed person would use.

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements," requires governmental entities to categorize investments to give an indication of the level of risk assumed by the entity at year-end. Investments that are insured or registered for which the securities are held by BWC/IC or by its agent in the name of BWC/IC are included in Category 1. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the name of BWC/IC. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in BWC/IC's name. All investments of BWC/IC meet the criteria of Category 3, except securities on loan with cash collateral and investments in limited partnerships, that by their nature, are not required to be categorized.

Category 1 also includes cash balances insured or collateralized with securities held by BWC/IC or by their agent in the name of BWC/IC. Of the bank balance, the Federal Deposit Insurance Corporation insured \$100,000. The remaining bank balance cash deposits were collateralized with eligible securities, in amounts equal to at least 105% of the carrying value of the deposits held, in the name of BWC/IC's pledging financial institution, as required by the Code (Category 3).

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BWC/IC's cash balances and investments are categorized as follows to give an indication of the level of risk assumed by BWC/IC at June 30, 2002 and 2001 (000's omitted):

	<u>2002</u>			<u>2001</u>		
	Category		Total Carrying/Fair Value	Category		Total Carrying/Fair Value
	1	3		1	3	
Cash balance per bank	\$ 100	\$ 2,766	\$ 2,866	\$ 100	\$ 6,663	\$ 6,763
Net reconciling items	-	<u>10,802</u>	<u>10,802</u>	-	<u>957</u>	<u>957</u>
Cash balance included in cash and cash equivalents in the statements of net assets	100	13,568	13,668	100	7,620	7,720
Restricted cash	100	12,811	12,911	100	13,591	13,691
Investments:						
Fixed maturities:						
Not on securities loan	-	7,174,596	7,174,596	-	8,180,887	8,180,887
On loan for broker provided collateral	-	182,481	182,481	-	281,298	281,298
On loan for letters of credit collateral	-	121,963	121,963	-	140,280	140,280
Domestic equity securities:						
Common stocks not on securities loan	-	3,551,939	3,551,939	-	4,663,010	4,663,010
Preferred stocks not on securities loan	-	47,125	47,125	-	44,260	44,260
International securities not on securities loan	-	1,313,343	1,313,343	-	1,713,685	1,713,685
Cash equivalents	-	2,363,385	2,363,385	-	1,678,411	1,678,411
Securities lending short-term collateral	-	<u>2,111,450</u>	<u>2,111,450</u>	-	<u>1,972,713</u>	<u>1,972,713</u>
Total	<u>\$ 200</u>	<u>\$16,892,661</u>	<u>16,892,861</u>	<u>\$ 200</u>	<u>\$18,695,755</u>	<u>18,695,955</u>
Investments – Not Categorized:						
Securities on loan with cash collateral:						
Fixed maturities			1,460,803			1,486,623
Common stocks			425,842			436,448
International securities			187,202			-
Investments in limited partnerships			<u>359,562</u>			<u>247,483</u>
			<u>\$19,326,270</u>			<u>\$20,866,509</u>

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Net investment income (loss) for the years ended June 30, 2002 and 2001, is summarized as follows (000's omitted):

	<u>2002</u>	<u>2001</u>
Fixed maturities	\$567,652	\$659,840
Equity securities	91,507	94,112
Investments in limited partnerships	(26,916)	18,136
Cash equivalents	46,445	104,612
Securities lending	58,292	162,925
Decrease in fair value of investments	(1,067,016)	(525,055)
Investment expenses	<u>(100,111)</u>	<u>(200,573)</u>
	<u><u>\$(430,147)</u></u>	<u><u>\$313,997</u></u>

The allocation and fair value of international securities held at June 30, 2002 and 2001, is summarized as follows (000's omitted):

	<u>2002</u>	<u>2001</u>
Cash and cash equivalents	\$61,093	\$23,494
Accrued interest receivable	4,240	2,022
Net foreign currency exchange contracts receivable (payable)	803	(39)
Net investment trade payable	(20,027)	-
Equity securities	<u>1,454,436</u>	<u>1,688,208</u>
Total international securities	<u><u>\$1,500,545</u></u>	<u><u>\$1,713,685</u></u>

3. Capital Assets

Capital asset activity for the years ended June 30, 2002 and 2001, is summarized as follows (000's omitted):

	Balance at 6/30/2000	Increases	Decreases	Balance at 6/30/2001	Increases	Decreases	Balance at 6/30/2002
Capital assets not being depreciated							
Land	\$ 12,631	\$ -	\$ -	\$ 12,631	\$ -	\$ -	\$ 12,631
Construction in progress	-	672	-	672	8,155	-	8,827
Subtotal	<u>12,631</u>	<u>672</u>	<u>-</u>	<u>13,303</u>	<u>8,155</u>	<u>-</u>	<u>21,458</u>
Capital assets being depreciated							
Buildings	227,934	-	-	227,934	-	-	227,934
Furniture and equipment	84,399	2,673	(7,881)	79,191	5,223	(9,219)	75,195
Land improvements	66	-	-	66	-	-	66
Subtotal	<u>312,399</u>	<u>2,673</u>	<u>(7,881)</u>	<u>307,191</u>	<u>5,223</u>	<u>(9,219)</u>	<u>303,195</u>
Accumulated depreciation							
Buildings	(83,617)	(7,507)	-	(91,124)	(7,507)	-	(98,631)
Furniture and equipment	(58,833)	(6,178)	6,329	(58,682)	(6,946)	5,306	(60,322)
Land improvements	(45)	(1)	-	(46)	(1)	-	(47)
Subtotal	<u>(142,495)</u>	<u>(13,686)</u>	<u>6,329</u>	<u>(149,852)</u>	<u>(14,454)</u>	<u>5,306</u>	<u>(159,000)</u>
Net capital assets	<u><u>\$182,535</u></u>	<u><u>\$(10,341)</u></u>	<u><u>\$(1,552)</u></u>	<u><u>\$170,642</u></u>	<u><u>\$(1,076)</u></u>	<u><u>\$(3,913)</u></u>	<u><u>\$165,653</u></u>

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4. Reserves for Compensation and Compensation Adjustment Expenses

The reserve for compensation consists of reserves for indemnity and medical claims resulting from work related injuries or illnesses. The recorded liability for reserves for compensation and compensation adjustment expenses is based on an estimate by BWC/IC's independent consulting actuary. Management believes that the recorded liability is adequate; however, the ultimate liability may vary from the amounts provided.

All reserves have been discounted at 5.8% at June 30, 2002 and 6.0% at June 30, 2001. A decrease in the discount rate to 4.8% would result in reserves for compensation and compensation adjustment expenses increasing to \$16.4 billion at June 30, 2002, while an increase in the rate to 6.8% would result in reserves for compensation and compensation adjustment expenses decreasing to \$13.6 billion at June 30, 2002. A decrease in the discount rate to 5.0% would result in reserves for compensation and compensation adjustment expenses increasing to \$15.5 billion at June 30, 2001, while an increase in the rate to 7.0% would result in reserves for compensation and compensation adjustment expenses decreasing to \$12.9 billion at June 30, 2001. The undiscounted reserves for compensation and compensation adjustment expenses were \$30.6 billion at June 30, 2002 and \$29.5 billion at June 30, 2001. The net loss would have been \$197 million higher in fiscal year 2002 and \$595 million higher in fiscal year 2001 if the reserves for compensation and compensation adjustment expenses were not discounted.

The changes in the reserves for compensation and compensation adjustment expenses for the years ended June 30, 2002 and 2001, are summarized as follows (in millions):

	<u>2002</u>	<u>2001</u>
Reserves for compensation and compensation adjustment expenses, beginning of period	\$14,112	\$13,638
Incurred:		
Provision for insured events of current period	2,184	2,039
Net increase in provision for insured events of prior periods net of discount accretion of \$818 in 2002 and \$818 in 2001, respectively	478	455
Decrease in discount rate	<u>272</u>	<u>-</u>
Total incurred	<u>2,934</u>	<u>2,494</u>
Payments:		
Compensation and compensation adjustment expenses attributable to insured events of current period	456	434
Compensation and compensation adjustment expenses attributable to insured events of prior periods	<u>1,702</u>	<u>1,586</u>
Total payments	<u>2,158</u>	<u>2,020</u>
Reserves for compensation and compensation adjustment expenses, end of period	<u>\$14,888</u>	<u>\$14,112</u>

Continued

OHIO BUREAU OF WORKERS' COMPENSATION
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As a result of changes in estimates of insured events of prior years, the provision for compensation and compensation adjustment expenses increased \$478 million in 2002 and increased \$455 million in 2001, primarily due to increased utilization of medical services and medical cost inflation. A decline in the number of newly awarded permanent total disability claims has helped to reduce the impact of increased medical costs.

5. Bonds Payable

In 1993, BWC/IC financed the William Green Building through the issuance of bonds by the Ohio Building Authority (OBA). These special obligation bonds are collateralized by lease rental payments pledged by BWC/IC to OBA and bear a predetermined interest rate ranging from 3.25% to 5.125%. The lease period coincides with the State's biennial budget and is renewable for successive two-year periods until the bonds are retired. Lease payments are based on the estimated debt service of the bonds, but are limited to an amount appropriated by the Ohio General Assembly in BWC/IC's biennial budget. Lease rental payments totaled \$17.6 million and \$16.9 million for the years ended June 30, 2002 and 2001, respectively.

The building continues to be reflected in capital assets and the related obligation has been reflected as bonds payable in the statements of net assets. Future principal and interest payments are as follows (000's omitted):

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 10,000	\$ 8,175	\$ 18,175
2004	11,000	7,734	18,734
2005	12,000	7,240	19,240
2006	13,000	6,688	19,688
2007	14,000	6,077	20,077
2008-2012	79,000	19,105	98,105
2013-2014	31,255	2,209	33,464
Unamortized bond discount and issuance costs	<u>(1,485)</u>	-	<u>(1,485)</u>
Total	<u>\$ 168,770</u>	<u>\$ 57,228</u>	<u>\$ 225,998</u>

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OHIO BUREAU OF WORKERS' COMPENSATION
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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2002 and 2001

6. Long-term Obligations

Activity for long-term obligations (excluding the reserves for compensation and compensation adjustment expenses – see Note 4) for the years ended June 30, 2002 and 2001, is summarized as follows (000's omitted):

	Balance at 6/30/2000	Increases	Decreases	Balance at 6/30/2001	Due Within One Year
Premium payment security deposits	\$78,452	\$9,393	\$(7,764)	\$80,081	\$ -
Deferred revenue	435,841	8,030	(15,854)	428,017	18,353
Bonds payable	185,155	-	(7,683)	177,472	9,000
Other liabilities	<u>88,752</u>	<u>26,728</u>	<u>(23,929)</u>	<u>91,551</u>	<u>7,510</u>
	<u>\$788,200</u>	<u>\$44,151</u>	<u>\$(55,230)</u>	<u>\$777,121</u>	<u>\$34,863</u>
	Balance at 6/30/2001	Increases	Decreases	Balance at 6/30/2002	Due Within One Year
Premium payment security deposits	\$80,081	\$3,449	\$(2,258)	\$81,272	\$ -
Deferred revenue	428,017	8,483	(23,414)	413,086	14,263
Bonds payable	177,472	-	(8,702)	168,770	10,000
Other liabilities	<u>91,551</u>	<u>27,332</u>	<u>(23,467)</u>	<u>95,416</u>	<u>7,990</u>
	<u>\$777,121</u>	<u>\$39,264</u>	<u>\$(57,841)</u>	<u>\$758,544</u>	<u>\$32,253</u>

7. Benefit Plans

Defined Benefit Pension Plan

BWC/IC contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and survivor benefits for the public employees of Ohio. Benefits are established and may be amended by State statute. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215. As of June 30, 2002, the most recent report issued by PERS is as of December 31, 2001.

The Code provides PERS statutory authority for employee and employer contributions. The employee contribution rate was 8.5%, while the employer contribution rate was 13.31% of covered payroll. BWC/IC's contributions representing 100% of the dollar amount billed are as follows (000's omitted):

Twelve months ended June 30, 2002	\$21,911
Twelve months ended June 30, 2001	\$15,511
Twelve months ended June 30, 2000	\$20,959

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Post-Retirement Health Care

PERS provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disabled recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers." The Code provides statutory authority for employer contributions and requires public employers to fund post-retirement health care through their contributions to PERS. The portion of the PERS contribution set aside for the funding of OPEB was 4.3% during calendar year 2001.

OPEBs are advanced-funded on an actuarially determined basis. Significant actuarial assumptions for the latest actuarial review performed December 31, 2000 include: a rate of return on investments of 7.75%; salary increases of 4.75% compounded annually; and health care increases of 4.75% annually.

All plan investments are carried at fair value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.

Based upon the portion of each employer's contribution to PERS set aside for funding OPEB as described above, BWC/IC's contribution for the twelve months ended June 30, 2002 allocated to OPEB was approximately \$7.1 million. The plan's net assets available to fund future health care benefits totaled \$11.7 billion as of December 31, 2000. The number of active participants at December 31, 2000 was 411,076. The actuarially accrued liability and the unfunded actuarially accrued liability as of December 31, 2000, based on the actuarial cost method used, were \$14.4 billion and \$2.6 billion, respectively.

8. Surplus Fund

The SIF Surplus Fund is established by the Code and is financed by a percentage of all SIF premiums paid by private, self-insured, and public employers (excluding state employers). The SIF Surplus Fund has been appropriated for specific charges, including compensation related to claims of handicapped persons or employees of noncomplying employers, and the expense of providing rehabilitation services, counseling, training, living maintenance payments, and other related charges to injured workers. The SIF Surplus Fund may also be charged on a discretionary basis as ordered by BWC/IC, as permitted by the Code. See Note 10.

9. Premium Payment Security Fund

The SIF Premium Payment Security Fund (PPSF) is established by the Code and is financed by a percentage of all premiums paid by private employers. Amounts are charged to the PPSF when the employer's premium due for a payroll period is determined to be uncollectible by the Attorney General of Ohio and the employer's premium payment security deposit is not sufficient to cover the premiums due for the payroll period. See Note 10.

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OHIO BUREAU OF WORKERS' COMPENSATION
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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2002 and 2001

10. Net Assets

Individual fund net asset (deficit) balances at June 30, 2002 and 2001 were as follows (000's omitted):

	<u>2002</u>	<u>2001</u>
SIF	\$2,591,777	\$5,166,949
SIF Surplus Fund	(818,302)	(635,940)
SIF Premium Payment Security Fund	<u>113,110</u>	<u>112,342</u>
Total SIF Net Assets	1,886,585	4,643,351
DWRF	600,266	539,842
CWFP	135,357	134,241
PRWEF	11,671	12,902
MIF	9,605	7,010
SIEGF	13,667	12,277
OSLF	-	1,358
ACF	<u>(767,661)</u>	<u>(834,963)</u>
Total Net Assets	<u>\$1,889,490</u>	<u>\$4,516,018</u>

The ACF fund deficit is a result of recording reserves of \$948 million in 2002 and \$993 million in 2001 for compensation adjustment expenses in accordance with accounting principles generally accepted in the United States of America, even though funding for ACF is on a terminal funding basis in accordance with the Code. Consequently, incurred compensation adjustment expenses are not fully funded.

11. Premium Reductions and Refunds

On June 28, 2000, the Workers' Compensation Oversight Commission approved a one-time 75% premium reduction for private employers for the policy periods July 1, 2000 through December 31, 2000 and January 1, 2001 through June 30, 2001, producing estimated savings of \$1.3 billion to these employers. This premium reduction has been reflected in the accompanying statement of revenues, expenses and changes in net assets for the year ended June 30, 2001.

On December 14, 2000, public employer taxing districts were awarded a \$180 million refund of excess premiums and a one-time 75% premium reduction for the January 2001 policy period producing estimated savings of \$200 million to these employers through December 31, 2001. The refund has been reflected in the accompanying statement of revenues, expenses and changes in net assets for the year ended June 30, 2001. Each of the accompanying statements of revenues, expenses and changes in net assets for the years ended June 30, 2002 and 2001 reflects \$100 million of the premium reduction.

On April 24, 2001, private employers were awarded a one-time 75% premium reduction for the July 1, 2001 through December 31, 2001 and January 1, 2002 through June 30, 2002 policy periods, producing estimated savings of \$1.3 billion to these employers. This premium reduction has been reflected in the accompanying statement of revenues, expenses and changes in net assets for the year ended June 30, 2002.

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OHIO BUREAU OF WORKERS' COMPENSATION
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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2002 and 2001

On October 25, 2001, public employer taxing districts were awarded a one-time 50% premium reduction for the January 2002 policy period producing estimated savings of \$144 million to these employers through December 31, 2002. The accompanying statement of revenues, expenses and changes in net assets for the year ended June 30, 2002 reflects \$72 million of the premium reduction and the remaining \$72 million will be reflected in the statement of revenues, expenses and changes in net assets for the year ended June 30, 2003. To assist Ohio's public employer taxing districts in improving their workers' compensation management, employers attending a BWC hosted Public Employer Summit will receive an additional 25% cash refund. A refund payable of \$66.5 million has been accrued as of June 30, 2002.

On April 23, 2002, private employers were awarded a one-time 75% premium reduction for the July 1, 2002 through December 31, 2002 policy period, which will produce estimated savings of \$600 million to these employers in the year ended June 30, 2003. This premium reduction will be reflected in the statement of revenues, expenses and changes in net assets for the year ended June 30, 2003.

12. Risk Management

BWC/IC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To cover these risks, BWC/IC maintains commercial insurance and property insurance. There were no reductions in coverage in either fiscal year 2002 or 2001. Claims experience over the past three years indicates there were no instances of losses exceeding insurance coverage. Additionally, BWC/IC provides medical benefits for its employees on a fully insured basis with independent insurance companies or the State's self-insured benefit plan.

13. Contingent Liabilities

BWC/IC is a party in various litigation. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material adverse effect on BWC/IC's financial position.

14. Subsequent Event

As discussed in Note 1, on September 24, 1992, the United States District Court issued an order prohibiting BWC/IC from disbursing ITF assets until such order is lifted or amended by the court. On August 26, 2002, the United States Sixth Circuit Appeals Court denied the contention that employers were entitled to reimbursement from ITF for amounts paid by employers to settle intentional tort lawsuits that occurred between 1986 and 1991. BWC/IC's management is developing a plan to refund the total assets of ITF to the employers, which will be distributed after the period for appealing this decision to the United States Supreme Court has passed. As of June 30, 2002, the amount of total assets to be refunded to employers was \$66 million.

OHIO BUREAU OF WORKERS' COMPENSATION
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(A COMPONENT UNIT OF THE STATE OF OHIO)

REQUIRED SUPPLEMENTAL REVENUE AND RESERVE
DEVELOPMENT INFORMATION, UNAUDITED

(See Accompanying Independent Auditors' Report)

June 30, 2002 and 2001

GASB Statement No. 30, "Risk Financing Omnibus", requires the presentation of ten years of supplemental revenue and reserve development information, if available.

The table on the following page illustrates how BWC/IC's gross premium revenues and investment income compare to related costs of workers' compensation benefits (compensation) and other expenses incurred by BWC/IC as of the end of each of the last ten and one-half reporting periods. The rows of the table are defined as follows: (1) This line shows the total of each period's gross premium revenues and investment income. (2) This line shows each period's operating expenses, including overhead and compensation adjustment expenses not allocable to individual claims. (3) This line shows incurred compensation and allocated compensation adjustment expenses (both paid and accrued) as originally reported at the end of the first period in which the injury occurred. (4) This section of eleven rows shows the cumulative amounts paid as of the end of successive periods for each period. The diagonal for the period ended June 30, 1996 represents six months of paid development. The diagonals for subsequent years represent paid development one and one-half years later. (5) This section of ten rows shows how each period's incurred compensation increased or decreased as of the end of successive periods. The diagonal for the period ended June 30, 1996 represents six months of incurred compensation development. The diagonals for subsequent years represent incurred compensation development one and one-half years later. (6) This line compares the latest re-estimated incurred compensation amount to the amount originally established (line 3) and shows whether this latest estimate of compensation cost is greater or less than originally estimated. As data for individual periods mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred compensation currently recognized in less mature periods. The columns of the table show data for successive periods on an undiscounted basis. Periods 1992 through 1995 are for the years ended December 31, 1992 through 1995; the 1996 period is for the six months ended June 30, 1996; and periods 1997 through 2002 are for the fiscal years ended June 30, 1997 through 2002.

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**OHIO BUREAU OF WORKERS' COMPENSATION
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(A COMPONENT UNIT OF THE STATE OF OHIO)
REQUIRED SUPPLEMENTAL REVENUE AND RESERVE
DEVELOPMENT INFORMATION, UNAUDITED, Continued
(See Accompanying Independent Auditors' Report)
(In Millions of Dollars)**

	Fiscal years ended June 30						Six months ended June 30	Years ended December 31			
	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
1. Gross premiums, assessments, and investment income*	2,032	2,535	4,344	3,609	5,092	4,933	1,795	3,366	3,161	3,159	3,502
2. Unallocated expenses*	194	292	258	273	323	273	186	345	265	561	263
3. Estimated incurred compensation and compensation adjustment expense, end of period*	2,184	2,039	1,936	1,797	1,984	1,995	925	1,795	1,826	2,094	2,103
Discount*	1,800	1,715	1,672	1,821	2,580	2,498	1,203	2,421	2,615	2,971	2,933
Gross liability as originally estimated*	3,984	3,754	3,608	3,618	4,564	4,493	2,128	4,216	4,441	5,065	5,036
4. Paid (cumulative) as of :											
End of period	456	434	404	422	389	321	75	276	247	227	213
One or one-half year later		821	757	809	673	434	176	477	561	552	555
Two or one and one-half years later			967	984	1,038	611	274	677	659	734	739
Three or two and one-half years later				1,122	1,155	1,085	344	817	810	801	883
Four or three and one-half years later					1,252	1,171	468	920	923	919	938
Four and one-half years later						1,245	506	1,004	1,015	1,009	1,035
Five and one-half years later							538	1,069	1,090	1,079	1,115
Six and one-half years later								1,126	1,149	1,140	1,182
Seven and one-half years later									1,205	1,188	1,231
Eight and one-half years later										1,238	1,286
Nine and one-half years later											1,330
5. Re-estimated incurred compensation and compensation adjustment expenses:											
One or one-half year later		3,457	3,243	3,111	2,603	3,461	1,707	3,790	3,954	4,062	4,525
Two or one and one-half years later			3,311	3,059	3,032	2,899	1,611	3,627	3,486	3,607	3,620
Three or two and one-half years later				3,078	2,763	2,878	1,544	3,475	3,423	3,157	3,271
Four or three and one-half years later					2,681	2,516	1,388	2,973	3,347	3,199	2,957
Four and one-half years later						2,292	1,317	2,627	3,002	3,040	3,013
Five and one-half years later							1,180	2,501	2,592	2,698	2,941
Six and one-half years later								2,245	2,479	2,257	2,654
Seven and one-half years later									2,361	2,180	2,273
Eight and one-half years later										2,074	2,211
Nine and one-half years later											2,109
6. Decrease in estimated incurred compensation and compensation adjustment expenses from end of period		(297)	(297)	(540)	(1,883)	(2,201)	(948)	(1,971)	(2,080)	(2,991)	(2,927)

*Certain 1997 through 2001 amounts have been reclassified to conform to the 2002 presentation.

**OHIO BUREAU OF WORKERS' COMPENSATION
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(A COMPONENT UNIT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET ASSETS
(See Accompanying Independent Auditors' Report)
June 30, 2002
(000's omitted)**

	State Insurance Fund	Disabled Workers' Relief Fund	Coal-Workers Pneumoconiosis Fund	Public Work- Relief Employees' Fund	Marine Industry Fund	Intentional Tort Fund	Self-Insuring Employers' Guaranty Fund	Occupational Safety Loan Fund	Administrative Cost Fund	Eliminations	Totals
ASSETS											
Current assets:											
Cash and cash equivalents	\$ 2,221,516	\$ 41,009	\$ 15,680	\$ 16,077	\$ 10,406	\$ 65,710	\$ 4,864	\$ -	\$ 1,791	\$ -	\$ 2,377,053
Collateral on loaned securities	2,020,359	89,034	354	128	976	-	-	-	599	-	2,111,450
Premiums in course of collection	133,032	-	-	262	-	-	-	-	-	-	133,294
Assessments in course of collection	-	54,626	-	-	-	-	-	-	174,998	-	229,624
Accounts receivable, net of allowance for uncollectibles	129,101	23,295	-	21	-	15	1,149	-	6,957	-	160,538
Interfund receivables	4,484	13,793	-	418	314	2	574	-	11,136	(30,721)	-
Investment trade receivables	1,013,998	140	12	7	8	-	28	-	-	-	1,014,193
Accrued investment income	85,118	12,720	2,428	7	34	-	76	-	-	-	100,383
Other current assets	2,103	-	-	-	-	-	-	-	-	-	2,103
Total current assets	5,609,711	234,617	18,474	16,920	11,738	65,727	6,691	-	195,481	(30,721)	6,128,638
Noncurrent assets:											
Fixed maturities	7,905,333	859,024	162,046	399	1,417	-	11,624	-	-	-	8,939,843
Domestic equity securities:											
Common stocks	3,977,781	-	-	-	-	-	-	-	-	-	3,977,781
Preferred stocks	32,531	8,999	5,595	-	-	-	-	-	-	-	47,125
International securities	1,500,545	-	-	-	-	-	-	-	-	-	1,500,545
Investments in limited partnerships	359,562	-	-	-	-	-	-	-	-	-	359,562
Unbilled premiums receivable	776,751	-	-	-	-	-	-	-	53,325	-	830,076
Retrospective premiums receivable	230,592	-	-	-	-	-	-	-	-	-	230,592
Capital assets	36,557	22	-	-	-	-	-	-	129,074	-	165,653
Restricted cash	-	-	-	-	-	-	-	-	12,911	-	12,911
Total noncurrent assets	14,819,652	868,045	167,641	399	1,417	-	11,624	-	195,310	-	16,064,088
Total assets	\$ 20,429,363	\$ 1,102,662	\$ 186,115	\$ 17,319	\$ 13,155	\$ 65,727	\$ 18,315	\$ -	\$ 390,791	\$ (30,721)	\$ 22,192,726

**OHIO BUREAU OF WORKERS' COMPENSATION
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(A COMPONENT UNIT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET ASSETS, Continued**

(See Accompanying Independent Auditors' Report)

June 30, 2002

(000's omitted)

	State Insurance Fund	Disabled Workers' Relief Fund	Coal-Workers Pneumoconiosis Fund	Public Work- Relief Employees' Fund	Marine Industry Fund	Intentional Tort Fund	Self-Insuring Employers' Guaranty Fund	Occupational Safety Loan Fund	Administrative Cost Fund	Eliminations	Totals
LIABILITIES											
Current liabilities:											
Reserve for compensation	\$ 1,629,808	\$ -	\$ 989	\$ 170	\$ 623	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,631,590
Reserve for compensation adjustment expenses	152,298	-	51	-	37	-	-	-	285,569	-	437,955
Warrants payable	34,301	-	-	-	-	-	-	-	-	-	34,301
Deferred revenue	-	12,034	-	-	-	-	2,229	-	-	-	14,263
Bonds payable	-	-	-	-	-	-	-	-	10,000	-	10,000
Investment trade payables	2,433,261	-	-	-	-	-	-	-	-	-	2,433,261
Accounts payable	518	-	-	-	-	-	-	-	11,117	-	11,635
Interfund payables	24,677	2,488	64	10	278	32	2,419	-	753	(30,721)	-
Premium refund payable	66,539	-	-	-	-	-	-	-	-	-	66,539
Obligations under securities lending	2,020,359	89,034	354	128	976	-	-	-	599	-	2,111,450
Other current liabilities	-	17	1	-	290	-	-	-	7,682	-	7,990
Total current liabilities	<u>6,361,761</u>	<u>103,573</u>	<u>1,459</u>	<u>308</u>	<u>2,204</u>	<u>32</u>	<u>4,648</u>	<u>-</u>	<u>315,720</u>	<u>(30,721)</u>	<u>6,758,984</u>
Noncurrent liabilities:											
Reserve for compensation	11,583,192	-	45,801	5,340	1,249	-	-	-	-	-	11,635,582
Reserve for compensation adjustment expenses	516,702	-	3,349	-	97	-	-	-	662,231	-	1,182,379
Premium payment security deposits	81,123	-	149	-	-	-	-	-	-	-	81,272
Deferred revenue	-	398,823	-	-	-	-	-	-	-	-	398,823
Bonds payable	-	-	-	-	-	-	-	-	158,770	-	158,770
Other noncurrent liabilities	-	-	-	-	-	65,695	-	-	21,731	-	87,426
Total noncurrent liabilities	<u>12,181,017</u>	<u>398,823</u>	<u>49,299</u>	<u>5,340</u>	<u>1,346</u>	<u>65,695</u>	<u>-</u>	<u>-</u>	<u>842,732</u>	<u>-</u>	<u>13,544,252</u>
Total liabilities	<u>18,542,778</u>	<u>502,396</u>	<u>50,758</u>	<u>5,648</u>	<u>3,550</u>	<u>65,727</u>	<u>4,648</u>	<u>-</u>	<u>1,158,452</u>	<u>(30,721)</u>	<u>20,303,236</u>
NET ASSETS (DEFICIT)											
Invested in capital assets, net of related debt	36,557	22	-	-	-	-	-	-	(27,897)	-	8,682
Restricted for Surplus Fund	(818,184)	-	-	-	-	-	-	-	-	-	(818,184)
Restricted for Premium Payment Security Fund	113,110	-	-	-	-	-	-	-	-	-	113,110
Restricted for workers' compensation benefits	2,555,102	600,244	135,357	11,671	9,605	-	13,667	-	(739,764)	-	2,585,882
Total net assets (deficit)	<u>\$ 1,886,585</u>	<u>\$ 600,266</u>	<u>\$ 135,357</u>	<u>\$ 11,671</u>	<u>\$ 9,605</u>	<u>\$ -</u>	<u>\$ 13,667</u>	<u>\$ -</u>	<u>\$ (767,661)</u>	<u>\$ -</u>	<u>\$ 1,869,490</u>

**OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A COMPONENT UNIT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS**

(See Accompanying Independent Auditors' Report)

For the year ended June 30, 2002

(000's omitted)

	State Insurance Fund	Disabled Workers' Relief Fund	Coal-Workers Pneumoconiosis Fund	Public Work- Relief Employees' Fund	Marine Industry Fund	Intentional Tort Fund	Self-Insuring Employers' Guaranty Fund	Occupational Safety Loan Fund	Administrative Cost Fund	Eliminations	Totals
Operating revenues:											
Premium income	\$1,878,105	\$ -	\$1,232	\$439	\$687	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,880,463
Assessment income	-	118,906	-	-	-	-	14,117	-	349,199	-	482,222
Provision for uncollectibles	(61,778)	(2,401)	-	-	-	-	-	-	(2,374)	-	(66,553)
Other income	3,710	-	31	-	-	-	-	-	9,826	-	13,567
Total operating revenues	<u>1,820,037</u>	<u>116,505</u>	<u>1,263</u>	<u>439</u>	<u>687</u>	<u>-</u>	<u>14,117</u>	<u>-</u>	<u>356,651</u>	<u>-</u>	<u>2,309,699</u>
Operating expenses:											
Workers' compensation benefits	2,338,416	127,503	13,393	2,058	(1,478)	-	14,117	-	-	-	2,494,009
Compensation adjustment expenses	223,626	-	731	-	(145)	-	-	-	216,132	-	440,344
Premium reductions and refunds	1,473,880	-	-	-	-	-	-	-	-	-	1,473,880
Personal services	-	472	7	-	10	-	-	-	44,553	-	45,042
General and administrative	-	231	-	-	-	-	-	-	15,745	-	15,976
Other expenses	16,400	-	-	-	59	-	-	-	16,522	-	32,981
Total operating expenses	<u>4,052,322</u>	<u>128,206</u>	<u>14,131</u>	<u>2,058</u>	<u>(1,554)</u>	<u>-</u>	<u>14,117</u>	<u>-</u>	<u>292,952</u>	<u>-</u>	<u>4,502,232</u>
Net income (loss) before operating transfers	<u>(2,232,285)</u>	<u>(11,701)</u>	<u>(12,868)</u>	<u>(1,619)</u>	<u>2,241</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,699</u>	<u>-</u>	<u>(2,192,533)</u>
Operating transfers	<u>(25,753)</u>	<u>21,747</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,376)</u>	<u>5,382</u>	<u>-</u>	<u>-</u>
Net operating income (loss)	<u>(2,258,038)</u>	<u>10,046</u>	<u>(12,868)</u>	<u>(1,619)</u>	<u>2,241</u>	<u>-</u>	<u>-</u>	<u>(1,376)</u>	<u>69,081</u>	<u>-</u>	<u>(2,192,533)</u>
Non-operating revenues (expenses):											
Net investment income (loss)	(498,728)	50,378	13,984	388	354	-	1,390	18	2,069	-	(430,147)
Loss on disposal of capital assets	-	-	-	-	-	-	-	-	(3,848)	-	(3,848)
Total non-operating revenues (expenses)	<u>(498,728)</u>	<u>50,378</u>	<u>13,984</u>	<u>388</u>	<u>354</u>	<u>-</u>	<u>1,390</u>	<u>18</u>	<u>(1,779)</u>	<u>-</u>	<u>(433,995)</u>
Increase (decrease) in net assets (deficit)	<u>(2,756,766)</u>	<u>60,424</u>	<u>1,116</u>	<u>(1,231)</u>	<u>2,595</u>	<u>-</u>	<u>1,390</u>	<u>(1,358)</u>	<u>67,302</u>	<u>-</u>	<u>(2,626,528)</u>
Net assets (deficit), beginning of year	<u>4,643,351</u>	<u>539,842</u>	<u>134,241</u>	<u>12,902</u>	<u>7,010</u>	<u>-</u>	<u>12,277</u>	<u>1,358</u>	<u>(834,963)</u>	<u>-</u>	<u>4,516,018</u>
Net assets (deficit), end of year	<u>\$1,886,585</u>	<u>\$600,266</u>	<u>\$135,357</u>	<u>\$11,671</u>	<u>\$9,605</u>	<u>\$ -</u>	<u>\$13,667</u>	<u>\$ -</u>	<u>\$(767,661)</u>	<u>\$ -</u>	<u>\$1,889,490</u>



191 West Nationwide Boulevard
Suite 500
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Telephone 614 249 2300
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**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

The Honorable Bob Taft
Governor of the State of Ohio,

The Honorable Jim Petro
Auditor of State of Ohio:

We have audited the financial statements of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC/IC), a component unit of the State of Ohio, as of and for the year ended June 30, 2002, and have issued our report thereon dated September 20, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether BWC/IC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance, which we have reported to management of BWC/IC in a separate letter dated September 20, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered BWC/IC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting, which we have reported to management of BWC/IC in a separate letter dated September 20, 2002.

This report is intended solely for the information and use of management, the Governor of the State of Ohio, the Auditor of State of Ohio, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 20, 2002



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

**OHIO BUREAU OF WORKERS' COMPENSATION AND INDUSTRIAL COMMISSION OF OHIO
FRANKLIN COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 11, 2003**

TEXT OF LEGAL OPINION OF PECK, SHAFFER & WILLIAMS LLP, BOND COUNSEL

April 22, 2003

Morgan Stanley & Co. Incorporated
Citigroup Global Markets Inc.
First Albany Corporation
McDonald Investments Inc.
Melvin Securities, L.L.C.
Mesirow Financial, Inc.
SBK-Brooks Investment Corp.

We have examined a certified transcript of proceedings relating to the issuance by the State of Ohio through the Ohio Building Authority (the "Authority") of \$142,500,000 State of Ohio (Ohio Building Authority) Workers' Compensation Facilities Refunding Bonds (William Green Building), 2003 Series A dated April 22, 2003 (the "Series 2003 A Bonds") for the purpose of providing funds to refund, together with other Authority funds, the Authority's State of Ohio (Ohio Building Authority) Workers' Compensation Facilities Bonds (William Green Building), 1993 Series A, dated October 1, 1993, previously issued to pay a portion of the costs of capital facilities for lease to the Bureau of Workers' Compensation (the "Bureau") for housing personnel, equipment or functions, or any combination thereof that the Bureau is responsible for housing; and paying costs incidental to the issuance and sale of the Series 2003 A Bonds. The transcript documents include conformed or executed counterparts of (i) the Trust Agreement dated as of October 1, 1993 (the "Original Trust Agreement") between the Authority and U.S. Bank National Association (formerly known as Firststar Bank, National Association, which was formerly known as Star Bank, National Association), Cincinnati, Ohio (the "Trustee"); (ii) the Lease Agreement dated as of October 1, 1993 between the Authority and the Bureau (the "Original Lease"); (iii) the Second Supplemental Trust Agreement dated as of April 1, 2003 (the "Second Supplemental Trust Agreement", together with the Original Trust Agreement as amended and supplemented to date, the "Trust Agreement"); (iv) the Second Supplemental Lease dated as of April 1, 2003 (the "Second Supplemental Lease", together with the Original Lease as amended and supplemented to date, the "Lease"); and (v) other documents executed and delivered in connection with the issuance of the Series 2003 A Bonds. We have also examined the Constitution of the State of Ohio and such other documents, including opinions of the Attorney General of Ohio, statutes, certifications (including certifications of facts and expectations from the Authority) and records and matters of law as we have deemed necessary for purposes of this opinion.

We have also examined an executed and authenticated fully registered Series 2003 A Bond of the first maturity.

The Series 2003 A Bonds are issued under and pursuant to Section 2i of Article VIII of the Ohio Constitution, Chapter 152 of the Revised Code of Ohio and the Trust Agreement.

Based upon the examinations above referred to, we are of the opinion that, under the law in effect on the date of this opinion:

1. The Series 2003 A Bonds have been duly authorized, executed, issued and delivered by the Authority and constitute legal, valid and binding special obligations of the State of Ohio, enforceable in accordance with their respective terms. The principal of and interest and premium, if any, on the Series 2003 A Bonds are payable solely from and secured by a pledge and assignment of the Pledged Receipts (as defined in the Trust Agreement) to the extent described in the Trust Agreement. The Series 2003 A Bonds are not otherwise secured, and the owners of the Series 2003 A Bonds are given no right to have any excises or taxes levied by the General Assembly of the State of Ohio (the "General Assembly") for the payment of the principal thereof or premium, if any, or interest thereon.

2. The Trust Agreement has been duly authorized, executed and delivered by the Authority and constitutes a legal, valid and binding obligation of the Authority enforceable in accordance with its terms.

3. The Lease has been duly authorized, executed and delivered by the Authority and the Bureau and constitutes a legal, valid and binding obligation of the Authority and the Bureau (except as described below) enforceable in accordance with its terms. Pursuant to the Lease, the Bureau has agreed to pay rentals to the Authority at least adequate to meet, among other requirements, the principal, estimated interest and any redemption premium on the Series 2003 A Bonds outstanding under the Trust Agreement. Pursuant to the Lease, the Bureau has agreed to pay such rentals to the Authority from funds appropriated to the Bureau for that purpose by the General Assembly, and the agreement of the Bureau to pay such rentals during any two year period for which appropriations may lawfully be made by the General Assembly is effective and binding upon the Bureau only when and to the extent that funds have been appropriated and are available for that purpose and for that period; the General Assembly is not at any time obligated to make appropriations to pay such rentals.

4. Interest on the Series 2003 A Bonds (including any original issue discount properly allocated to the holder thereof) is excludible from gross income for federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, interest on the Series 2003 A Bonds will not be treated as a specific item of tax preference under Section 57(a)(5) of the Code, in computing the alternative minimum tax for individuals and corporations. The Series 2003 A Bonds, the transfer thereof, and the income therefrom, including any profit made on the sale thereof, are exempt from taxation within the State of Ohio. In rendering the opinions in this paragraph, we have assumed continuing compliance with certain covenants of the Authority and the Bureau designed to meet the requirements of Section 103 of the Code. We express no opinion as to any other federal or state tax consequences of purchasing, holding or disposing of the Series 2003 A Bonds.

In giving the foregoing opinions, we have assumed and relied upon compliance with the Authority's covenants for itself and the State, and the accuracy, which we have not independently verified, of the Authority's and the Bureau's representations and certifications, contained in the transcript. We have assumed for purposes of this opinion the due authorization, execution and delivery by, and the binding effect upon and enforceability against, the Trustee of the documents to which it is a party. Furthermore, it is to be understood that the enforceability of the Series 2003 A Bonds, the Trust Agreement and the Lease may be subject to bankruptcy, insolvency, moratorium and other laws in effect from time to time affecting creditors' rights, and to the exercise of judicial discretion.

Very truly yours,

Specimen of Municipal Bond Insurance Policy

Financial Guaranty Insurance
Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001



A GE Capital Company

Municipal Bond New Issue Insurance Policy

Issuer:	Policy Number:
	Control Number: 0010001
Bonds:	Premium:

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, the portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance
Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001



A GE Capital Company

Municipal Bond New Issue Insurance Policy

for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Richard M. Reif

President

Effective Date:

Authorized Representative

U.S. Bank Trust National Association acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

Financial Guaranty Insurance
Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company



Endorsement
To Financial Guaranty Insurance Company
Insurance Policy

Policy Number:

Control Number: 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Edward M. Reif

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer

U.S. Bank Trust National Association, as Fiscal Agent

Financial Guaranty Insurance
Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001



A GE Capital Company

Endorsement
To Financial Guaranty Insurance Company
Insurance Policy

Policy Number:

Control Number: 0010001

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the term "Bondholder" shall not include the _____ [Condition Obligor] (as such term is defined in the bond documentation).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

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