Ohio Office of Budget and Management

State of Ohio
George V. Voinovich
Governor

OHIO

COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 1997

STATE OF OHIO

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

TABLE OF CONTENTS

INTRODUCTORY SECTION

FINANCIAL SECTION

STATISTICAL SECTION

GENERAL PURPOSE FINANCIAL STATEMENTS

STATE OF OHIO
COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 1997
(amounts expressed in thousands)

	GOVERNMENTAL FUND TYPES			
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
ASSETS AND OTHER DEBITS				
Cash Equity with Treasurer	$ 2,566,298	$ 2,232,467	$ 108,464	$ 746,458
Cash and Cash Equivalents	11,889	15,491	1,920	—
Investments	—	83,887	176,180	7,337
Collateral on Lent Securities	1,519,883	1,317,125	63,990	440,382
Deposit with Federal Government	—	—	—	—
Receivables:				
Taxes	787,434	190,463	—	—
Intergovernmental	433,449	350,926	—	—
Premiums and Assessments	—	—	—	—
Loans, Net	9,939	398,384	6,224	109,664
Other	21,690	35,200	1,037	2,543
Due from Other Funds	13,359	27,737	1,242	1,770
Inventories	2,807	33,873	—	—
Food Stamps	—	257,644	—	—
Deposit with Deferred Compensation Plan	—	—	—	—
Advances to Other Funds	—	—	—	—
Restricted Assets:				
Cash Equity with Treasurer	—	—	—	—
Cash and Cash Equivalents	—	—	—	—
Investments	—	—	—	—
Dedicated Investments	—	—	—	—
Collateral on Lent Securities	—	—	—	—
Other Receivables	—	—	—	—
Fixed Assets (net of accumulated depreciation)	—	—	—	—
Other Assets	836	9,607	—	—
Sureties	—	—	—	—
Amount Available in Debt Service Fund	—	—	—	—
Amount to be Provided for General Long-Term Obligations	—	—	—	—
TOTAL ASSETS AND OTHER DEBITS	**$ 5,367,584**	**$ 4,952,804**	**$ 359,057**	**$ 1,308,154**
LIABILITIES, FUND EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts Payable	$ 74,144	$ 262,073	$ —	$ 77,830
Medicaid Claims Payable	475,780	—	—	—
Accrued Liabilities	104,594	59,797	940	39
Obligations Under Securities Lending	1,519,883	1,317,125	63,990	440,382
Intergovernmental Payable	231,824	371,239	—	—
Due to Other Funds	35,913	11,120	—	1,143
Deferred Revenues	64,590	317,288	1,500	—
Workers' Compensation Benefits Payable	—	—	—	—
Refund and Other Liabilities	540,589	71,772	1,632	—
Liability for Escheat Property	—	—	—	—
Liability for Deferred Compensation	—	—	—	—
Liabilities Payable from Restricted Assets	—	—	—	—
Advances from Other Funds	—	85,076	—	—
General Obligation Bonds	—	—	—	—
Revenue Bonds and Notes	—	—	—	—
Special Obligation Bonds	—	—	—	—
Certificates of Participation	—	—	—	—
Other General Long-Term Obligations	—	—	—	—
Total Liabilities	3,047,317	2,495,490	68,062	519,394
Fund Equity and Other Credits:				
Investment in General Fixed Assets	—	—	—	—
Contributed Capital	—	—	—	—
Retained Earnings:				
Reserved	—	—	—	—
Unreserved	—	—	—	—
Fund Balances:				
Reserved for:				
Debt Service	—	—	284,153	—
Encumbrances	454,423	2,051,215	—	769,505
Budget Stabilization	828,307	—	—	—
Noncurrent Portion of Loans Receivable	9,793	303,124	6,224	108,554
Pension and Other Postemployment Benefits	—	—	—	—
Unemployment Benefits	—	—	—	—
Restricted Fund Balances	—	—	—	—
Other	146,394	173,383	—	40,243
Unreserved/Designated	685,900	—	—	—
Unreserved/Undesignated (Deficits)	195,450	(70,408)	618	(129,542)
Total Fund Equity and Other Credits	2,320,267	2,457,314	290,995	788,760
TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS	**$ 5,367,584**	**$ 4,952,804**	**$ 359,057**	**$ 1,308,154**

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

PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES	ACCOUNT GROUPS				
ENTERPRISE	INTERNAL SERVICE	TRUST AND AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	TOTAL PRIMARY GOVERNMENT (memorandum only)	COMPONENT UNITS	TOTAL REPORTING ENTITY (memorandum only)
$ 154,621	$ 50,249	$ 208,789	$ —	$ —	$ 6,067,346	$ 107	$ 6,067,453
1,153,643	322	185,197	—	—	1,368,462	117,722	1,486,184
16,633,909	1,597	88,203,669	—	—	105,106,579	2,702,602	107,809,181
4,024,254	29,646	1,054,786	—	—	8,450,066	—	8,450,066
—	—	1,818,503	—	—	1,818,503	—	1,818,503
—	—	160,046	—	—	1,137,943	—	1,137,943
5,401	1,376	40	—	—	791,192	33,903	825,095
1,946,318	—	—	—	—	1,946,318	—	1,946,318
—	—	—	—	—	524,211	1,785,686	2,309,897
359,041	45,745	24,633	—	—	489,889	386,433	876,322
1,678	38,219	5,208	—	—	89,213	343,486	432,699
22,948	22,155	—	—	—	81,783	42,729	124,512
—	—	—	—	—	257,644	—	257,644
—	—	852,788	—	—	852,788	7,181	859,969
—	—	85,076	—	—	85,076	—	85,076
18,552	—	—	—	—	18,552	—	18,552
36	67	—	—	—	103	41,075	41,178
—	42,154	—	—	—	42,154	486,248	528,402
1,564,216	—	—	—	—	1,564,216	—	1,564,216
1,001,443	—	—	—	—	1,001,443	—	1,001,443
19,171	—	—	—	—	19,171	—	19,171
286,180	30,575	2,986	3,394,541	—	3,714,282	7,622,606	11,336,888
169,627	395	32	—	—	180,497	604,578	785,075
—	—	391,402	—	—	391,402	—	391,402
—	—	—	—	284,153	284,153	—	284,153
—	—	—	—	7,187,772	7,187,772	—	7,187,772
$ 27,361,038	**$ 262,500**	**$ 92,993,155**	**$ 3,394,541**	**$ 7,471,925**	**$ 143,470,758**	**$ 14,174,356**	**$ 157,645,114**
$ 183,074	$ 22,081	$ 428	$ —	$ —	$ 619,630	$ 183,886	$ 803,516
—	—	—	—	—	475,780	—	475,780
46,232	10,855	290	—	—	222,747	549,474	772,221
4,024,254	29,646	1,054,786	—	—	8,450,066	—	8,450,066
350	—	3,701,875	—	—	4,305,288	309	4,305,597
16	2,038	39,025	—	—	89,255	343,486	432,741
445,593	845	—	—	—	829,816	156,709	986,525
12,857,040	—	—	—	—	12,857,040	—	12,857,040
1,861,968	—	84,487,829	—	—	86,963,790	135,971	87,099,761
—	—	71,044	—	—	71,044	—	71,044
—	—	856,020	—	—	856,020	7,181	863,201
2,554,970	—	—	—	—	2,554,970	—	2,554,970
—	—	—	—	—	85,076	—	85,076
—	—	—	—	1,598,596	1,598,596	—	1,598,596
202,109	40,169	—	—	171,595	413,873	2,015,353	2,429,226
—	—	—	—	4,664,837	4,664,837	—	4,664,837
—	—	—	—	26,630	26,630	86,825	113,455
—	—	—	—	1,010,267	1,010,267	—	1,010,267
22,175,606	105,634	90,211,297	—	7,471,925	126,094,725	3,479,194	129,573,919
—	—	—	3,394,541	—	3,394,541	6,925,976	10,320,517
—	40,967	—	—	—	40,967	—	40,967
131,891	319	—	—	—	132,210	—	132,210
5,053,541	115,580	—	—	—	5,169,121	1,055,760	6,224,881
—	—	—	—	—	284,153	—	284,153
—	—	—	—	—	3,275,143	—	3,275,143
—	—	—	—	—	828,307	—	828,307
—	—	—	—	—	427,695	—	427,695
—	—	512,072	—	—	512,072	—	512,072
—	—	2,093,811	—	—	2,093,811	—	2,093,811
—	—	—	—	—	—	1,946,346	1,946,346
—	—	85,076	—	—	445,096	—	445,096
—	—	—	—	—	685,900	284,108	970,008
—	—	90,899	—	—	87,017	482,972	569,989
5,185,432	156,866	2,781,858	3,394,541	—	17,376,033	10,695,162	28,071,195
$ 27,361,038	**$ 262,500**	**$ 92,993,155**	**$ 3,394,541**	**$ 7,471,925**	**$ 143,470,758**	**$ 14,174,356**	**$ 157,645,114**

STATE OF OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1997
(amounts expressed in thousands)

	GOVERNMENTAL FUND TYPES		
	GENERAL	SPECIAL REVENUE	DEBT SERVICE
REVENUES:			
Income Taxes	$ 5,257,395	$ 621,621	$ —
Sales Taxes	4,995,691	266,769	—
Corporate and Public Utility Taxes	1,794,592	102,847	—
Motor Vehicle Fuel Taxes	—	1,290,215	61,261
Unemployment Taxes	—	—	—
Other Taxes	828,290	44,579	—
Licenses, Permits and Fees	87,511	718,232	43,536
Sales, Services and Charges	42,031	37,020	—
Federal Government	3,563,004	4,890,942	50
Investment Income	277,337	94,744	20,536
Other	168,587	487,342	1,749
TOTAL REVENUES	17,014,438	8,554,311	127,132
EXPENDITURES:			
CURRENT:			
Primary, Secondary and Other Education	3,969,447	1,479,639	—
Higher Education Support	334,010	88,472	—
Public Assistance and Medicaid	6,399,538	1,967,483	—
Health and Human Services	949,438	1,379,324	—
Justice and Public Protection	1,351,446	410,075	—
Environmental Protection and Natural Resources	102,187	197,420	—
Transportation	32,516	1,432,742	—
General Government	426,716	101,876	—
Community and Economic Development	113,176	230,962	—
INTERGOVERNMENTAL	942,690	1,627,811	—
CAPITAL OUTLAY	123,217	137,561	—
DEBT SERVICE	528	—	1,033,420
TOTAL EXPENDITURES	14,744,909	9,053,365	1,033,420
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,269,529	(499,054)	(906,288)
OTHER FINANCING SOURCES (USES):			
Bond Proceeds	—	170,219	—
Refunding Bond Proceeds	—	—	342,661
Payment to Refunded Bond Escrow Agents	—	—	(341,716)
Capital Leases	1,107	2,863	—
Operating Transfers-in	142,605	1,710,704	807,992
Operating Transfers-out	(847,794)	(951,022)	(33,942)
Operating Transfers to Component Units	(1,410,667)	—	—
TOTAL OTHER FINANCING SOURCES (USES)	(2,114,749)	932,764	774,995
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	154,780	433,710	(131,293)
FUND BALANCES, JULY 1 (as restated)	2,167,739	2,020,366	422,288
Increase (Decrease) for Changes in Inventories	(2,252)	3,238	—
Residual Equity Transfers-out	—	—	—
FUND BALANCES, JUNE 30	$ 2,320,267	$ 2,457,314	$ 290,995

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

	FIDUCIARY FUND TYPE	
CAPITAL PROJECTS	EXPENDABLE TRUST	TOTAL (memorandum only)
$ —	$ —	$ 5,879,016
—	—	5,262,460
—	—	1,897,439
—	—	1,351,476
—	777,675	777,675
—	—	872,869
—	—	849,279
—	—	79,051
835	13,155	8,467,986
26,182	130,325	549,124
3,104	49,735	710,517
30,121	**970,890**	**26,696,892**
—	—	5,449,086
—	—	422,482
—	—	8,367,021
—	760,691	3,089,453
—	—	1,761,521
—	—	299,607
—	—	1,465,258
—	40,787	569,379
812	—	344,950
—	—	2,570,501
877,508	—	1,138,286
—	—	1,033,948
878,320	**801,478**	**26,511,492**
(848,199)	**169,412**	**185,400**
1,126,036	—	1,296,255
—	—	342,661
—	—	(341,716)
—	—	3,970
347,148	—	3,008,449
(369,371)	—	(2,202,129)
—	—	(1,410,667)
1,103,813	**—**	**696,823**
255,614	**169,412**	**882,223**
538,883	2,100,374	7,249,650
—	—	986
(5,737)	—	(5,737)
$ 788,760	**$ 2,269,786**	**$ 8,127,122**

STATE OF OHIO

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) GENERAL, SPECIAL REVENUE AND DEBT SERVICE FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 1997

(amounts expressed in thousands)

	GENERAL FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES:			
Income Taxes	$ 5,102,300	$ 5,382,261	$ 279,961
Sales Taxes	4,940,302	4,968,994	28,692
Corporate and Public Utility Taxes	1,782,000	1,790,519	8,519
Motor Vehicle Fuel Taxes	—	—	—
Other Taxes	811,204	828,290	17,086
Licenses, Permits and Fees	93,371	94,576	1,205
Sales, Services and Charges	33,985	35,887	1,902
Federal Government	3,959,726	3,566,386	(393,340)
Investment Income	82,230	109,782	27,552
Other	315,908	323,313	7,405
TOTAL REVENUES	17,121,026	17,100,008	(21,018)
BUDGETARY EXPENDITURES:			
CURRENT:			
Primary, Secondary and Other Education	4,080,207	4,057,322	22,885
Higher Education Support	1,757,919	1,747,701	10,218
Public Assistance and Medicaid	7,035,079	6,461,232	573,847
Health and Human Services	1,027,607	1,009,562	18,045
Justice and Public Protection	1,357,975	1,334,870	23,105
Environmental Protection and Natural Resources	124,285	119,727	4,558
Transportation	38,780	38,773	7
General Government	421,428	383,286	38,142
Community and Economic Development	136,476	132,164	4,312
INTERGOVERNMENTAL	983,940	942,652	41,288
CAPITAL OUTLAY	172,889	158,454	14,435
DEBT SERVICE	811,736	716,581	95,155
TOTAL BUDGETARY EXPENDITURES	17,948,321	17,102,324	845,997
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES	(827,295)	(2,316)	824,979
OTHER FINANCING SOURCES (USES):			
Bond Proceeds	—	—	—
Operating Transfers-in	70,486	1,060,204	989,718
Operating Transfers-out	(31,838)	(1,034,781)	(1,002,943)
Encumbrance Reversions	—	86,452	86,452
TOTAL OTHER FINANCING SOURCES (USES)	38,648	111,875	73,227
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) BUDGETARY EXPENDITURES AND OTHER FINANCING USES	(788,647)	109,559	898,206
UNRESERVED, UNDESIGNATED BUDGETARY FUND BALANCES (DEFICITS), JULY 1	381,156	381,156	—
Decrease (Increase) in Budgetary Designations	(152,723)	(152,723)	—
UNRESERVED, UNDESIGNATED BUDGETARY FUND BALANCES (DEFICITS), JUNE 30	(560,214)	337,992	898,206
Budgetary Designations, June 30	1,625,411	1,625,411	—
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30	$ 1,065,197	$ 1,963,403	$ 898,206

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

SPECIAL REVENUE FUNDS			DEBT SERVICE FUNDS		
BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
$ 636,262	$ 636,262	$ —	$ —	$ —	$ —
265,157	265,157	—	—	—	—
102,643	102,643	—	—	—	—
1,359,987	1,359,987	—	65,420	65,420	—
44,551	44,551	—	—	—	—
890,402	890,402	—	43,517	43,517	—
32,185	32,185	—	—	—	—
4,620,774	4,620,774	—	—	—	—
90,363	90,363	—	6,600	6,600	—
704,589	704,589	—	94,935	94,935	—
8,746,913	**8,746,913**	**—**	**210,472**	**210,472**	**—**
1,700,708	1,634,619	66,089	—	—	—
48,605	27,064	21,541	—	—	—
2,389,117	2,059,958	329,159	—	—	—
1,783,937	1,527,632	256,305	—	—	—
537,637	431,976	105,661	—	—	—
255,278	213,608	41,670	—	—	—
1,714,526	1,521,221	193,305	—	—	—
129,142	111,017	18,125	—	—	—
367,779	294,278	73,501	—	—	—
1,863,323	1,798,943	64,380	—	—	—
345,215	123,271	221,944	—	—	—
20,878	18,885	1,993	237,759	224,655	13,104
11,156,145	**9,762,472**	**1,393,673**	**237,759**	**224,655**	**13,104**
(2,409,232)	**(1,015,559)**	**1,393,673**	**(27,287)**	**(14,183)**	**13,104**
170,219	170,219	—	832	832	—
1,894,730	1,894,730	—	64,838	64,838	—
(1,121,995)	(1,121,995)	—	(58,361)	(58,361)	—
406,491	406,491	—	—	—	—
1,349,445	**1,349,445**	**—**	**7,309**	**7,309**	**—**
$ (1,059,787)	**333,886**	**$ 1,393,673**	**$ (19,978)**	**(6,874)**	**$ 13,104**
	(549,861)			115,338	
	—			—	
	(215,975)			108,464	
	—			—	
	$ (215,975)			**$ 108,464**	

STATE OF OHIO

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT FOR THE FISCAL YEAR ENDED JUNE 30, 1997

(amounts expressed in thousands)

	PROPRIETARY FUND TYPES		
	ENTERPRISE	INTERNAL SERVICE	TOTAL PRIMARY GOVERNMENT (memorandum only)
OPERATING REVENUES:			
Charges for Sales and Services	$ 2,702,860	$ 282,024	$ 2,984,884
Premium and Assessment Income	1,605,143	—	1,605,143
Investment Income	2,886,096	—	2,886,096
Other	33,132	6,330	39,462
TOTAL OPERATING REVENUES	**7,227,231**	**288,354**	**7,515,585**
OPERATING EXPENSES:			
Costs of Sales and Services	274,891	124,829	399,720
Administration	203,997	150,995	354,992
Bonuses and Commissions	144,689	—	144,689
Prizes	1,312,220	—	1,312,220
Benefits and Claims	2,532,990	—	2,532,990
Depreciation	21,123	10,227	31,350
Other	274,254	7,718	281,972
TOTAL OPERATING EXPENSES	**4,764,164**	**293,769**	**5,057,933**
OPERATING INCOME (LOSS)	**2,463,067**	**(5,415)**	**2,457,652**
NONOPERATING REVENUES (EXPENSES):			
Investment Income	16,436	1,803	18,239
Interest Expense	—	(3,396)	(3,396)
Federal Grants	—	—	—
Other	(514)	(2,580)	(3,094)
TOTAL NONOPERATING REVENUES (EXPENSES)	**15,922**	**(4,173)**	**11,749**
INCOME (LOSS) BEFORE OPERATING TRANSFERS	**2,478,989**	**(9,588)**	**2,469,401**
OPERATING TRANSFERS:			
Operating Transfers-in	28,218	36,728	64,946
Operating Transfers-out	(844,745)	(26,521)	(871,266)
TOTAL OPERATING TRANSFERS	**(816,527)**	**10,207**	**(806,320)**
NET INCOME (LOSS)	**1,662,462**	**619**	**1,663,081**
RETAINED EARNINGS, JULY 1 (as restated)	3,522,970	115,280	3,638,250
RETAINED EARNINGS, JUNE 30	**$ 5,185,432**	**$ 115,899**	**$ 5,301,331**

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

COMPONENT UNIT OHIO WATER DEVELOPMENT AUTHORITY	TOTAL REPORTING ENTITY (memorandum only)
$ 97,936	$ 3,082,820
—	1,605,143
42,496	2,928,592
1,003	40,465
141,435	**7,657,020**
74,934	474,654
5,441	360,433
—	144,689
—	1,312,220
—	2,532,990
97	31,447
—	281,972
80,472	**5,138,405**
60,963	**2,518,615**
—	18,239
—	(3,396)
81,864	81,864
3,100	6
84,964	**96,713**
145,927	**2,615,328**
—	64,946
—	(871,266)
—	**(806,320)**
145,927	**1,809,008**
909,833	4,548,083
$ 1,055,760	**$ 6,357,091**

STATE OF OHIO

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

(amounts expressed in thousands)

	ENTERPRISE	INTERNAL SERVICE	TOTAL PRIMARY GOVERNMENT (memorandum only)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating Income (Loss)	$ 2,463,067	$ (5,415)	$ 2,457,652
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Investment Income	(2,885,746)	—	(2,885,746)
Depreciation	21,123	10,227	31,350
Provision for Uncollectible Accounts	86,563	—	86,563
Amortization of Premiums and Discounts	99,632	—	99,632
Interest on Bonds, Notes and Capital Leases	9,807	—	9,807
Interest Received on Loans	—	—	—
Miscellaneous Nonoperating Income	—	—	—
Decrease (Increase) in Assets:			
Intergovernmental Receivables	(417)	430	13
Premiums and Assessments Receivable	341,046	—	341,046
Other Receivables	(78,605)	(1,066)	(79,671)
Due from Other Funds	24	344	368
Inventories	(1,397)	(2,051)	(3,448)
Other Assets	(73,405)	3	(73,402)
Increase (Decrease) in Liabilities:			
Accounts Payable	70,317	(83)	70,234
Accrued Liabilities	991	865	1,856
Intergovernmental Payable	(7)	—	(7)
Due to Other Funds	(34)	111	77
Deferred Revenues	(4,362)	(75)	(4,437)
Workers' Compensation Benefits Payable	40,012	—	40,012
Refund and Other Liabilities	665,206	—	665,206
Liabilities Payable from Restricted Assets	14,674	—	14,674
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	**768,489**	**3,290**	**771,779**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating Transfers-in	28,088	36,728	64,816
Operating Transfers-out	(844,745)	(26,521)	(871,266)
Bond Proceeds	—	—	—
Federal Grants	—	—	—
Retirement of Revenue Bond Principal	—	—	—
Interest Paid	—	—	—
Bond and Note Issuance Costs	—	—	—
NET CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	**(816,657)**	**10,207**	**(806,450)**

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

COMPONENT UNIT	
OHIO WATER DEVELOPMENT AUTHORITY	TOTAL REPORTING ENTITY (memorandum only)
$ 60,963	$ 2,518,615
(42,496)	(2,928,242)
97	31,447
—	86,563
1,007	100,639
73,926	83,733
(97,935)	(97,935)
3,050	3,050
—	13
—	341,046
(462)	(80,133)
586	954
—	(3,448)
—	(73,402)
—	70,234
—	1,856
—	(7)
(586)	(509)
—	(4,437)
—	40,012
—	665,206
—	14,674
(1,850)	**769,929**
—	64,816
—	(871,266)
6,745	6,745
82,756	82,756
(64,135)	(64,135)
(73,145)	(73,145)
(91)	(91)
(47,870)	**(854,320)**

(continued)

STATE OF OHIO

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

(amounts expressed in thousands)
(continued)

	ENTERPRISE	INTERNAL SERVICE	TOTAL PRIMARY GOVERNMENT (memorandum only)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal Payments on Bonds	(4,000)	(3,480)	(7,480)
Interest Paid	(9,807)	(1,801)	(11,608)
Principal Receipts on Capital Leases	—	2,671	2,671
Acquisition and Construction of Capital Assets	(8,405)	(3,350)	(11,755)
Proceeds from Sales of Fixed Assets	32,270	134	32,404
Principal Payments on Capital Leases	(8,643)	(298)	(8,941)
NET CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	**1,415**	**(6,124)**	**(4,709)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from the Sales and Maturities of Investments	10,281,944	261	10,282,205
Purchase of Investments	(10,424,537)	—	(10,424,537)
Investment Income Received	924,090	1,802	925,892
Borrower Rebate and Agent Fees	(60,626)	—	(60,626)
Loan Principal Repayments Received	—	—	—
Loan Disbursements	—	—	—
Loan Interest Received	—	—	—
NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES	**720,871**	**2,063**	**722,934**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**674,118**	**9,436**	**683,554**
CASH AND CASH EQUIVALENTS, JULY 1 (as restated)	652,734	41,202	693,936
CASH AND CASH EQUIVALENTS, JUNE 30	**$ 1,326,852**	**$ 50,638**	**$ 1,377,490**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Acquisition and Construction of Capital Assets	$ —	$ 5,737	$ 5,737
INCREASE (DECREASE) IN CONTRIBUTED CAPITAL	**$ —**	**$ 5,737**	**$ 5,737**

Cash and cash equivalents in the Component Units column on the Combined Balance Sheet include:

Proprietary-Ohio Water Development Authority	$ 6,999
Colleges and Universities	151,905
Total	**$ 158,904**

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

COMPONENT UNIT	
OHIO WATER DEVELOPMENT AUTHORITY	TOTAL REPORTING ENTITY (memorandum only)
—	(7,480)
—	(11,608)
—	2,671
(77)	(11,832)
—	32,404
—	(8,941)
(77)	**(4,786)**
7,086,713	17,368,918
(7,042,019)	(17,466,556)
42,859	968,751
—	(60,626)
71,739	71,739
(199,401)	(199,401)
95,139	95,139
55,030	**777,964**
5,233	**688,787**
1,766	695,702
$ 6,999	**$ 1,384,489**
$ —	$ 5,737
$ —	**$ 5,737**

STATE OF OHIO

STATEMENT OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

(amounts expressed in thousands)

	STATE HIGHWAY PATROL RETIREMENT SYSTEM		
	PENSION	POST-EMPLOYMENT	TOTAL
ADDITIONS:			
Contributions:			
Employer	$ 12,176	$ 2,531	$ 14,707
Employees	6,223	—	6,223
Other Contributions	349	6	355
Total Contributions	18,748	2,537	21,285
Investment Income:			
Net Appreciation in Fair Value of Investments	39,617	6,928	46,545
Interest	11,641	2,029	13,670
Dividends	2,998	523	3,521
Other Investment Income	585	102	687
	54,841	9,582	64,423
Less: Investment Expense	1,736	361	2,097
Net Investment Income	53,105	9,221	62,326
TOTAL ADDITIONS	**71,853**	**11,758**	**83,611**
DEDUCTIONS:			
Benefits and Claims	15,920	2,023	17,943
Refunds of Employee Contributions	67	—	67
Administrative Expenses	1,056	148	1,204
TOTAL DEDUCTIONS	**17,043**	**2,171**	**19,214**
NET INCREASE (DECREASE)	**54,810**	**9,587**	**64,397**
FUND BALANCE RESERVED FOR EMPLOYEES' PENSION AND POSTEMPLOYMENT HEALTHCARE BENEFITS			
JULY 1	379,953	67,722	447,675
JUNE 30	**$ 434,763**	**$ 77,309**	**$ 512,072**

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

STATE OF OHIO

STATEMENT OF CHANGES IN FUND BALANCE
DISCRETELY PRESENTED COMPONENT UNITS - COLLEGE AND UNIVERSITY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

(amounts expressed in thousands)

	COMPONENT UNITS
REVENUES AND OTHER ADDITIONS:	
Unrestricted Current Fund Revenues	$ 2,706,398
Local Appropriations-Restricted	14,334
Federal Grants and Contracts-Restricted	419,883
State Grants and Contracts-Restricted	84,519
Local Grants and Contracts-Restricted	6,511
Private Gifts, Grants and Contracts-Restricted	296,718
Endowment Income-Restricted	25,897
Investment Income-Restricted	21,305
Realized Gain on Investments-Restricted (net)	129,420
Interest on Loans Receivable	4,564
Investment in Plant-Additions	738,281
Other	208,381
TOTAL REVENUES AND OTHER ADDITIONS	**4,656,211**
EXPENDITURES AND OTHER DEDUCTIONS:	
Educational and General Expenditures	3,519,339
Auxiliary Enterprises Expenditures	497,299
Hospital Expenditures	486,729
Indirect Costs Recovered	69,646
Grant Refunds and Adjustments	965
Loan Cancellations and Write-offs	2,286
Administrative and Collection Costs	2,524
Expended for Plant Facilities	177,338
Retirement of Indebtedness	150,737
Interest on Indebtedness	42,982
Investment in Plant-Deductions	535,083
Other	4,417
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	**5,489,345**
TRANSFERS:	
Operating Transfers from Primary Government	1,410,667
NET INCREASE (DECREASE) FOR THE YEAR BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	**577,533**
Cumulative Effect of Change in Accounting Principle	5,072
NET INCREASE (DECREASE) FOR THE YEAR	**582,605**
FUND BALANCE AND OTHER CREDITS, JULY 1 (as restated)	9,056,797
FUND BALANCE AND OTHER CREDITS, JUNE 30	**$ 9,639,402**

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

STATE OF OHIO

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
DISCRETELY PRESENTED COMPONENT UNITS - COLLEGE AND UNIVERSITY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

(amounts expressed in thousands)

	COMPONENT UNITS
REVENUES:	
Tuition, Fees and Other Student Charges	$ 1,312,515
Local Appropriations	14,649
Federal Grants and Contracts	417,227
State Grants and Contracts	87,037
Local Grants and Contracts	7,987
Private Gifts, Grants and Contracts	242,651
Endowment Income	89,508
Sales and Services	1,066,928
Temporary Investment Income	57,431
Other Sources	115,058
TOTAL REVENUES	**3,410,991**
EXPENDITURES AND MANDATORY TRANSFERS:	
EDUCATIONAL AND GENERAL:	
Instruction and Departmental Research	1,516,724
Separately Budgeted Research	333,465
Public Service	195,076
Academic Support	343,025
Student Services	194,765
Institutional Support	339,260
Operation and Maintenance of Plant	262,541
Scholarships and Fellowships	332,320
TOTAL EDUCATIONAL AND GENERAL	3,517,176
AUXILIARY ENTERPRISES	496,395
HOSPITALS	486,729
TOTAL EXPENDITURES	**4,500,300**
MANDATORY TRANSFERS, NET:	
Principal and Interest	89,513
Renewals and Replacements	3,048
Other	795
TOTAL MANDATORY TRANSFERS, NET	**93,356**
TOTAL EXPENDITURES AND MANDATORY TRANSFERS	**4,593,656**
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):	
OPERATING TRANSFERS FROM PRIMARY GOVERNMENT	1,402,674
NONMANDATORY TRANSFERS, NET:	
Capital Improvements	(92,499)
Other	(2,090)
ADDITIONS/(DEDUCTIONS):	
Excess of Restricted Receipts over Transfers to Revenue	74,773
Indirect Costs Recovered	(69,551)
Other	23
TOTAL OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)	**1,313,330**
NET INCREASE (DECREASE) FOR THE YEAR BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	**130,665**
Cumulative Effect of Change in Accounting Principle	9,254
NET INCREASE (DECREASE) IN FUND BALANCE	**$ 139,919**

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

INDEX TO THE NOTES

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Ohio present the financial position of the various fund types and account groups, the results of operations of the various fund types, and the cash flows of the proprietary funds. The financial statements, as of June 30, 1997, and for the year then ended, conform with generally accepted accounting principles (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification) documents these principles. The State's significant accounting policies are as follows.

A. Financial Reporting Entity

For financial reporting purposes, the State of Ohio's primary government includes all funds, account groups, elected officials, departments and agencies, bureaus, boards, commissions, and authorities that make up the State's legal entity. Component units, legally separate organizations for which the State's elected officials are financially accountable, also comprise, in part, the State's reporting entity.

GASB Statement No. 14, *The Financial Reporting Entity*, defines financial accountability. The criteria for determining financial accountability include the following considerations: 1) appointment of a voting majority of an organization's governing authority and the ability of the primary government to either impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government, or 2) an organization is fiscally dependent on the primary government. Information for obtaining complete financial statements for the State's component units is available from the Ohio Office of Budget and Management.

1. Blended Component Units

The Ohio Building Authority, Ohio Public Facilities Commission, and the State Highway Patrol Retirement System are legally separate organizations that provide services entirely, or almost entirely, to the State or otherwise exclusively, or almost exclusively, benefit the State. Therefore, the State reports these organizations' balances and transactions as though they were part of the primary government using the blending method.

2. Discretely Presented Component Units

The component units' columns in the combined financial statements include the financial data of the following organizations. The separate discrete column labeled, "Component Units," emphasizes these organizations' separateness from the State's primary government.

Proprietary:
Ohio Water Development Authority

Colleges and Universities:

State Universities:
Bowling Green State University
Central State University (See NOTE 2)
Cleveland State University
Kent State University
Miami University
Ohio State University
Ohio University
Shawnee State University
University of Akron
University of Cincinnati
University of Toledo
Wright State University
Youngstown State University

Medical College:
Medical College of Ohio at Toledo

State Community Colleges:
Cincinnati State Community College
Clark State Community College
Columbus State Community College
Edison State Community College
Northwest State Community College
Owens State Community College
Southern State Community College
Terra State Community College
Washington State Community College

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Joint Ventures and Related Organizations

As discussed in more detail in NOTE 22, the State participates in several joint ventures and has related organizations. The State does not include the financial activities of these organizations in its financial statements, in conformity with GASB Statement No. 14.

B. Basis of Presentation — Fund Accounting

The State of Ohio uses funds and account groups to report its financial position and results of operations. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. An account group is an accounting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

Primary government and component unit funds fall into four categories: governmental, proprietary, fiduciary, and college and university.

1. Primary Government

In the primary government's financial statements, each fund category is divided into separate "fund types," which are described along with the two account groups, as follows:

Governmental Fund Types

General — The General Fund, the State's primary operating fund, accounts for resources traditionally associated with government, which are not required legally or by sound financial management to be accounted for in another fund.

Special Revenue — The special revenue funds account for revenue sources that are legally restricted to expenditure for specific purposes.

Debt Service — The debt service funds account for the accumulation of resources for the payment of general long-term debt principal and interest.

Capital Projects — The capital projects funds account for the acquisition of fixed assets and construction of major capital facilities and for major repairs and replacements other than those financed by proprietary or trust funds.

Proprietary Fund Types

Enterprise — The enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises — where the State's intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the State has decided that periodic determination of net income is appropriate for accountability and other purposes.

Internal Service — The internal service funds account for the financing of goods or services that a State department or agency provides to other State departments and agencies or to other government units on a cost-reimbursement basis.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Fund Types

Trust funds account for assets that the State holds in a trustee capacity. The State's General Purpose Financial Statements present expendable and pension trust funds. The Pension Trust Fund includes the State Highway Patrol Retirement System for its fiscal year ended December 31, 1996.

Agency funds account for assets the State holds as an agent for individuals, private organizations, other governments, or other funds. The Agency Fund includes the assets of the Public Employees Retirement System and the Police and Firemen's Disability and Pension Fund, for their fiscal years ended December 31, 1996.

Account Groups

General Fixed Assets — The General Fixed Assets Account Group accounts for fixed assets acquired or constructed for the State's general governmental purposes. This group accounts for fixed assets not accounted for in the proprietary and trust funds.

General Long-Term Obligations — The General Long-Term Obligations Account Group accounts for the State's unmatured general obligation bonds and other long-term obligations not required to be accounted for in the proprietary and trust funds.

2. Component Units

Presentation of the underlying fund types of the individual component units reported in the discrete column is available from each respective component unit's separately issued financial statements. The component unit funds include the Ohio Water Development Authority for its fiscal year ended December 31, 1996.

The State presents a Statement of Current Funds Revenues, Expenditures and Other Changes in the General Purpose Financial Statements, in accordance with Section 2600.111 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting. The Current Funds, a college and university fund type, accounts for economic resources that are expendable for any purpose in performing the primary objectives of the higher education institutions.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Governmental and expendable trust funds are accounted for using a flow of current financial resources measurement focus. Under this measurement focus, operating statements present increases (i.e., revenue and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets, and unreserved fund balance is a measure of available expendable resources.

Proprietary and pension trust funds are accounted for using a flow of economic resources measurement focus, which emphasizes the determination of net income. Under this measurement focus, operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net assets. Fund equity (i.e., net assets) is segregated on the balance sheet into two components, contributed capital and retained earnings/fund balance.

Agency funds are custodial in nature, and therefore, do not present results of operations or have a measurement focus.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The modified accrual basis of accounting has been applied to all governmental, expendable trust, and agency funds. Under the modified accrual basis of accounting, the State recognizes revenues when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction is determinable, and "available" means the amount is collectible within the current period or soon enough thereafter to pay liabilities of the current period. The State considers revenues as available when collected within 60 days after year end.

Under the modified accrual basis, expenditures are recorded when related fund liabilities are incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when due.

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

Personal income taxes
Sales and use taxes
Motor vehicle fuel taxes
Unemployment taxes
Charges for goods and services
Investment Income

Licenses, permits, fees, and certain other miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash. The "Other" revenue account is comprised of refunds, reimbursements, recoveries, and other miscellaneous income.

Deferred revenue, as reported on the State's combined balance sheet, represents resources received before the State has a legal claim to them, such as the receipt of federal grant moneys prior to the incurrence of qualifying expenditures. When the State has a legal claim to the resources, revenue is recognized.

The accrual basis of accounting has been applied to the proprietary and pension trust funds. Under this method, revenues are recorded when earned, and expenses are recorded when incurred.

The State's proprietary and pension trust funds apply all applicable GASB pronouncements and the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

College and university funds apply the principles of accounting and reporting pursuant to the National Association of College and University Business Officers accounting and reporting model. The college and university funds are accounted for on the accrual basis of accounting, with the following exceptions: 1) depreciation expense is not calculated or reported, and 2) revenues and expenditures of an academic term encompassing more than one fiscal year are recognized in the period when the program is predominantly conducted.

D. Budgetary Process

As required by the Ohio Revised Code, the Governor submits biennial operating and capital budgets to the General Assembly. The particular budget, which includes those funds of the State subject to appropriation pursuant to State law, is comprised of all proposed expenditures for the State and of estimated revenues and borrowings for a biennium.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The General Assembly enacts the budget through passage of specific departmental line-item appropriations, the legal level of budgetary control. Line-item appropriations are established within funds by program or major object of expenditure. The Governor may veto any item in an appropriation bill. Such vetoes are subject to legislative override.

Biennially, the General Assembly approves operating and capital appropriations. Operating appropriations are provided in annual amounts while capital appropriations are provided in two-year amounts. Because capital projects funds' appropriations are not made on an annual basis, budgetary basis financial statements for these funds are not presented.

The State's Controlling Board, comprised of six members of the General Assembly and the Director of the Office of Budget and Management (OBM) or a designee, can transfer or increase an appropriation within the limitations set under Chapter 127, Ohio Revised Code. The Board has delegated the authority to the Director of OBM to transfer appropriations between existing operating expenditure/expense line-items within a state agency in amounts not to exceed a total of 10 percent of the appropriation from which the transfer is made or $25,000, whichever is less, within a fiscal year.

All governmental funds are budgeted except the following activities within the fund types:

Special Revenue Fund:
Certain activities within the Community and Economic Development, Employment Services, and Student Aid Commission Special Revenue Funds, as discussed in NOTE 3

Capital Projects Fund:
Ohio Building Authority

Debt Service Fund:
Economic Development Bond Service
Transportation Certificate Retirement
Vietnam Conflict Compensation Bond Retirement
Ohio Public Facilities Commission
Ohio Building Authority
Enterprise Bond Retirement
School Building Program Bond Service

For budgeted funds, the State's Central Accounting System controls expenditures by appropriation line-item, so at no time can expenditures exceed appropriations and financial-related legal compliance is assured. A modified cash basis of accounting is used for budgetary purposes. Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded as a reserve of the applicable appropriations, is employed as an extension of formal budgetary integration in the State's accounting system. Encumbrances outstanding in the General, special revenue, and capital projects funds at fiscal year end are reported as reservations of fund balance for expenditure in subsequent years. Operating encumbrances are generally canceled five months after fiscal year end while capital encumbrances are automatically reappropriated. Unencumbered appropriations lapse at the end of the biennium for which they were appropriated. A more comprehensive accounting of activity on the budgetary basis at the legal level of budgetary control is provided in the *Detailed Appropriation Summary by Fund Report*, which is available for public inspection at the Ohio Office of Budget and Management.

In the Combined Statement of Revenues, Expenditures and Changes in Fund Balances — Budget and Actual (Non-GAAP Budgetary Basis), budgeted revenues for the General Fund represent periodically updated revenue budgets. For other budgeted funds, the original budgeted revenues, as submitted by the Governor, do not represent actual forecasts of revenues and are not amended to coincide with any legislative changes to the original expenditure budget. Accordingly, budgeted revenues and other financing sources and uses for budgeted funds other than the General Fund are reported at actual amounts, since the State does not have updated, budgeted revenue and other financing sources and uses amounts for use in the accompanying budgetary basis financial statements. In addition, budgetary expenditures include cash disbursements against fiscal year 1997

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

appropriations and outstanding encumbrances, as of June 30, 1997, that were committed during fiscal year 1997. Encumbrance reversions represent lapses of prior years' appropriations.

The Employment Services Expendable Trust Fund and the State Highway Patrol Pension Trust Fund are not legally required to adopt budgets. For budgeted proprietary and trust funds, the State is not legally required to report budgetary data and comparisons for these funds. Budgetary data for discretely presented component units are not presented.

Because the State budgets on a modified cash basis of accounting, which differs from GAAP, a reconciliation of the differences between the GAAP basis and non-GAAP budgetary basis of reporting is presented in NOTE 3.

E. Cash Equity with Treasurer and Cash and Cash Equivalents

Cash equity with Treasurer consists of pooled demand deposits and investments carried at cost, which approximates market. The State's cash pool under the Treasurer of State's administration has the general characteristics of a demand deposit account whereby additional cash can be deposited at any time and can also be effectively withdrawn at any time, within certain budgetary limitations, without prior notice or penalty.

Cash and cash equivalents include amounts on deposit with financial institutions and cash on hand. Also included in cash and cash equivalents are investments with original maturities of three months or less from the date of acquisition, which are reported in the Bureau of Workers' Compensation and Ohio Lottery Commission enterprise funds, the State Highway Patrol Retirement System Pension Trust Fund, and the University of Cincinnati and University of Toledo component unit funds.

Cash equity with Treasurer and cash and cash equivalents, including the portions reported under "Restricted Assets," are considered to be cash equivalents, as defined in GASB Statement No. 9, for purposes of the Statement of Cash Flows.

F. Investments

Investments include long-term investments that may be restricted by law or other legal instruments. Investments are carried at cost or amortized cost (which does not exceed market) except those of the Deferred Compensation Agency Fund, which are reported at market, and those of the Bureau of Workers' Compensation Enterprise Fund and State Highway Patrol Retirement System Pension Trust Fund, which are reported at fair value. For the colleges and universities, investments received as gifts are reported at the fair market or appraised value at the donation date.

G. Intergovernmental Revenues/Receivables

Intergovernmental revenues primarily represent resources from reimbursement-type grants received from the federal government. Intergovernmental receivables and revenues are recorded when the related grant expenditures/expenses are incurred.

H. Inventories

For governmental funds, the costs of material inventories are recorded as expenditures when purchased. At year end, physical counts are taken of significant inventories for the governmental fund types and are generally reported on the balance sheet at moving-average cost. Proprietary and college and university funds' inventories are valued at cost, which approximates market; principal inventory cost methods applied include first-in, first-

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

out, average cost, moving-average, and retail. Inventories recorded in the governmental fund types do not reflect current appropriable resources, and therefore, an equivalent portion of fund balance is reserved.

I. Food Stamps

Food stamp coupons held in the State's and its agents' custody are stated at face value and are offset by deferred revenue, in conformity with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance.* The State recognizes revenue and expenditures in the Special Revenue Fund when the food stamp coupons are distributed to eligible recipients.

J. Restricted Assets

Assets restricted for payment of deferred prize awards (Ohio Lotto) and tuition benefits are reported in the enterprise funds for the Ohio Lottery Commission and the Ohio Tuition Trust Authority, respectively.

Covenants for the Ohio Building Authority's bonds require its pledged receipts be held and invested in a reserve account placed with a trustee financial institution. These restricted assets are reported in the internal service funds.

Generally, restricted assets reported for the college and university funds are assets held in trust that are legally restricted under bond covenants or other financing arrangements.

K. Fixed Assets

General Fixed Assets — Fixed assets purchased with governmental fund resources are recorded in the General Fixed Assets Account Group at historical cost, or at estimated historical cost in cases when no historical records exist. Donated fixed assets are valued at estimated fair market value at the donation date. The costs of normal maintenance and repairs that do not add to the asset value or materially extend an asset's useful life are not capitalized. The costs of major improvements are capitalized, while interest costs associated with the acquisition of general fixed assets are not capitalized.

Public domain (infrastructure) general fixed assets such as roads, bridges, curbs and gutters, streets and sidewalks, historical monuments, drainage systems, and lighting systems are not capitalized, since these assets are immovable and of value only to the government.

Assets in the General Fixed Assets Account Group are not depreciated.

Proprietary and Fiduciary Fund Fixed Assets — Fixed assets are stated at cost or, for donated assets, at estimated fair market value at the donation date. Fixed assets, excluding land, are depreciated using the straight-line method over the following estimated useful lives:

Buildings	20-45 years
Machinery and Equipment	5-20 years
State Vehicles	5 years

Material interest is capitalized on proprietary fund fixed assets acquired through the issuance of debt.

College and University Fund Fixed Assets — All purchased fixed assets are valued at cost. Donated fixed assets are valued at estimated fair market value at the donation date. Generally, public domain (infrastructure) assets are not capitalized. College and university fund fixed assets are not depreciated.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Sureties

Sureties include various assets placed by their owners in safekeeping with the Treasurer of State, as required by applicable statutes.

M. Long-Term Obligations

Governmental funds recognize long-term obligations as liabilities when due. Only the portion expected to be financed from expendable available financial resources is reported as a liability of a governmental fund. The remaining portion of such obligations is reported in the General Long-Term Obligations Account Group. Included among these liabilities are the noncurrent portions of liabilities resulting from debt issuances, certificate of participation financing arrangements, compensated absences, judgments, settlements, and claims, contingencies, leases, and workers' compensation benefits. Long-term liabilities expected to be financed from proprietary fund and college and university fund operations are accounted for in those funds.

As discussed in NOTES 11 and 12, bonds issued by the Ohio Building Authority (OBA) to finance the construction of State-related projects are reported as special obligation bonds in the General Long-Term Obligations Account Group, while OBA bonds issued to finance the construction of facilities leased to local government are reported as revenue bonds in the internal service funds.

N. Compensated Absences

Employees of the State's primary government earn vacation leave, sick leave, and personal leave at various rates within limits specified under collective bargaining agreements or under law. Generally, employees accrue vacation leave at a rate of 3.1 hours every two weeks for the first five years of employment, up to a maximum rate of 9.2 hours every two weeks after 25 years of employment. Employees may accrue a maximum of three years vacation leave credit. At termination or retirement, employees are paid at their full rate 100 percent of unused vacation leave, personal leave, and, in certain cases, compensatory time and 50 percent of unused sick leave.

Such leave is liquidated in cash, under certain restrictions, either annually in December, or at the time of termination from employment. For governmental funds, the noncurrent portion of the liability for compensated absences is reported in the General Long-Term Obligations Account Group. For proprietary funds, the liability for compensated absences is reported as a noncurrent accrued liability.

For the colleges and universities, vacation and sick leave earnings and liquidation policies vary by institution.

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, vacation, compensatory time, and personal leaves are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as at termination or retirement. Leave time that has been earned, but is unavailable for use as paid time off or as some other form of compensation because an employee has not met a minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments, as of the balance sheet date, and on

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

Included in the compensated absences liability is an amount accrued for salary-related payments directly and incrementally associated with the payment of compensated absences upon termination. Such payments include the State's share of Medicare taxes.

O. Fund Equity

Reservations
Reservations of equity represent amounts that are not appropriable or are legally restricted for a specific purpose.

Designations
Designations of equity represent tentative management plans that are subject to change.

Contributed Capital
Contributed capital represents equity acquired through capital contributions from other funds.

P. Self-Insurance

The State's primary government is self-insured for claims covered under its traditional healthcare plan, vehicle liability, public fidelity blanket bonds, property losses, and tort liability. While not the predominant participant, the State's primary government participates in a public entity risk pool, which is accounted for in the Bureau of Workers' Compensation Enterprise Fund, for the financing of its workers' compensation liability (See NOTE 14D). Estimates for significant incurred but not reported claims or contingent liabilities are included in accrued liabilities and in the General Long-Term Obligations Account Group.

Q. Interfund/Intra-Entity Transactions

The State of Ohio records the following types of interfund/intra-entity transactions within its reporting entity:

Operating Transfers — Legally required transfers are reported when incurred as "Operating Transfers-in" by the receiving fund and as "Operating Transfers-out" by the disbursing fund. Legally required transfers between the primary government and its component units are reported as "Operating Transfers from/to Primary Government" and "Operating Transfers from/to Component Units."

Transfers of Expenditures (Reimbursement) — Reimbursements of expenditures made by one fund for another are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the reimbursed fund.

Residual Equity Transfers — Nonroutine or nonrecurring transfers between funds are reported as additions to or deductions from fund equity.

Quasi-external Transactions — Charges or collections for services rendered by one fund to another are recorded as revenues of the receiving fund and expenditures/expenses of the disbursing fund.

Transactions between funds that are representative of non-current lending/borrowing arrangements outstanding, as of the end of the fiscal year, are reported as advances to/from other funds. All other outstanding balances between funds are reported as due to/from other funds.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A summary of interfund balances and interfund and intra-entity transfers is presented in NOTE 7.

R. Memorandum Only — Total Columns

Total columns on the general purpose financial statements are captioned "Memorandum Only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 RESTATEMENTS AND CHANGES IN ACCOUNTING PRINCIPLES AND STANDARDS

A. Restatements

Certain restatements of fund balances/retained earning balances, as of June 1996, are summarized as follows (amounts expressed in thousands).

Fund	Fund Balance/ Retained Earnings as Previously Reported, June 30, 1996	Increase (Decrease) for Restatement	Fund Balance/ Retained Earnings as Restated, July 1, 1996
Primary Government:			
General Fund	$2,180,206	$ (12,467)	$2,167,739
Enterprise Funds:			
Workers' Compensation	$ 948,393	$2,315,488	$3,263,881
Office of Auditor of State	—	17,054	17,054
All Other Enterprise Funds	242,035	—	242,035
Total Enterprise Fund	$1,190,428	$2,332,542	$3,522,970
Component Units:			
College and University Funds:			
University of Cincinnati	$1,800,408	$ 10,772	$1,811,180
Central State University	83,986	(83,986)	—
Clark State Community College	39,464	100	39,564
Edison State Community College	22,146	147	22,293
Washington State Community College	22,224	(185)	22,039
All Other College and University Funds	7,161,721	—	7,161,721
Total College and University Funds	$9,129,949	$ (73,152)	$9,056,797

The General Fund's fund balance is restated by a $12.5 million reduction to reflect a change in the reporting of the Office of the Auditor of State's operations from the General Fund to the Enterprise Fund.

For the Enterprise Fund, the $2.32 billion increase in the Workers' Compensation Fund's retained earnings is due to 1.) a change in the Fund's fiscal year-end from December 31, 1995 to June 30, 1996, which resulted in an increase in retained earnings of $771.7 million and 2.) the Fund's early implementation of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which resulted in an increase in retained earnings of approximately $1.54 billion. The $17 million increase in the Office of the Auditor of State's Fund reflects a change in reporting this fund's operations from the General Fund to the Enterprise Fund, as previously discussed.

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

For the College and University Funds, fund balance is restated for a $73.2 million net decrease to reflect:

- a change in the manner the University of Cincinnati Foundation, a non-for-profit organization and a component unit of the University of Cincinnati, recognizes revenue from pledges when the Foundation adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 116, *Accounting for Contributions Received and Contributions Made*, and FASB Statement No. 117, *Financial Statements of Non-for-Profit Organizations*. This change resulted in a $10.8 million increase in the University's beginning fund balance.

- the exclusion of Central State University's financial statements, for the fiscal year ended June 30, 1997. The University's financial statements, which are immaterial to the College and University Funds, were not available in time for publication in this report because of a financial management emergency, and consequently, beginning fund balance was reduced by approximately $84 million.

- adjustments principally to the cash and cash equivalents, investments, fixed assets, and accrued liabilities balances for Clark State Community College, which collectively increased fund balance by $100 thousand.

- an adjustment to the opening fixed asset balance for Edison State Community College, which increased fund balance by $147 thousand.

- write-offs of accounts receivable at Washington State Community College, which decreased fund balance by $185 thousand.

Additionally, the July 1, 1996 beginning balance of long-term obligations reported in the General Long-Term Obligations Account Group reflects a net increase of approximately $63.2 million (See NOTE 15). The restatement includes:

- a $10.1 million increase in the balance of certificate of participation obligations for facility improvements at the Rickenbacker International Airport. The State issued the obligations in the previous fiscal year; however, the State had not reported the obligations in its financial statements, as of June 30, 1996.
- a $3.8 million decrease in the compensated absences balance due to the reclassification of the Office of the Auditor of State from a governmental to an enterprise operations, as previously discussed.
- a $56.9 million increase in the workers' compensation obligation, which was corrected when the Bureau of Workers' Compensation Enterprise Fund changed its fiscal year-end from December 31 to June 30.

B. Changes in Accounting Principle

For fiscal year 1997, the Ohio State University, a component unit fund, changed its method of calculating accrued sick leave under the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. Prior to fiscal year 1997, the University applied the vesting method for calculating the liability. For fiscal year 1997 reporting, the University elected to change its sick leave liability calculation to the termination payment method. University management considers the termination method preferable to the vesting method because it directly reflects the University's historical experience of sick leave payments to terminated employees.

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

The cumulative effect on prior years of this change in accounting principle is recognized as a $9.3 million increase in the University's net assets. The change also resulted in recognition of $1.2 million less expenditures for fiscal year 1997 than would have been recognized under the vesting method.

Additionally, Youngstown State University, a component unit fund, changed its fixed assets capitalization threshold policy in fiscal year 1997. As a result of the change, the University retroactively wrote-off fixed assets acquired in previous fiscal years that did not meet the University's new capitalization policy. The cumulative effect of the change is recognized as a $4.2 million decrease in the University's net assets.

C. Newly Issued Accounting Pronouncements

In March 1997, the Governmental Accounting Standards Board (GASB) issued Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Effective July 1, 1997, the State will adopt the Statement's provisions, which will require the State to report its investments at fair value as of the balance sheet date and reflect the changes in the fair value of investments as revenue in the State's operating statements. Also, the Statement will require the State to report its external investment pool, STAROhio, as an investment trust fund. The provisions of this statement, which are effective for fiscal years beginning after June 15, 1997, will be reflected in the State's financial report for the year ended June 30, 1998. Management has not yet determined the impact that implementation of GASB Statement No. 31 will have on the State's financial statements.

Effective July 1, 1996, the Bureau of Workers' Compensation Enterprise Fund opted to early-implement GASB Statement No. 31's provisions.

NOTE 3 GAAP vs. NON-GAAP BUDGETARY BASIS

"Actual" revenues, operating transfers-in, expenditures, encumbrances, and operating transfers-out on the non-GAAP budgetary basis do not equal those reported on the GAAP basis in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances — All Governmental Fund Types and Expendable Trust Funds. This inequality results primarily from basis differences in the recognition of accruals, deferred revenue, interfund transactions, and loan transactions, and from timing differences in the budgetary basis of accounting for encumbrances. On the non-GAAP budgetary basis, encumbrances are recognized as expenditures in the year encumbered, while on the modified accrual basis, expenditures are recognized when goods or services are received regardless of the year encumbered.

Budgeted expenditures in the accompanying Combined Statement of Revenues, Expenditures and Changes in Fund Balances — Budget and Actual (Non-GAAP Budgetary Basis) represent original appropriations modified by supplemental and amended appropriations made throughout the year, including $262.2 million, $991.8 million, and $13.9 million increases in the budgets of the General, Special Revenue, and Debt Service funds, respectively.

A reconciliation of the fund balances recorded under the two bases for the General, Special Revenue, and Debt Service funds is presented in the following table.

NOTE 3 GAAP vs. NON-GAAP BUDGETARY BASIS (Continued)

Reconciliation of GAAP Basis Fund Balances to
Non-GAAP Budgetary Basis Fund Balances
June 30, 1997
(in thousands)

	General	Special Revenue	Debt Service
Total Fund Balances - GAAP Basis	$2,320,267	$2,457,314	$290,995
Less: Unbudgeted Fund Balances	—	81,543 *	181,846
Total Budgeted Fund Balances - GAAP Basis	2,320,267	2,375,771	109,149
Less: Reserved Fund Balances	1,438,917	2,514,873	108,534
Less: Designated Fund Balances	685,900	—	—
Unreserved/Undesignated Fund Balances - GAAP Basis	195,450	(139,102)	615
BASIS DIFFERENCES			
Revenue Accruals/Adjustments:			
Taxes Receivable	(787,434)	(190,463)	—
Intergovernmental Receivable	(433,449)	(350,926)	—
Loans Receivable	(9,939)	(299,935)	—
Other Receivables	(21,690)	(29,806)	(461)
Due from Other Funds	(13,359)	(27,737)	(127)
Inventories	(2,807)	(33,197)	—
Other Assets	(836)	(8,920)	—
Deferred Revenues	64,590	58,957	—
Total Revenue Accruals/Adjustments	(1,204,924)	(882,027)	(588)
Expenditure Accruals/Adjustments:			
Accounts Payable	74,144	235,114	—
Medicaid Claims Payable	475,780	—	—
Accrued Liabilities	104,594	53,324	498
Intergovernmental Payable	231,824	371,239	—
Due to Other Funds	35,913	10,863	—
Refund and Other Liabilities	540,589	71,751	1,008
Total Expenditure Accruals/Adjustments	1,462,844	742,291	1,506
Other Adjustments:			
Fund Balance Reclassifications:			
From Unreserved (Non-GAAP Budgetary Basis) to Reserved for:			
Debt Service	—	—	108,534
Budget Stabilization	828,307	—	—
Noncurrent Portion of Loans Receivable	9,793	299,056	—
Other	146,394	172,707	—
From Undesignated (Non-GAAP Budgetary Basis) to Designated	685,900	—	—
Cash and Investments Held Outside of State Treasury	(11,889)	(11,518)	(1,603)
Other	1	2	—
Total Other Adjustments	1,658,506	460,247	106,931
Total Basis Differences	1,916,426	320,511	107,849
TIMING DIFFERENCES			
Encumbrances	(148,473)	(397,384)	—
Unreserved/Undesignated and Designated Fund Balances (Deficits) — Non-GAAP Budgetary Basis	$1,963,403	$ (215,975)	$108,464

*This amount includes certain unbudgeted activities within the Community and Economic Development, Employment Services, and Student Aid Commission Special Revenue Funds

NOTE 4 DEPOSITS AND INVESTMENTS

A. Legal Requirements

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

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

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

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

- Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest;
- Bonds, notes, debentures, or other obligations or securities issued by any federal government agency, or the Export-Import Bank of Washington;
- Repurchase agreements in the securities enumerated above;
- Interim deposits in the eligible institutions applying for interim moneys;
- Bonds and other obligations of the State of Ohio;
- The Treasurer of State's investment pool;
- Linked deposits, reduced-rate deposits at financial institutions that provide reduced-rate loans to small businesses, as authorized under Section 135.63, Ohio Revised Code;
- Agricultural linked deposits, reduced-rate deposits at financial institutions that provide reduced-rate loans to agricultural businesses, as authorized under Section 135.74, Ohio Revised Code;
- Reverse repurchase agreements with any eligible financial institution that is a member of the federal reserve system or federal home loan bank, or any recognized U.S. government securities dealer;
- Securities lending agreements with any eligible financial institution that is a member of the federal reserve system or federal home loan bank, or any recognized U.S. government securities dealer;
- Commercial paper, rated in one of the two highest rating categories by two nationally recognized rating agencies and not exceeding five percent of the investment portfolio;

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

- Bankers' acceptances maturing in 270 days or less and not exceeding 10 percent of the investment portfolio;

- Debt of domestic corporations and foreign nations diplomatically recognized by the United States, rated investment grade by nationally recognized rating agencies and, in the aggregate, not exceeding five percent of the investment portfolio; and

- No-load money market funds consisting of U.S. government and agency obligations and repurchase agreements secured by such obligations.

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

In some cases, deposit and investment policies of certain individual funds and component units are established by Ohio Revised Code provisions other than the Uniform Depository Act and by bond trust agreements. In accordance with applicable statutory authority, the State Highway Patrol Pension Trust Fund, the Workers' Compensation Enterprise Fund, the Retirement Systems Agency Fund, and the higher education institutions may also invest in common and preferred stocks, domestic and foreign corporate/government bonds and notes, mortgage loans, limited partnerships, venture capital, real estate, and/or other investments.

During the reporting period, the Public Employees Retirement System, Police and Firemen's Disability and Pension Fund, School Employees Retirement System, and the State Teachers Retirement System, the investments of which are held in the Treasurer of State's custody and are reported in the Retirement Systems Agency Fund, had investments in derivatives and similar debt and investment transactions. Specific information on the nature of the transactions and the reasons for entering into them can be found in each respective system's Comprehensive Annual Financial Report.

B. Deposits

1. Primary Government

As of June 30, 1997, the carrying amount of deposits was (in thousands) $1,094,400 and the bank balance was $1,082,461. Of the bank balance, $228,766 was fully insured or collateralized with securities held by the primary government or its agent in the primary government's name (Category 1), $624,374 was collateralized with securities held by the pledging financial institution's trust department or its agent in the primary government's name (Category 2), and $229,321, although meeting legal collateralization requirements, was categorized as uninsured and uncollateralized (Category 3).

2. Component Units

As of June 30, 1997, the carrying amount of deposits was (in thousands) $196,795 and the bank balance was $252,346. Of the bank balance, $42,650 was fully insured or collateralized with securities held by the respective component units or their agents in the component unit's name (Category 1), $179,418 was collateralized with securities held by the pledging financial institution's trust department or its agent in the respective component unit's name (Category 2), and $30,278, although meeting legal collateralization requirements, was categorized as uninsured and uncollateralized (Category 3).

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

C. Investments

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

Certain investments have not been categorized because the securities are not used as evidence of the investment. These uncategorized investments include ownership in real estate, mutual funds, limited partnerships and venture capital, direct mortgage loans, and the deposits with the federal government and the deferred compensation plan. In conformity with Governmental Accounting Standards Board Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, securities lent at year-end for cash collateral have not been categorized by custodial credit risk, while securities lent for securities collateral have been categorized.

The level of credit risk assumed by the primary government and its component units and the carrying amount and fair value of investments, as of June 30, 1997, are as follows (in thousands):

Primary Government

	Carrying Amount				
	Category 1	Category 2	Category 3	Total	Fair Value
U.S. government & agency obligations					
Not on securities loan	$35,374,651	$ —	$ 4,558,360	$ 39,933,011	$ 40,808,934
On securities loan	—	—	187,288	187,288	187,288
Common and preferred stock					
Not on securities loan	25,800,774	—	6,490,597	32,291,371	39,147,648
On securities loan	—	—	62,147	62,147	62,147
Corporate bonds and notes	6,443,687	—	1,969,105	8,412,792	8,404,966
Foreign stocks and bonds	8,893,950	—	—	8,893,950	9,740,894
Commercial paper	3,742,808	—	1,137,406	4,880,214	4,880,283
Repurchase agreements	306,387	15	1,140	307,542	307,519
Bankers' acceptances	18,620	—	—	18,620	18,617
Municipal obligations	1,015	—	—	1,015	1,088
Securities lending collateral					
U.S. government & agency obligations	105,000	—	3,215,801	3,320,801	3,320,805
Repurchase agreements	4,234,312	—	—	4,234,312	4,341,793
Common and preferred stock	—	—	712,156	712,156	712,156
Corporate bonds and notes	698,104	—	—	698,104	698,547
Commercial paper	29,959	—	—	29,959	29,959
	$85,649,267	$ 15	$18,334,000	103,983,282	112,662,644
Investments held by broker-dealers under securities loans with cash collateral:					
U.S. government & agency obligations				8,630,473	8,553,141
Common and preferred stock				694,418	694,418
Mutual funds				2,353,580	3,609,508
Real estate				7,086,018	7,363,322
Venture capital				111,835	125,132
Direct mortgage loans				38,432	38,432
Securities lending collateral — mutual funds				70,032	70,032
Deposit with federal government				1,818,503	1,818,503
Deposit with deferred compensation plan				852,788	852,788
Less: Component units' equity in the Treasurer of State investment pool (STAROhio)				(222,300)	(222,300)
Total Investments — Primary Government				$125,417,061	$135,565,620

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Component Units

	Carrying Amount				
	Category 1	Category 2	Category 3	Total	Fair Value
U.S. government & agency obligations	$307,624	$ 877,127	$144,245	$1,328,996	$1,339,464
Common and preferred stock	184,312	511,328	3,257	698,897	908,933
Corporate bonds and notes	97,719	32,535	16,206	146,460	146,213
Foreign stocks and bonds	7,836	—	—	7,836	9,491
Commercial paper	—	8,579	10,446	19,025	19,135
Repurchase agreements	—	401,964	18,201	420,165	420,165
Bankers' acceptances	—	—	3,465	3,465	3,489
Municipal obligations	265	—	48	313	309
Other investments	316	—	10,316	10,632	13,800
	$598,072	$1,831,533	$206,184	2,635,789	2,860,999
Mutual funds				242,059	267,404
Investment in Treasurer of State investment pool (STAROhio)				222,300	222,300
Real estate				38,090	65,613
Life insurance				7,875	7,875
Limited partnerships				4,739	5,237
Deposit with deferred compensation plan				7,181	7,181
Total Investments — Component Units				$3,158,033	$3,436,609

The total carrying amount of deposits and investments, as of June 30, 1997, reported for the primary government and its component units is (in thousands) $129,645,147. The total carrying amount of deposits and investments categorized and disclosed in this note is $129,866,289. A reconciliation of the difference follows (in thousands).

	Deposits	Investments	Total
Cash equity with Treasurer (unrestricted and restricted)	$ 206,837	$ 5,879,168	$ 6,086,005
Cash and cash equivalents (unrestricted and restricted)	369,470	1,157,892	1,527,362
Investments	49,753	107,759,428	107,809,181
Collateral on Lent Securities (unrestricted and restricted)	386,145	9,065,364	9,451,509
Deposit with federal government	—	1,818,503	1,818,503
Deposit with deferred compensation plan	—	859,969	859,969
Restricted Assets:			
Investments	—	528,402	528,402
Dedicated investments	—	1,564,216	1,564,216
Carrying amount per combined balance sheet	1,012,205	128,632,942	129,645,147
Outstanding warrants and other reconciling items	278,990	(57,848)	221,142
Total Reporting Entity	$1,291,195	$128,575,094	$129,866,289

D. Securities Lending Transactions

The Treasurer of State and the Bureau of Workers' Compensation (BWC) participate in securities lending programs for securities included in the "Cash Equity with Treasurer," "Investments," and "Dedicated Investments" accounts and the STAROhio program. Each lending program is administered by a custodial agent bank, whereby certain securities are transferred to an independent broker-dealer (borrower) in exchange for collateral. The State has minimized its exposure to credit risk due to borrower default by requiring the custodial agent to ensure that the State's lent securities are collateralized at no less than 102 percent of market value.

For loan contracts the Treasurer executes, not more than 15 percent of the State's cash and investment portfolio, which is reported as "Cash Equity with Treasurer," can be lent to a single broker-dealer. For the STAROhio program, not more than 25 percent of STAROhio investment pool may be lent at any one time, and not more than 10 percent of the investment pool may be subject to term loans in excess of seven days.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The State cannot sell securities received as collateral unless the borrower defaults. Consequently, these amounts are not reflected in the financial statements. The State invests cash collateral in short-term obligations, which have a weighted average maturity of 45 days or less and generally match the maturities of securities loans. Loan contracts do not provide any loss indemnification by securities lending agents in cases of borrower default; however, during fiscal year 1997, the State had not experienced any losses due to credit or market risk on securities lending activities.

During the fiscal year, the Treasurer and the STAROhio program lent U.S. government and agency obligations in exchange for collateral consisting of cash and/or other U.S. government obligations. The BWC lent fixed maturities and equity securities in exchange for cash, broker-provided, and letters of credit collateral.

NOTE 5 TAXES

Taxes receivable, as of June 30, 1997, consist of the following (in thousands):

	General	Special Revenue	Trust and Agency	Total
Income Taxes	$325,091	$ 38,387	$ —	$ 363,478
Sales Taxes	462,343	24,393	—	486,736
Motor Vehicle Fuel Taxes	—	115,854	—	115,854
Unemployment Taxes	—	—	160,046	160,046
Other Taxes	—	11,829	—	11,829
Total Taxes Receivable	$787,434	$190,463	$160,046	$1,137,943

As of June 30, 1997, refund liabilities for income and corporation franchise taxes, totaling $596.4 million, are reported as "Refunds and Other Liabilities," of which $539.4 million is reported in the General Fund and $57 million is reported in the Special Revenue Fund.

NOTE 6 LOANS AND OTHER RECEIVABLES

A. Loans Receivable

Loans receivable (net of uncollectible amounts) for the primary government and its component units, as of June 30, 1997, consist of the following (in thousands):

Primary Government

Loan Type	General	Special Revenue	Debt Service	Capital Projects	Total
Columbiana County Economic Stabilization	$ 3,465	$ —	$ —	$ —	$ 3,465
Community and Economic Development:					
Office of Minority Financial Incentives	5,169	—	—	—	5,169
Office of Financial Incentives	—	232,304	—	—	232,304
Ohio Housing Finance Agency	—	94,381	—	—	94,381
Total Community and Economic Development	5,169	326,685	—	—	331,854
Primary , Secondary, and Other Education:					
Vocational Education	1,305	369	—	—	1,674
Bankruptcy and Port Authority	—	323	—	—	323
Public School Building	—	17,192	—	—	17,192
Vocational School Assistance	—	8,053	—	—	8,053
School Building	—	10,600	—	—	10,600
Total Primary, Secondary and Other Education	1,305	36,537	—	—	37,842

(Continued)

NOTE 6 LOANS AND OTHER RECEIVABLES (Continued)

Loan Type	General	Special Revenue	Debt Service	Capital Projects	Total
Higher Education Research Investment Loans	—	—	6,224	—	6,224
Natural Resources	—	162	—	—	162
Highway and Transit Infrastructure Bank Butler Transportation Improvement District	—	35,000	—	—	35,000
Local Infrastructure Improvements	—	—	—	109,664	109,664
Total Loans Receivable	$9,939	$398,384	$6,224	$109,664	$524,211

Component Units

Loan Type	Ohio Water Development Authority (12/31/96)	Ohio State University	University of Cincinnati	Kent State University	Other Component Units	Total
Water and Wastewater Treatment	$1,608,445	$ —	$ —	$ —	$ —	$1,608,445
Student	—	53,960	29,206	18,377	74,433	175,976
Other	—	—	650	—	615	1,265
Total Loans Receivable	$1,608,445	$53,960	$29,856	$18,377	$75,048	$1,785,686

B. Other Receivables

Other receivables for the primary government, as of June 30, 1997, consist of the following (in thousands):

Primary Government

Unrestricted:	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	Total
Accounts Receivable	$ 3,907	$ 2,096	$ —	$ —	$224,296	$ 3,948	$ —	$234,247
Interest and Dividends Receivable	13,522	8,587	1,037	2,543	93,718	472	2,463	122,342
Women, Infants and Children Program Rebate Receivable	—	9,945	—	—	—	—	—	9,945
Nursing Facility Bed Assessments Receivable	—	10,819	—	—	—	—	—	10,819
Leases Receivable	—	—	—	—	—	39,669	—	39,669
Receivables from Lottery Sales Agents	—	—	—	—	40,998	—	—	40,998
Claims & Settlements Receivable	—	—	—	—	—	—	22,056	22,056
Employer Interest and Penalties on Unemployment Taxes	—	2,179	—	—	—	—	—	2,179
Refunds from Academic Grants and Scholarships Programs	4,261	—	—	—	—	—	—	4,261
Miscellaneous Receivables	—	1,574	—	—	29	1,656	114	3,373
Total Unrestricted	21,690	35,200	1,037	2,543	359,041	45,745	24,633	489,889
Restricted:								
Interest Receivable	—	—	—	—	19,171	—	—	19,171
Total Unrestricted and Restricted	$21,690	$35,200	$1,037	$2,543	$378,212	$45,745	$24,633	$509,060

Under long-term direct financing leases with local governments for office space, the Ohio Building Authority charges a pro-rata share of the buildings' debt service and operating costs based on square-footage occupied. Future lease payments due the Ohio Building Authority Internal Service Fund, net of executory costs, are as follows (in thousands):

NOTE 6 LOANS AND OTHER RECEIVABLES (Continued)

Year Ending June 30,	Leases Receivable
1998	$ 7,752
1999	5,367
2000	5,369
2001	5,374
2002	5,382
Thereafter	33,097
Total minimum lease payments	62,341
Less: Amount representing interest	22,672
Present value of net minimum lease payments	$39,669

Other receivables for the State's component units, as of June 30, 1997, consist of the following (in thousands):

	Component Units					
	Ohio State University	University of Cincinnati	Bowling Green State University	Medical College of Ohio	Other Component Units	Total
Accounts Receivable	$179,561	$27,406	$ 6,093	$16,875	$87,598	$317,533
Interest Receivable	10,574	5,529	11,568	790	3,731	32,192
Pledges Receivable	—	32,113	—	—	—	32,113
Miscellaneous Receivables	—	408	—	—	4,187	4,595
Total Other Receivables	$190,135	$65,456	$17,661	$17,665	$95,516	$386,433

NOTE 7 INTERFUND AND INTRA-ENTITY BALANCES AND TRANSFERS

Interfund balances, as of June 30, 1997, and operating transfers among the primary government's funds, for the year ended June 30, 1997, are as follows (in thousands):

Fund Type/Fund	Due from Other Funds	Due to Other Funds	Advances to Other Funds	Advances from Other Funds	Operating Transfers-in	Operating Transfers-out
General	$ 13,359	$ 35,913	$ —	$ —	$ 142,605	$ 847,794
Special Revenue:						
Community and Economic Development	2,969	520	—	85,076	55,247	45,215
Human Services	595	358	—	—	14,261	9,608
Health	177	105	—	—	11,976	4,875
Mental Health and Retardation	887	801	—	—	7,037	—
Employment Services	—	—	—	—	—	3,000
Education	398	153	—	—	733,466	10,935
Student Aid Commission	—	—	—	—	—	6,730
Highway Safety	3,419	2,420	—	—	145,529	2,800
Highway Operating	4,015	6,467	—	—	641,311	184,777
Natural Resources	497	118	—	—	546	3,060
Wildlife and Waterway Safety	332	48	—	—	1,000	—
Revenue Distribution	9,675	128	—	—	42,084	680,022
Local Transportation Improvements	4,773	2	—	—	58,247	—
Total Special Revenue Fund	27,737	11,120	—	85,076	1,710,704	951,022
Debt Service:						
Economic Development Bond Service	—	—	—	—	21,052	—
Coal Research/Development Bond Retirement	—	—	—	—	9,026	6
Development Bond Retirement	—	—	—	—	—	24
Highway Obligations Bond Retirement	127	—	—	—	—	109
Public Improvements Bond Retirement	—	—	—	—	—	13
Local Infrastructure Improvements Bond Retirement	—	—	—	—	80,623	—
Ohio Public Facilities Commission	1,115	—	—	—	444,603	—
Ohio Building Authority	—	—	—	—	202,747	862

(Continued)

NOTE 7 INTERFUND AND INTRA-ENTITY BALANCES AND TRANSFERS (Continued)

Fund Type/Fund	Due from Other Funds	Due to Other Funds	Advances to Other Funds	Advances from Other Funds	Operating Transfers-in	Operating Transfers-out
Debt Service: (Continued)						
Enterprise Bond Retirement	—	—	—	—	27,536	32,815
State Projects Bond Service	—	—	—	—	5,234	25
School Building Program Bond Service	—	—	—	—	10,695	—
Highway Capital Improvement Bond Service	—	—	—	—	6,476	88
Total Debt Service Fund	1,242	—	—	—	807,992	33,942
Capital Projects:						
Arts Facilities Building Improvements	43	—	—	—	40,525	—
Higher Education Improvements	110	1,121	—	—	—	540
Highway Obligations Construction	41	—	—	—	—	—
Mental Health/Mental Retardation Facilities Improvements	25	—	—	—	—	—
Parks and Recreation Improvements	11	—	—	—	—	—
Local Infrastructure Improvements	1,169	5	—	—	—	46
Ohio Building Authority	—	—	—	—	—	368,143
Administrative Services Building Improvements	54	—	—	—	85,522	—
Youth Services Building Improvements	24	—	—	—	—	—
Transportation Building Improvements	12	17	—	—	—	—
Adult Correctional Building Improvements	117	—	—	—	109,080	—
Highway Safety Building Improvements	60	—	—	—	75,344	—
Ohio Parks and Natural Resources	6	—	—	—	—	642
Highway Capital Improvement	53	—	—	—	—	—
Sports Facilities Building	45	—	—	—	36,677	—
Total Capital Projects Fund	1,770	1,143	—	—	347,148	369,371
Enterprise:						
Liquor Control	88	16	—	—	75	89,621
Ohio Lottery Commission	—	—	—	—	—	748,520
Workers' Compensation	—	—	—	—	—	4,894
Underground Parking Garage	—	—	—	—	—	1,710
Office of Auditor of State	1,590	—	—	—	28,143	—
Total Enterprise Fund	1,678	16	—	—	28,218	844,745
Internal Service:						
Ohio Building Authority	—	—	—	—	27,901	26,521
Ohio Data Network	7,486	56	—	—	—	—
Ohio Penal Industries	22,359	1,860	—	—	8,827	—
Support Services	4,701	95	—	—	—	—
Telecommunications	3,673	27	—	—	—	—
Total Internal Service Fund	38,219	2,038	—	—	36,728	26,521
Expendable Trust:						
Unclaimed Funds	257	—	85,076	—	—	—
Pension Trust:						
State Highway Patrol	1,589	—	—	—	—	—
Agency:						
Holding and Distribution	—	17,434	—	—	—	—
Payroll Withholding and Fringe Benefits	83	21,591	—	—	—	—
Deferred Compensation	3,232	—	—	—	—	—
Other	47	—	—	—	—	—
Total Trust and Agency Funds	5,208	39,025	85,076	—	—	—
Total per Financial Statements - Primary Government	89,213	89,255	85,076	85,076	3,073,395	3,073,395
Reconciliation for Timing Differences for Funds with December 31, 1996 Year-Ends	42	—	—	—	—	—
Reconciled Total for the Primary Government	89,255	89,255	$85,076	$85,076	$3,073,395	$3,073,395
Component Units:						
Ohio State University	274,994	274,994				
University of Cincinnati	10,258	10,258				
Other Component Units	58,234	58,234				
Total per Financial Statements - Component Units	343,486	343,486				
Total Reporting Entity	$432,741	$432,741				

NOTE 7 INTERFUND AND INTRA-ENTITY BALANCES AND TRANSFERS (Continued)

For the fiscal year ended June 30, 1997, the Capital Projects Fund reports approximately $5.7 million in residual equity transfers-out. The transfers represent contributions of capital to the Internal Service Fund, as discussed in more detail in NOTE 19.

Operating transfers between the primary government's funds and its component units, for the year ended June 30, 1997, consist of the following (in thousands):

	Operating Transfers from Primary Government	Operating Transfers to Component Units
Primary Government:		
General Fund	$ —	$1,410,667
Component Units:		
College and University Funds		
Ohio State University	376,623	—
University of Cincinnati	175,615	—
Ohio University	122,117	—
Miami University	66,794	—
University of Akron	92,405	—
Bowling Green State University	73,365	—
Kent State University	99,964	—
University of Toledo	78,064	—
Cleveland State University	64,053	—
Youngstown State University	44,992	—
Wright State University	81,220	—
Shawnee State University	13,756	—
Medical College of Ohio	34,200	—
Terra State Community College	5,855	—
Columbus State Community College	27,251	—
Clark State Community College	5,875	—
Edison State Community College	4,398	—
Southern State Community College	3,378	—
Washington State Community College	3,863	—
Cincinnati State Community College	14,464	—
Northwest State Community College	3,099	—
Owens State Community College	19,316	—
Total Reporting Entity	$1,410,667	$1,410,667

NOTE 8 FIXED ASSETS

A. Primary Government

Fixed assets by category, as of June 30, 1997, are as follows (in thousands):

	Enterprise	Internal Service	Pension Trust	General Fixed Assets	Total Primary Government
Land	$ 18,070	$ —	$ 370	$ 186,169	$ 204,609
Buildings	272,509	6,319	2,947	2,167,257	2,449,032
Land Improvements	66	—	—	155,364	155,430
Machinery and Equipment	167,250	107,070	220	214,561	489,101
State Vehicles	1,492	810	16	225,095	227,413
Construction-in-Progress	—	—	—	446,095	446,095
Total Fixed Assets (at cost)	459,387	114,199	3,553	3,394,541	3,971,680
Less: Accumulated Depreciation	173,207	83,624	567	—	257,398
Total Fixed Assets (net)	$286,180	$ 30,575	$2,986	$3,394,541	$3,714,282

NOTE 8 FIXED ASSETS (Continued)

No projects were under construction, for the year ended June 30, 1997, that resulted in capitalized interest for the proprietary and fiduciary fund types.

Changes in general fixed assets, for the year ended June 30, 1997, are as follows (in thousands):

	Balance July 1, 1996	Beginning Balance Adjustments	Additions	Deletions/ Net Transfers	Balance June 30, 1997
Land	$ 178,597	$ 135	$ 7,902	$ (465)	$ 186,169
Buildings	2,052,579	66,704	87,836	(39,862)	2,167,257
Land Improvements	149,076	3,918	5,790	(3,420)	155,364
Machinery and Equipment	190,204	(2,808)	38,917	(11,752)	214,561
State Vehicles	217,554	(3,963)	27,803	(16,299)	225,095
Construction-in-Progress	479,197	(18,731)	442,628	(456,999)	446,095
Total General Fixed Assets	$3,267,207	$45,255	$610,876	$(528,797)	$3,394,541

B. Component Units

Fixed assets by category for the State's component units, as of June 30, 1997, are as follows (in thousands).

	Ohio State University	University of Cincinnati	Ohio University	Miami University	University of Akron
Land	$ 30,762	$ 15,389	$ 9,898	$ 2,143	$ 16,968
Buildings	1,200,279	708,621	307,451	297,669	261,762
Land Improvements	134,500	17,199	52,392	28,504	29,178
Machinery, Equipment, and Vehicles	605,765	107,049	117,166	86,166	91,080
Library Books and Publications	114,784	77,556	45,426	34,110	45,313
Construction-in-Progress	152,865	59,566	11,999	39,236	16,152
Total Fixed Assets (at cost)	2,238,955	985,380	544,332	487,828	460,453
Less: Accumulated Depreciation	—	—	—	—	—
Total Fixed Assets (net)	$2,238,955	$985,380	$544,332	$487,828	$460,453

	Kent State University	University of Toledo	Cleveland State University	Other Component Units	Total Component Units
Land	$ 6,037	$ 17,479	$ 47,627	$ 52,278	$ 198,581
Buildings	235,961	261,291	244,047	1,057,347	4,574,428
Land Improvements	26,860	25,163	8,955	73,194	395,945
Machinery, Equipment, and Vehicles	60,971	55,904	51,594	347,560	1,523,255
Library Books and Publications	45,129	17,052	42,391	87,294	509,055
Construction-in-Progress	14,214	38,810	25,541	63,403	421,786
Total Fixed Assets (at cost)	389,172	415,699	420,155	1,681,076	7,623,050
Less: Accumulated Depreciation	—	—	—	444	444
Total Fixed Assets (net)	$389,172	$415,699	$420,155	$1,680,632	$7,622,606

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

All part-time and full-time employees and elected officials of the State, including its component units, are eligible to be covered by one of the following retirement plans:

Public Employees Retirement System
State Teachers Retirement System
State Highway Patrol Retirement System

A. Public Employees Retirement System (PERS)

Pension Benefits

PERS is a cost-sharing, defined benefit multiple-employer public employee retirement system.

PERS benefits are established under Chapter 145, Ohio Revised Code. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

PERS issues a stand-alone financial report, copies of which may be obtained by making a written request to: Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio, 43215-4642, or by calling (614) 466-2085.

Employer and employee required contributions to PERS are established under the Ohio Revised Code and are based on percentages of covered employees' gross salaries, which are calculated annually by the retirement system's actuaries. Contribution rates for calendar year 1996 are as follows:

	Contribution Rates — Calendar Year 1996	
	Employee Share	Employer Share
Regular Employees..	8.50%	13.31%
Law Enforcement Employees	9.00%	16.70%

Employer contributions required and made for the last three years follow (in thousands):

Primary Government			Component Units	
For the Year Ended December 31,	Employer's Contribution for Regular Employees	Employer's Contribution for Law Enforcement Employees	For the Year Ended June 30,	Employer's Contribution for Regular Employees
1996	$196,501	$2,410	1997	$96,962
1995	188,913	2,480	1996	98,615
1994	178,344	2,454	1995	94,465

Other Postemployment Benefits

All age and service retirees with 10 or more years of service credit qualify for healthcare coverage under PERS. Healthcare coverage for disability recipients and primary survivor recipients is also available. Chapter 145, Ohio Revised Code, provides the statutory authority for employer contributions. The portion of the employer rate that is used to fund healthcare is 5.89 percent of covered payroll for law enforcement employees, and 4.29 percent of covered payroll for regular employees for calendar year 1996. Employees do not fund any portion of healthcare costs.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

PERS healthcare benefits are advance-funded on an actuarially determined basis. An entry-age normal actuarial cost method of valuation is used in determining the present value of benefit liabilities and normal cost. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. The investment assumption rate for 1995 was 7.75 percent, while healthcare costs were assumed to increase by 5.25 percent annually. An annual increase of 5.25 percent, compounded annually, is the base portion of the individual pay increase assumption. Additionally, annual pay increases over and above the base portion are assumed to range from zero to 5.1 percent.

With regard to asset valuation for the PERS healthcare plan, short-term securities consisting of commercial paper and U.S. Treasury obligations are carried at cost; equity securities, fixed income investments, and investments in real estate are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

The number of active contributing plan participants for the multiple-employer plan was 62,332 for the primary government, as of June 30, 1997. Employer contribution requirements are as follows (in thousands):

	Actuarially Determined and Actual Contributions
Primary Government:	
(for the year ended December 31, 1996)	
Regular Employees................................	$93,458
Law Enforcement Employees................................ ...	1,313
Total..............................	$94,771
Component Units:	
(for the year ended June 30, 1997)..............................	$46,116

PERS had $7.2 billion in net assets available for healthcare benefits at December 31, 1995. The actuarial accrued liability and the unfunded actuarial accrued liability based on the actuarial cost method used were $8.6 billion and $1.4 billion, respectively.

B. State Teachers Retirement System (STRS)

Pension Benefits

STRS is a cost-sharing, defined benefit multiple-employer public employee retirement system. For reporting STRS, the State has early implemented GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, for the year ended June 30, 1997.

Participants in STRS, may retire after 30 years of credited service regardless of age, or at or after age 55 with 25 years of credited service, or at or after age 60 with five years of credited service. Members retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts. Retirees are entitled to a maximum annual retirement benefit, payable in monthly installments for life, equal to the greater of the “formula benefit” or the “money-purchase benefit” calculation.

Under the “formula benefit” calculation, the maximum annual retirement allowance is equal to 2.1 percent of an average of a member’s three highest years’ salary multiplied by the member’s number of years of credited service (up to 30 years and 2.5 percent a year for earned Ohio service over 30 years, up to a maximum allowance of 100 percent of final average salary). Under the “money-purchase benefit” calculation, a member’s lifetime

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

contributions, plus interest at specified rates, are matched by an equal amount from contributed employer funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance. Annually, after retirement, STRS benefits are increased by the greater of the amount of the change in the Consumer Price Index or the cumulative increase in prior years, less previous cost-of-living increases, up to a maximum of three percent.

A retiree of STRS or any other Ohio public retirement system is eligible for re-employment as a teacher after two months from the date of retirement. Contributions are made by the member and employer during the period of re-employment. Upon termination or the retiree reaches the age of 65, whichever comes later, the retiree is eligible for a money purchase benefit or a lump-sum payment in addition to the original retirement allowance.

STRS also provides death, survivors', disability, healthcare, and supplemental benefits. STRS benefits are established under Chapter 3307, Ohio Revised Code.

STRS issues a stand-alone financial report, copies of which may be obtained by making a written request to: State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio, 43215-3771.

Employer and employee required contributions to STRS are established by the Board and limited under the Ohio Revised Code to employer and employee rates of 14 percent and 10 percent, respectively, and are based on percentages of covered employees' gross salaries, which are calculated annually by the retirement system's actuary. Contribution rates for fiscal year 1997 were 14 percent for employers and 9.3 percent for employees. For STRS, 12 percent of the employer rate is used to fund pension obligations. The difference between the total employer rate and the share used to fund pension obligations is the percentage used to fund the STRS healthcare program.

Employer contributions required and made for the last three years are as follows (in thousands):

Year Ended June 30,	Primary Government	Component Units
1997	$5,051	$111,928
1996	4,780	112,449
1995	4,795	107,210

The pension liability, as calculated in accordance with GASB Statement No. 27, was zero before and after the transition.

Other Postemployment Benefits

The STRS plan provides comprehensive healthcare benefits to retirees and their dependents. Retirees are required to make healthcare premium payments at amounts that vary according to each retiree's years of credited service and choice of healthcare provider. Additional premiums are required to be paid by retirees for covered spouses and dependents. Chapter 3307, Ohio Revised Code, gives the STRS board discretionary authority over how much, if any, of associated healthcare costs are absorbed by the plan. Currently, employer contributions equal to two percent of covered payroll are allocated to pay for healthcare benefits.

The employer contribution is advance-funded, but not on an actuarially determined basis. Net healthcare costs paid by the primary government and its component units, for the year ended June 30, 1997, totaled $842 thousand and $18.6 million, respectively. Eligible benefit recipients for the primary government, for the same period, totaled 1,020. Net assets available to fund future healthcare benefits was $1.6 billion, as of June 30, 1996.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

C. State Highway Patrol Retirement System (SHPRS)

SHPRS, a component unit of the State, was established in 1944 by the General Assembly as a single-employer, defined benefit pension plan and is administered by the State.

The plan issues a stand-alone financial report that includes financial statements and required supplementary information, and the State reports the plan as a pension trust fund. Copies of the financial report may be obtained by writing to the Ohio State Highway Patrol Retirement System, 6161 Busch Boulevard, Suite 119, Columbus, Ohio 43229-2553, or by calling (614) 466-2268.

SHPRS is authorized under Chapter 5505, Ohio Revised Code, to provide retirement and disability benefits to retired members and survivor benefits to qualified dependents of deceased members of the Ohio State Highway Patrol. Chapter 5505, Ohio Revised Code, also requires contributions by active members and the Ohio State Highway Patrol. The employee contribution rate is established by the General Assembly, and any change in the rate requires legislative action. The employer contribution rate is established by the SHPRS Retirement Board and certified to the State of Ohio every two years. By law, the employer rate may not exceed three times the employee contribution rate.

Through June 8, 1996, active members and the employer contributed 10.5 percent and 24.53 percent, respectively, of active member payroll, of which all of the employee's contribution and 19.03 percent of the employer's contribution were used to fund pension benefits. Effective June 9, 1996, active members and the employer began contributing 10 percent and 24 percent, respectively, of active member payroll, of which all of the employee's contribution and 19.87 percent of the employer's contribution were used to fund pension benefits. The difference in the total employer rates charged during 1996 and the employer rates applicable to the funding of pension benefits is applied to the funding of postemployment healthcare benefits.

SHPRS's financial statements are prepared using the accrual basis of accounting, under which expenses are recorded when the liability is incurred and revenues are recorded when they are earned.

All investments are reported at fair value. Fair value is, "the amount that the plan can reasonably expect to receive for an investment in a current sale, between a willing buyer and a willing seller- that is, other than in a forced or liquidation sale." Short-term investments are reported at cost, which approximates fair value. Corporate bonds are valued at the median price by the brokerage firms. Securities traded on a national exchange are valued at the last reported sales price at the current exchange rate. The fair value of real estate investments are based on the estimated current value and on independent appraisals.

Assets are valued with a method that amortizes each year's investment gain or loss over a closed, four-year period.

Annual pension cost for the State totaled $11.9 million for the year, 100 percent of which was contributed during the year.

SHPRS used the entry-age normal actuarial cost method for the Schedule of Funding Progress for the actuarial valuation, dated December 31, 1996. Assumptions used in preparing the Schedule of Funding Progress and in determining the annual required contribution include: a 7.75 percent rate of return on investments; projected salary increase of five percent attributable to inflation and additional projected salary increases ranging from zero to 3.5 percent per year attributable to seniority and merit; and postretirement increases each year equal to the increase in the Consumer Price Index (not to exceed three percent).

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

The unfunded actuarial accrued liability is being amortized using the level-percentage of projected payroll method over a closed period of 16 years.

In addition to retirement and healthcare benefits, SHPRS also provides for disability and survivors' benefits. Qualified dependents of a deceased member are eligible for monthly survivors' benefits.

The Schedule of Funding Progress for the last three years is as follows (in thousands):

(A) Valuation Year	(B) Actuarial Accrued Liability (AAL)	(C) Valuation Assets	(D) Unfunded Actuarial Accrued Liability (UAAL) (B) – (C)	(E) Ratio of Assets to AAL (C)/(B)	(F) Active Member Payroll	(G) UAAL as Percentage of Active Member Payroll (D)/(F)
1994 [(a)]	$374,007	$330,787	$43,220	88.4%	$58,117	74.4%
1995	402,450	370,425	32,025	92.0	59,825	53.5
1995 [(b)]	427,757	370,425	57,332	86.6	59,825	95.8
1995 [(a)&(b)]	424,351	370,425	53,926	87.3	59,825	90.1
1996	454,514	411,316	43,198	90.5	59,239	72.9

[(a)] Revised actuarial assumptions or methods
[(b)] Plan amended

Amounts reported in the schedule do not include assets or liabilities for postemployment healthcare benefits.

Other Postemployment Benefits

In addition to providing pension benefits, SHPRS pays health insurance claims on behalf of all persons receiving a monthly pension or survivor benefit and Medicare Part B basic premiums for those eligible benefit recipients upon proof of coverage. The number of active contributing plan participants, as of December 31, 1996, was 1,375. The cost of retiree healthcare benefits is recognized as claims are incurred and premiums are paid. The calendar year 1996 expense was $2 million.

Healthcare benefits are established in Chapter 5505, Ohio Revised Code, and are advance funded by the employer on the same actuarially determined basis (using the same assumptions) as are the SHPRS pension benefits, as previously discussed. In addition, the assumption that projected healthcare premiums would increase at a rate of five percent, compounded annually, due to inflation was also used in the valuation. The net assets available for benefits allocated to healthcare costs at December 31, 1996 was $73.8 million, and include investments, which are carried at fair value, as described above.

As of December 31, 1996, the actuarial accrued liability for healthcare benefits, the portion of the present value of plan promises to pay benefits in the future that are not covered by future normal cost contributions, was $61.6 million; the prefunded actuarial accrued liability for healthcare benefits at that date was $12.2 million.

Employer contributions are made in accordance with actuarially determined requirements. The employer contribution requirement was approximately $2.9 million or 4.8 percent of active member payroll for the period January 1 to December 31, 1996.

NOTE 10 GENERAL OBLIGATION BONDS

The State has pledged its faith and credit for the payment of principal and interest on general obligation bonds accounted for and included with obligations in the General Long-Term Obligations Account Group.

At various times since 1921, Ohio voters, by 14 constitutional amendments (the last adopted in November 1995), have authorized the incurrence of general obligation debt for the construction and improvement of local infrastructure improvements, highways, research and development of coal technology, parks, recreation, and natural resources, and state facilities. In practice, general obligation bonds are retired over periods of 10 to 25 years.

A 1987 constitutional amendment authorized the issuance of $1.2 billion of general obligation bonds for infrastructure improvements (Infrastructure Bonds), of which no more than $120 million may be issued in any calendar year. As of June 30, 1997, the General Assembly had authorized $1.2 billion of these bonds to be sold, of which approximately $1.08 billion had been issued and $944.3 million (net of unaccreted discount of $157.3 million on deep-discount bonds issued) was outstanding. In November 1995, voters approved another constitutional amendment to authorize the issuance of an additional $1.2 billion of Infrastructure Bonds, of which no more than $120 million (plus any prior years' principal amounts not issued under the new authorization) may be sold in any state fiscal year. As of June 30, 1997, the General Assembly had authorized $120 million in Infrastructure Bonds to be issued under the provisions of the 1995 constitutional amendment.

A 1968 constitutional amendment authorized the issuance of Highway Obligations in amounts up to $100 million in any calendar year, with no more than $500 million in principal amount outstanding at any one time. The aggregate of General Assembly authorizations, as of June 30, 1997, for Highway Obligations, was $1.86 billion, of which $1.75 billion had been issued and $357.7 million was outstanding. Pursuant to a constitutional amendment voters approved in November 1995, the remaining $109.7 million in General Assembly authorizations for the issuance of Highway Obligations expired December 31, 1996.

Through approval of the November 1995 amendment, voters authorized the issuance of Highway Capital Improvements Bonds in amounts up to $220 million in any fiscal year (plus any prior fiscal years' principal amounts not issued under the new authorization), with no more than $1.2 billion outstanding at any time. As of June 30, 1997, the General Assembly had authorized the issuance of $432.5 million in Highway Capital Improvements Bond, of which $175 million had been issued and $170 million was outstanding.

Coal Research and Development Bonds and Parks, Recreation, and Natural Resources Bonds may be issued as long as the outstanding principal amounts do not exceed $100 and $200 million, respectively. As of June 30, 1997, the General Assembly had authorized the issuance of $150 million in Coal Research and Development Bonds, of which $95 million had been issued and $32.4 million was outstanding. Legislative authorizations for the issuance of Parks and Natural Resources Bonds totaled $180 million, as of June 30, 1997, of which $100 million had been issued and $94.2 million was outstanding.

General obligation bonds outstanding and bonds authorized but unissued, as of June 30, 1997, are as follows (in thousands):

Purpose	Fiscal Years Issued	Average Net Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Infrastructure Improvements	1990-97	4.8%-8.2%	2017	$ 944,346	$240,000
Highway Obligations	1988-97	4.5%-6.5%	2005	357,700	—
Highway Capital Improvements	1997	4.7%-4.8%	2007	170,000	257,500
Coal Research and Development	1992-96	4.5%-5.6%	2005	32,350	55,000
Parks, Recreation, and Natural Resources	1995-97	4.5%-5.6%	2012	94,200	80,000
Total General Obligation Bonds				$1,598,596	$632,500

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

For the year ended June 30, 1997, NOTE 15 summarizes changes in general obligation bonds reported in the General Long-Term Obligations Account Group.

Future general obligation debt service requirements, as of June 30, 1997, are as follows (in thousands):

Year Ending June 30,	Principal	Interest	Total
1998	$ 164,860	$ 66,169	$ 231,029
1999	144,545	59,333	203,878
2000	132,860	53,282	186,142
2001	135,425	48,242	183,667
2002	137,975	42,914	180,889
Thereafter	1,040,190	210,219	1,250,409
	1,755,855	480,159	2,236,014
Less: Unaccreted Discount	157,259	—	157,259
Total	$1,598,596	$480,159	$2,078,755

NOTE 11 SPECIAL OBLIGATION BONDS

Special obligation bonds reported in the General Long-Term Obligations Account Group have been authorized and issued by the Ohio Building Authority (OBA), the Ohio Public Facilities Commission (OPFC), and the Treasurer of State for the Department of Education. OBA bonds finance the capital costs of categories of facilities including correctional facilities and office buildings for State departments and agencies and, in some cases, related facilities for local governments. OPFC bonds finance the cost of capital facilities for the state-supported institutions of higher education, mental hygiene and retardation, and parks and recreation. Elementary and Secondary Education Bonds issued by the Treasurer of State for the Department of Education finance the cost of capital facilities for local school districts.

OBA bonds issued for State agencies are reflected as special obligation bonds, and OBA bonds issued for related local government facilities are shown as revenue bonds (See NOTE 12).

Pledges of lease rental payments from appropriations made to the General Fund and the Highway Safety and Highway Operating Special Revenue funds, moneys held by trustees pursuant to related trust agreements, and other receipts, as required by the respective bond documents secure OBA, OPFC, and the Elementary and Secondary Education bonds.

Special obligation bonds outstanding and bonds authorized but unissued, as of June 30, 1997, are as follows (in thousands):

Organization	Fiscal Years Issued	Average Net Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Ohio Building Authority	1986-97	4.6%-9.0%	2017	$1,988,987	$ 790,200
Ohio Public Facilities Commission	1986-97	4.5%-7.3%	2012	2,559,040	1,095,470
Elementary and Secondary Education	1995-97	5.1%-5.8%	2007	116,810	400,000
Total Special Obligation Bonds				$4,664,837	$2,285,670

NOTE 11 SPECIAL OBLIGATION BONDS (Continued)

For the year ended June 30, 1997, NOTE 15 summarizes changes in special obligation bonds reported in the General Long-Term Obligations Account Group.

Future special obligation debt service requirements, as of June 30, 1997, are as follows (in thousands):

Year Ending June 30,	Principal	Interest	Total
1998	$ 430,333	$ 243,664	$ 673,997
1999	408,188	225,111	633,299
2000	396,292	205,320	601,612
2001	387,143	181,285	568,428
2002	360,431	157,520	517,951
Thereafter..................	2,682,450	678,740	3,361,190
Total	$4,664,837	$1,691,640	$6,356,477

In August 1996, the OBA issued $70 million in special obligation bonds with an average interest rate of 4.8 percent to retire $69 million in bonds with an interest rate of 8.4 percent. In December 1996, the OBA issued $70 million in special obligation bonds with an average interest rate of 4.9 percent to retire $99 million in bonds with an interest rate of 6.2 percent. The net proceeds of the refunding bonds, plus an additional $1.9 million and $31.1 million from existing debt service moneys were placed with a trustee in August and December, respectively, to retire the bonds at the call date, and consequently, the liability associated with the refunded bonds has been removed from the General Long-Term Obligations Account Group.

The refunding transactions in August and December reduced the OBA's total future debt service payments by about $16 million and $40 million and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately $10 million and $9 million, respectively.

In April 1997, the OPFC issued $132.4 million in special obligation bonds to advance refund $186.3 million in bonds. The net proceeds of approximately $133.1 million (after payment of approximately $625 thousand for underwriter's discount), plus an additional $64.7 million from existing debt service moneys, were used to purchase U.S. government securities, which were placed in an irrevocable trust with an agent to provide for all future debt service payments on the refunded principal. As a result, the advance refunded bonds are considered defeased under the appropriate trust agreement, and the liability for the advance refunded bonds has been removed from the General Long-Term Obligations Account Group.

The OPFC refunded the special obligation bonds to reduce its debt service over the next seven years by approximately $27.9 million to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of approximately $6.4 million.

In prior years, the OBA and OPFC defeased certain bond issues by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the various trust accounts' assets and liabilities for the defeased bonds are not included in the State's financial statements. As of June 30, 1997, $479.7 million and $129.1 million of OBA and OPFC bonds outstanding, respectively, are considered defeased.

NOTE 12 REVENUE BONDS AND NOTES

The State Constitution permits State agencies and authorities to issue bonds that are not supported by the faith and credit of the State. These bonds pledge income derived from user fees and rentals on the acquired or

NOTE 12 REVENUE BONDS AND NOTES (Continued)

constructed assets to pay the debt service. Issuers for the primary government include the Treasurer of State for the Ohio Department of Development's Office of Financial Incentives, and the Ohio Building Authority (OBA), which has issued revenue bonds on its own behalf and for the Ohio Bureau of Workers' Compensation. Major issuers for the State's component units include the Ohio Water Development Authority, the Ohio State University, the University of Cincinnati, and the University of Toledo.

A. Primary Government

Revenue bonds accounted for in the Enterprise Fund finance the costs of the William Green Building, which houses the main operations of the Ohio Bureau of Workers' Compensation in Columbus.

OBA revenue bonds reported in the Internal Service Fund finance the costs of office buildings and related facilities for shared use by local governments. The principal and interest requirements on these bonds are paid from rentals received under the long-term lease agreements discussed in NOTE 6.

Economic development bonds, issued by the Treasurer of State for the Office of Financial Incentives' Direct Loan Program, provide financing for loans and loan guarantees to businesses within the State, which cannot obtain conventional financing for economic development projects that create or retain jobs in the State. The bonds are backed with profits derived from the sale of spirituous liquor by the Ohio Department of Liquor Control and pledged moneys and related investment earnings held in reserve under a trust agreement with a financial institution. As of June 30, 1997, approximately $167 million in economic development bonds payable from liquor profits were outstanding.

Additionally, taxable economic development bonds in the amount of $4.6 million, issued by the Treasurer of State in connection with the Ohio Enterprise Bond Program, were outstanding, as of June 30, 1997. Proceeds from this bond issuance in fiscal year 1988 were placed in a reserve with trustee and are pledged to support, in part, the payment of principal and interest on other economic development bonds issued under this program.

During fiscal year 1997, $10 million of Ohio Enterprise Bonds were issued under the authority of Section 166.09, Ohio Revised Code, to provide private entities with capital financing for economic development projects. The Ohio Enterprise Bonds, which are reported as "no commitment" debt in NOTE 16, are primarily secured by the property financed, and payments by the borrowing entities are used to retire the debt and to service interest payments.

Revenue bonds outstanding for the primary government, as of June 30, 1997, are as follows (in thousands):

Organization	Fiscal Year Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Enterprise:				
Ohio Building Authority/ Bureau of Workers' Compensation	1994	3.3%-5.1%	2014	$202,109
Internal Service:				
Ohio Building Authority	1986-97	4.5%-9.8%	2008	40,169
General Long-Term Obligations:				
Treasurer of State/Economic Development	1997	5.7%-9.7%*	2022	171,595
Total Revenue Bonds				$413,873

*Average net interest rates

NOTE 12 REVENUE BONDS AND NOTES (Continued)

For the year ended June 30, 1997, NOTE 15 summarizes changes in revenue bonds reported in the General Long-Term Obligations Account Group.

Future bond service requirements for revenue bonds of the primary government, as of June 30, 1997, are as follows (in thousands):

	Enterprise Fund			Internal Service Fund			General Long-Term Obligations Account Group		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
1998	$ 5,000	$ 9,655	$ 14,655	$ 2,939	$ 2,349	$ 5,288	$ 4,790	$ 12,589	$ 17,379
1999	6,000	9,455	15,455	3,108	2,181	5,289	5,270	12,250	17,520
2000	7,000	9,209	16,209	3,265	2,023	5,288	5,655	11,871	17,526
2001	8,000	8,915	16,915	3,432	1,858	5,290	6,060	11,456	17,516
2002	9,000	8,517	17,517	3,610	1,683	5,293	5,060	11,074	16,134
Thereafter	170,255	57,225	227,480	24,300	8,112	32,412	144,760	123,271	268,031
	205,255	102,976	308,231	40,654	18,206	58,860	171,595	182,511	354,106
Less: Unamortized Discount	3,146	—	3,146	485	—	485	—	—	—
Total	$202,109	$102,976	$305,085	$40,169	$18,206	$58,375	$171,595	$182,511	$354,106

On October 1, 1996, the Treasurer of State issued $66.8 million in taxable Series 1996 Development Assistance Bonds to advance refund $54.4 million of outstanding Series 1989 Liquor Profits Refunding Bonds. The net proceeds of $65.8 million (after payment of $944,532 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 1989 bonds. As a result, the Series 1989 bonds are considered to be defeased and the liability for those bonds has been removed from the General Long-Term Obligations Account Group.

The State advance refunded the Series 1989 bonds to reduce its total debt service payments over the next four years by approximately $11.6 million. The refunding resulted in an economic loss of $2.1 million. The economic loss is the difference between the present value of the debt service payments on the old and new debt.

B. Component Units

Ohio Water Development Authority (OWDA) bonds and notes provide financing to local government authorities (LGA) in the State of Ohio for the acquisition, construction, maintenance, repair, and operation of water development projects and solid waste projects, including the construction of sewage and related water treatment facilities. The principal and interest requirements on OWDA obligations are generally paid from investment earnings, federal funds and/or repayments of loan principal and interest thereon from the LGAs.

A portion of OWDA's outstanding bonds have been issued for the Water Pollution Control Loan Program, which provides low-cost financing to LGAs for the construction of wastewater treatment facilities. In the event pledged program revenues, which consist of interest payments from the LGAs as reimbursement for construction costs, are not sufficient to meet debt service requirements for the bonds, the General Assembly may appropriate moneys for the full replenishment of a bond reserve. As of December 31, 1996, approximately $376.8 million in bonds were outstanding for this program. Future bond service requirements for the Water Pollution Control Loan Program revenue bonds, as of December 31, 1996, are as follows (in thousands):

NOTE 12 REVENUE BONDS AND NOTES (Continued)

Year Ending December 31,	Principal	Interest	Total
1997	$ 13,150	$ 19,773	$ 32,923
1998	15,880	19,145	35,025
1999	16,900	18,392	35,292
2000	17,275	17,588	34,863
2001	17,820	16,709	34,529
Thereafter	293,070	115,378	408,448
	374,095	206,985	581,080
Add: Unamortized Premium	2,677	—	2,677
Total	$376,772	$206,985	$583,757

Generally, bonds and notes issued by the state universities and state community colleges are payable from the institutions' available receipts, including student fees, rental income, and gifts and donations, as may be provided for in the respective bond proceedings, for the construction of residence and dining halls and auxiliary facilities such as hospitals, parking facilities, bookstores, and athletic facilities.

Except as previously discussed with respect to OWDA's Water Pollution Control Loan Program bonds, the State is not obligated in any manner for the debt of its component units.

Future bond service requirements for revenue bonds and notes reported in the component unit funds, as of June 30, 1997, are as follows (in thousands):

Year Ending December 31 or June 30,	Ohio Water Development Authority (12/31/96)			Ohio State University			University of Cincinnati		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
1997	$ 68,720	$ 67,792	$ 136,512						
1998	81,315	64,311	145,626	$ 18,173	$ 8,130	$ 26,303	$ 38,169	$11,453	$ 49,622
1999	77,020	60,431	137,451	18,633	7,302	25,935	10,241	9,255	19,496
2000	79,390	56,497	135,887	17,134	6,518	23,652	9,279	8,735	18,014
2001	79,985	52,913	132,898	16,039	5,756	21,795	8,559	8,223	16,782
2002				16,598	4,997	21,595	9,115	7,733	16,848
Thereafter	909,340	339,488	1,248,828	89,597	19,829	109,426	122,155	53,820	175,975
	1,295,770	641,432	1,937,202	176,174	52,532	228,706	197,518	99,219	296,737
Less: Unamortized Discount	30,216	—	30,216	—	—	—	—	—	—
Total	$1,265,554	$641,432	$1,906,986	$176,174	$52,532	$228,706	$197,518	$99,219	$296,737

Year Ending December 31 or June 30,	University of Toledo			Other Component Units			Total Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
1997							$ 68,720	$ 67,792	$ 136,512
1998	$ 3,220	$ 4,765	$ 7,985	$ 23,625	$ 14,760	$ 38,385	164,502	103,419	267,921
1999	2,925	4,559	7,484	14,778	13,960	28,738	123,597	95,507	219,104
2000	3,080	4,409	7,489	14,793	13,266	28,059	123,676	89,425	213,101
2001	3,225	4,251	7,476	14,599	12,555	27,154	122,407	83,698	206,105
2002	3,230	4,082	7,312	15,061	11,827	26,888	44,004	28,639	72,643
Thereafter	69,525	42,587	112,112	208,046	99,939	307,985	1,398,663	555,663	1,954,326
	85,205	64,653	149,858	290,902	166,307	457,209	2,045,569	1,024,143	3,069,712
Less: Unamortized Discount	—	—	—	—	—	—	30,216	—	30,216
Total	$85,205	$64,653	$149,858	$290,902	$166,307	$457,209	$2,015,353	$1,024,143	$3,039,496

NOTE 13 CERTIFICATES OF PARTICIPATION

As of June 30, 1997, approximately $26.6 million in certificate of participation obligations were reported in the General Long-Term Obligations Account Group. In fiscal year 1992, the Department of Transportation issued $8.7 million of certificates of participation obligations to finance the acquisition of the Panhandle Rail Line Project. During fiscal year 1996, the Department also sold $10 million in certificates of participation obligations to finance State assistance to the Greater Cleveland Regional Transit Authority for a share of the Cleveland Waterfront Transit Line Project's construction cost, and $10.2 million in obligations to provide assistance to theRickenbacker Port Authority for facility improvements at the Rickenbacker International Airport in Franklin and Pickaway counties.

Under the certificate of participation financing arrangements, the State is required to make payments from the Transportation Certificate Debt Service Fund and the General Fund subject to biennial appropriations that approximate the interest and principal payments made by trustees to certificate holders.

Obligations outstanding for the primary government under certificate of participation financing arrangements, as of June 30, 1997, are as follows (in thousands):

Project	Fiscal Year Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
General Long-Term Obligations:				
Department of Transportation:				
Panhandle Rail Line Project	1992	5.6%-6.5%	2012	$ 7,475
Waterfront Transit Line Project	1996	4.5%-8.0%	2003	9,000
Rickenbacker Port Authority Improvements	1996	6.13%	2015	10,155
Total Certificates of Participation Obligations				$26,630

As of June 30, 1997, the primary government's future commitments under the certificate of participation financing arrangements are as follows (in thousands):

	General Long-Term Obligations Account Group		
Year Ending June 30,	Principal	Interest	Total
1998	$ 1,570	$ 1,542	$ 3,112
1999	1,850	1,430	3,280
2000	2,175	1,308	3,483
2001	2,285	1,198	3,483
2002	2,405	1,079	3,484
Thereafter	16,345	6,618	22,963
Total	$26,630	$13,175	$39,805

For the year ended June 30, 1997, NOTE 15 summarizes changes in certificate of participation obligations reported in the General Long-Term Obligations Account Group.

For the State's component units, approximately $86.8 million in certificate of participation obligations are reported in the College and University Funds. The obligations finance building construction costs at the Ohio State University and University of Cincinnati.

NOTE 13 CERTIFICATES OF PARTICIPATION (Continued)

As of June 30, 1997, future commitments under the certificate of participation financing arrangements for the State's component units are as follows (in thousands):

Year Ending December 31 or June 30,	Ohio State University Principal	Interest	Total	University of Cincinnati Principal	Interest	Total	Total Component Units Principal	Interest	Total
1998	$ 480	$163	$ 643	$ 320	$ 4,210	$ 4,530	$ 800	$ 4,373	$ 5,173
1999	490	146	636	250	4,196	4,446	740	4,342	5,082
2000	515	128	643	1,025	4,185	5,210	1,540	4,313	5,853
2001	530	109	639	1,705	4,142	5,847	2,235	4,251	6,486
2002	570	87	657	1,770	4,068	5,838	2,340	4,155	6,495
Thereafter	1,630	113	1,743	77,540	51,255	128,795	79,170	51,368	130,538
Total	$4,215	$746	$4,961	$82,610	$72,056	$154,666	$86,825	$72,802	$159,627

NOTE 14 OTHER LONG-TERM OBLIGATIONS

As of June 30, 1997, other general long-term obligations of the State reported in the General Long-Term Obligations Account Group are as follows (in thousands):

Compensated Absences (A.)	$ 276,547
Lease Agreements (B.)	12,072
Judgments, Settlements, and Claims (C.)	122,438
Litigation Liabilities (C.)	37,310
Workers' Compensation Obligation (D.)	561,900
Total Other General Long-Term Obligations	$1,010,267

For the year ended June 30, 1997, NOTE 15 summarizes the changes in other general long-term obligations reported in the General Long-Term Obligations Account Group.

A. Compensated Absences

To lessen the impact of terminal leave pay on a given State agency's budget, an accrued leave funding program was instituted by law in 1982. State agencies must contribute a percentage of gross payroll to a common pool of resources from which terminal leave expenditures/expenses are paid. The amount of cash equity with Treasurer and related interest receivable available to satisfy terminal pay claims at June 30, 1997 was approximately $27.2 million. These and related assets are reported as part of the Payroll Withholding and Fringe Benefits Agency Fund.

The compensated absence liability for the primary government's proprietary funds is reported net of the funds' portion of accrued leave funding and is included in "Accrued Liabilities." The compensated absence liability for the primary government's governmental funds is also reported net of the funds' portion of the accrued leave funding and is reported as part of the General Long-Term Obligations Account Group.

For the primary government, the gross compensated absences liability, as of June 30, 1997, was $336.5 million, of which $35.6 million is allocable to the proprietary funds and $300.9 million is allocable to the General Long-Term Obligations Account Group. The net (after reduction of the $27.2 million) compensated absence liability, as of June 30, 1997, was $309.3 million, of which $32.8 million is reported in the proprietary funds and $276.5 million is reported in the General Long-Term Obligations Account Group.

NOTE 14 OTHER LONG-TERM OBLIGATIONS (Continued)

For the State's component units, the compensatedabsences liability, as of June 30, 1997, in the amount of $178.2 million is included in "Accrued Liabilities."

B. Lease Agreements

The State's primary government leases office buildings and office and computer equipment. Although the lease terms vary, most leases are renewable subject to biennial appropriations by the General Assembly. If the likelihood of the exercise of a fiscal funding clause in the lease agreement is, in the management's judgment, remote, then the lease is considered noncancelable for financial reporting purposes and is reported as a fund expenditure/expense for operating leases or in the General Long-Term Obligations Account Group or appropriate proprietary fund type for capital leases.

Assets acquired through capital leasing are valued at the lower of fair market value or the present value of the future minimum lease payments at the lease's inception. The noncurrent portion of capital lease obligations for the proprietary fund types are reported in those funds as long-term obligations. The related assets and depreciation of these assets are included in the proprietary funds. Capital lease obligations for the governmental fund types are reported in the General Long-Term Obligations Account Group and the related assets are reported in the General Fixed Assets Account Group.

Operating leases (leases on assets not recorded in the combined balance sheet) contain various renewal options as well as some purchase options.

Any escalation clauses, sublease rentals, and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures or expenses of the related funds when paid or incurred.

The primary government's total operating lease expenditures/expenses for fiscal year 1997 were approximately $93.4 million. Future minimum lease commitments for operating leases and capital leases judged to be noncancelable, as of June 30, 1997, are as follows (in thousands):

		CAPITAL LEASES			
Year Ending June 30,	Operating Leases	Enterprise Fund	Internal Service Fund	General Long-Term Obligations	Total
1998	$7,074	$ 9,862	$20	$ 5,438	$15,320
1999	1,818	6,575	—	4,295	10,870
2000	87	—	—	1,956	1,956
2001	78	—	—	1,542	1,542
2002	—	—	—	349	349
Thereafter	—	—	—	—	—
Total Minimum Lease Payments	$9,057	16,437	20	13,580	30,037
Less: Amount Representing Interest		832	—	1,508	2,340
Present Value of Net Minimum Lease Payments		$15,605	$20	$12,072	$27,697

As of June 30, 1997, the primary government had the following fixed assets (net of accumulated depreciation for proprietary funds) under capital leases, which are reported under "Accrued Liabilities" in the proprietary funds (in thousands):

NOTE 14 OTHER LONG-TERM OBLIGATIONS (Continued)

	Enterprise Fund	Internal Service Fund	General Fixed Assets	Total
Equipment........................	$15,605	$32	$28,193	$43,830
Vehicles...........................	—	—	37	37
Total..........................	$15,605	$32	$28,230	$43,867

Amortization expense for the proprietary funds is included with depreciation expense.

C. Judgments, Settlements, and Claims/Litigation Liabilities

The Ohio Department of Education has been involved with several school desegregation court cases filed against the State by various local boards of education. In cases when the judgment went against the State, the courts decided that the State was responsible for sharing in all past and future desegregation costs. As of June 30, 1997, the State was responsible for an estimated $82.7 million liability for past desegregation costs, which is recorded in the General Long-Term Obligations Account Group until such time that it becomes payable from the General Fund.

Additionally, the State has accrued approximately $36.6 million for anticipated federal program disallowances, $2.8 million for legal costs, and $316 thousand for claims payable under the Disability Assistance Program that the Ohio Department of Human Services administers.

For information on the State's loss contingencies arising from pending litigation, see NOTE 23.

D. Workers' Compensation Obligation

The State's primary government is permitted to pay its workers' compensation liability on a terminal funding (pay-as-you-go) basis. As a result, the Workers' Compensation Enterprise Fund recognized an unbilled premium receivable for the State's portion of its actuarially determined liability for compensation, which is recorded in the General Long-Term Obligations Account Group, in the amount of $561.9 million.

E. Liabilities Payable from Restricted Assets

Deferred Prize Awards

Deferred prize awards payable in installments over future years totaling approximately $1.34 billion, as of June 30, 1997, are recorded as "Liabilities Payable from Restricted Assets" at present value based upon interest rates the Treasurer of State provides the Ohio Lottery Commission Enterprise Fund. The interest rates, ranging from four to 11.7 percent, represent the expected long-term rate of return on the assets restricted for the payment of deferred prize awards. Once established for a particular deferred prize award, the interest rate does not fluctuate with changes in the expected long-term rate of return. The difference between the present value and gross amount of the obligations is amortized into income over the terms of the obligations using the interest method.

NOTE 14 OTHER LONG-TERM OBLIGATIONS (Continued)

The present value of future payments of unpaid prize awards, as of June 30, 1997, is as follows (in thousands):

Year Ending June 30,	
1998	$ 158,033
1999	157,875
2000	157,742
2001	157,705
2002	157,634
Thereafter	1,532,901
	2,321,890
Less: Unamortized Discount	977,144
Net Prize Liability	$1,344,746

Prizes can be claimed within six months of the drawing date for on-line games and within six months of the closing date for instant games. After the expiration of the statutory six-month period, the prize liability is reduced by the amount estimated for unclaimed prizes.

Tuition Benefits

The actuarial present value of future tuition benefits payable from the Tuition Trust Authority Enterprise Fund totaling $208.8 million, as of June 30, 1997, are recorded as "Liabilities Payable from Restricted Assets." The valuation method reflects the present value of estimated tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition increases at state universities and state community colleges and termination of plan participation. The following assumptions were used in the actuarial determination of tuition benefits payable: 7.5 percent rate of return, compounded annually, on the investment of current and future assets; a projected tuition increase of 6.0 percent, compounded annually; and a 3.0 percent Consumer Price Index (CPI) inflation rate. The assumed rate of projected tuition increase is a compounded average result. Tuition rates are assumed to grow based on a formula reflecting CPI, student enrollment, and proportion to total expenditures covered by tuition.

F. Reserve for Compensation

The Workers' Compensation Enterprise Fund provides benefits to employees for losses sustained from job-related injury, disease, or death. The Bureau has computed a reserve for compensation, as of June 30, 1997, in the amount of $12.86 billion. The reserve, which includes estimates for reported claims and claims incurred but not reported, is reported as "Workers' Compensation Benefits Payable."

NOTE 15 CHANGES IN GENERAL LONG-TERM OBLIGATIONS

Changes in general long-term obligations, for the year ended June 30, 1997, are as follows (in thousands):

	General Obligation Bonds (NOTE 10)	Special Obligation Bonds (NOTE 11)	Revenue Bonds (NOTE 12)	Certificates of Participation (NOTE 13)	Other General Long-Term Obligations (NOTE 14)	Total
Balance, as of July 1, 1996 (as restated)	$1,304,564	$4,448,836	$ 67,490	$27,895	$1,028,089	$6,876,874
Additions:						
Debt Issues	445,000	1,034,391	168,740	—	—	1,648,131
Deep-Discount Accretions	14,872	2,885	—	—	—	17,757
Increase in Compensated Absences	—	—	—	—	4,868	4,868
Increase in Lease Obligations	—	—	—	—	3,970	3,970
Increase in Judgments, Settlements, and Claims	—	—	—	—	44,386	44,386
Increase in Litigation Liabilities	—	—	—	—	32,310	32,310
Total Additions	459,872	1,037,276	168,740	—	85,534	1,751,422
Deductions:						
Debt Retirements, Terminations, and Defeasances	165,840	821,275	64,635	1,265	—	1,053,015
Decrease in Lease Obligations	—	—	—	—	4,940	4,940
Decrease in Judgments, Settlements, and Claims	—	—	—	—	59,841	59,841
Decrease in Litigation Liabilities	—	—	—	—	3,375	3,375
Decrease in Workers' Compensation Obligation	—	—	—	—	35,200	35,200
Total Deductions	165,840	821,275	64,635	1,265	103,356	1,156,371
Balance, as of June 30, 1997	$1,598,596	$4,664,837	$171,595	$26,630	$1,010,267	$7,471,925

Fiscal year 1997 additions to the general obligation bonds, special obligation bonds, and revenue bonds do not include discounts and bond issuance costs of approximately $600 thousand, $6.7 million, and $1.9 million, respectively, which are netted with bond proceeds reported on the operating statement.

NOTE 16 NO COMMITMENT DEBT

The State of Ohio by action of the General Assembly created various financing authorities for the expressed purpose of making available to non-profit and, in some cases, for profit private entities lower cost sources of capital financing for facilities and projects found to be for a public purpose. Fees are assessed to recover related processing and application costs incurred. The authorities' debt instruments represent limited obligations payable solely from payments made by the borrowing entities. Most of the bonds are secured by the property financed. Upon repayment of the bonds, ownership of acquired property transfers to the entity served by the bond issuance. This debt is not deemed to constitute debt of the State or pledge of the faith and credit of the State. Accordingly, these bonds are not reflected in the accompanying financial statements.

As of June 30, 1997, revenue bonds and notes outstanding thatrepresent "no commitment" debt for the State are as follows (in thousands):

Organization	Outstanding Amount
Ohio Department of Development:	
Ohio Housing Finance Agency	$1,801,487
Ohio Enterprise Bond Program	120,165
Hospital Facilities Bonds	8,275
Total No Commitment Debt	$1,929,927

NOTE 17 DEFERRED COMPENSATION PLAN

The State of Ohio offers its employees and elected officials a deferred compensation plan created in accordance with Internal Revenue Code Section457 that is reported in the Deferred Compensation Agency Fund. The plan, available to any public employee, permits participants to defer a portion of their salary and the related tax liability until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State (without being restricted to the provisions of benefits under the plan), subject only to the claim of the State's general creditors. Participants' rights under the plan are equal to those of general creditors of the State in an amount equal to the fair market value of the deferred account for each participant. The Plan Agreement states that the State and the Ohio Public Employees Deferred Compensation Board, the plan administrator, have no liability for losses under the plan with exception of fraud or wrongful taking.

The State believes that it is unlikely that the assets will be used to satisfy the claims of general creditors in the future, and no assets have been used in the past to satisfy such claims.

The $852.8 million and $7.2 million asset balances reported for the primary government and its component units, respectively, on the Combined Balance Sheet — All Fund Types, Account Groups and Discretely Presented Component Units as "Deposit with Deferred Compensation Plan" represent the State of Ohio's assets actually held by the plan administrator. Plan assets are carried at market value.

In October 1997, the Governmental Accounting Standards Board (GASB) issued Statement No. 32*Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.* The provisions of this statement are effective for periods beginning after December 31, 1998, or when a government complies with the requirements of subsection (g) of IRC Section 457, whichever is earlier. The statement requires state and local governments, which have fiduciary responsibilities for IRC Section 457 plans, to report such plans as expendable trust funds. The statement also requires plan investments to be reported at fair value. Management has not yet determined the impact that GASB Statement No. 32 will have on the State's financial statements.

NOTE 18 ENTERPRISE FUNDS

A. Segment Information

The State has six enterprise funds, which provide for the tuition guarantee program, liquor sales, lottery sales, workers' compensation insurance services, underground state parking facilities, and government audit and management advisory services.

Segment information, as of and for the fiscal year ended June 30, 1997, is as follows (in thousands):

	Tuition Trust Authority	Liquor Control	Ohio Lottery Commission	Workers' Compensation	Underground Parking Garage	Office of Auditor of State	Total Enterprise Funds
Operating Revenues	$ 15,201	$366,636	$2,463,261	$ 4,348,344	$ 2,323	$ 31,466	$ 7,227,231
Depreciation	57	587	6,622	11,575	408	1,874	21,123
Amortization of Premiums/ (Accretion of Discounts)	(350)	—	99,611	371	—	—	99,632
Operating Income (Loss)	2,309	95,524	752,015	1,639,902	412	(27,095)	2,463,067
Operating Transfers-in	—	75	—	—	—	28,143	28,218
Operating Transfers-out	—	89,621	748,520	4,894	1,710	—	844,745
Net Income (Loss)	18,677	6,050	3,464	1,635,008	(1,231)	494	1,662,462

(Continued)

NOTE 18 ENTERPRISE FUNDS (Continued)

	Tuition Trust Authority	Liquor Control	Ohio Lottery Commission	Workers' Compensation	Underground Parking Garage	Office of Auditor of State	Total Enterprise Funds
Fixed Asset Additions..........	154	4,774	1,530	—	33	3,132	9,623
Fixed Asset Disposals.........	25	330	8,856	56,900	2	2,092	68,205
Net Working Capital...........	20,556	18,128	148,225	1,120,875	1,356	14,852	1,323,992
Increase (Decrease) in Cash & Cash Equivalents.	272	3,050	26,136	645,189	(816)	287	674,118
Total Assets........................	247,316	42,414	2,679,686	24,355,719	10,004	25,899	27,361,038
Bonds and Other Non-current Liabilities Payable from Operating Revenues.	97	2,063	8,181	13,072,451	84	4,422	13,087,298
Total Equity (Deficits)..........	38,126	19,804	202,119	4,898,889	8,946	17,548	5,185,432

B. Workers' Compensation Fund

For the Workers' Compensation Enterprise Fund, the reserve for compensation (see NOTE 14F.) consists of reserves for indemnity and medical claims resulting from work-related injuries and illnesses. The estimate for this liability 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 liability, which is included in "Refund and Other Liabilities" in the amount of $1.6 billion, is an estimate of future expenses to be incurred in the settlement of claims. The estimate for this liability is based on projected claims-related expenses, estimated costs of the Health Partnership Program, and the reserve for compensation.

Management of the Ohio Bureau of Workers' Compensation and the Industrial Commission of Ohio believes that the reported liability estimates are adequate; however, the ultimate liabilities may vary from amounts provided. The methods of making such estimates and for establishing the resulting liabilities are reviewed and updated quarterly based upon current circumstances. Any adjustments resulting from changes in estimates are recognized in the current period. For additional information, refer to the Fund's separate audited financial report, for the fiscal year ended June 30, 1997.

NOTE 19 CHANGES IN CONTRIBUTED CAPITAL

For the fiscal year ended June 30, 1997, changes in contributed capital reported in the primary government's Internal Service Funds are as follows (in thousands):

	Internal Service Funds			
	Ohio Data Network	Ohio Penal Industries	Support Services	Total
Contributed Capital Balance, July 1, 1996......................	$28,476	$1,497	$5,257	$35,230
Additions:				
Capital Contributions from Other Funds (reported as Residual Equity Transfers-out):				
Capital Projects Funds:				
Administrative Services Building Improvements	5,722	—	—	5,722
Adult Correctional Building Improvements.................	—	15	—	15
Total Additions..............................	5,722	15	—	5,737
Contributed Capital Balance, June 30, 1997...................	$34,198	$1,512	$5,257	$40,967

NOTE 20 FUND EQUITY — OTHER RESERVES AND DESIGNATIONS

A. Primary Government

The "Reserved for Other" account reported for the governmental and expendable trust funds in the primary government's combined balance sheet, as of June 30, 1997, consists of the following (in thousands):

Reserved for Other:	General	Special Revenue	Capital Projects	Expendable Trust	Total
Intergovernmental Receivable:					
Advance Payments to Local Government	$ 21,322	$ 41,350	$ —	$ —	$ 62,672
Inventories	2,807	33,873	—	—	36,680
Other Assets — Prepaids	—	431	—	—	431
Human Services Stabilization	111,204	—	—	—	111,204
Loan Commitments	—	91,171	40,240	—	131,411
Health Care Benefits	8,905	6,558	3	—	15,466
Advances to Other Funds	—	—	—	85,076	85,076
Office of Minority Financial Incentives					
Mini-Loan Deposits	2,156	—	—	—	2,156
Total	$146,394	$173,383	$40,243	$85,076	$445,096

Reserved retained earnings for the Enterprise Fund, as of June 30, 1997, are provided for future health care benefits funding from the Liquor Control Fund, the payment of deferred lottery prizes from the Ohio Lottery Commission, and insurance claims payable from the Workers' Compensation Fund in the amounts of $64 thousand, $31 million, and $100.8 million, respectively.

Reserved retained earnings for the Internal Service Fund, as of June 30, 1997, are provided for the funding of future health care benefits in the amount of $319 thousand.

As of June 30, 1997, designations of the General Fund's unreserved fund balance are as follows (in thousands):

General Fund	Unreserved, Designated Fund Balance
Income Tax Reduction Program	$262,900
Public School Building Program	250,000
SchoolNet Plus Program	94,400
Instructional Materials Education Program	35,000
Budget Stabilization	34,400
Distance Learning Program	9,200
Total Designations	$685,900

B. Component Units

Reservations of fund balances for the component unit funds, as of June 30, 1997, consist of the following (in thousands):

Restricted for:	Ohio State University	University of Cincinnati	Other Component Units	Total Component Units
General Operations (includes Auxiliary Enterprises)	$ 96,894	$ 73,281	$ 63,360	$ 233,535
Loan Programs	61,068	30,507	93,803	185,378
Endowment and Quasi-Endowment Activities	621,281	674,374	124,875	1,420,530
Plant Operations	11,338	13,759	11,788	36,885
Annuity and Life Income	3,542	3,870	—	7,412
University Foundations	—	60,327	—	60,327
Grants and Contracts	—	—	1,828	1,828
Student Organizations and Support Services	—	—	451	451
Total Reserved Balance	$794,123	$856,118	$296,105	$1,946,346

NOTE 20 FUND EQUITY — OTHER RESERVES AND DESIGNATIONS (Continued)

As of June 30, 1997, designations of unreserved fund balances reported in the component unit funds consist of the following (in thousands):

Unreserved, Designated for:	Total Component Units
Educational and General Programs	$173,723
Auxiliary Enterprises	13,603
Hospital Operations	317
Loan Programs	2,254
Endowment and Quasi-Endowment Activities	32,689
Plant Operations	61,522
Total Designations	$284,108

NOTE 21 COMPONENT UNIT FUNDS

Condensed financial statements for the component unit funds, asof and for the fiscal year ended June 30, 1997, are as follows (in thousands):

Condensed Balance Sheet — Component Units

	Ohio Water Development Authority (12/31/96)	Ohio State University	University of Cincinnati	Other Component Units	Total Component Units
Assets					
Cash Equity with Treasurer	$ 107	$ —	$ —	$ —	$ 107
Cash and Cash Equivalents	6,892	31,074	3,922	75,834	117,722
Investments	725,798	1,160,521	42,094	774,189	2,702,602
Receivables	1,612,223	250,691	95,312	247,796	2,206,022
Due from Other Funds	344	274,994	10,258	57,890	343,486
Inventories	—	17,768	4,610	20,351	42,729
Deposit with Deferred Compensation Plan	739	—	—	6,442	7,181
Restricted Assets	—	26,667	486,825	13,831	527,323
Fixed Assets (net of accumulated depreciation)	277	2,238,955	985,380	4,397,994	7,622,606
Other Assets	16,216	19,019	539,814	29,529	604,578
Total Assets	$2,362,596	$4,019,689	$2,168,215	$5,623,856	$14,174,356
Liabilities					
Accounts Payable	$ 29,658	$ 67,866	$ 21,595	$ 64,767	$ 183,886
Accrued Liabilities	5,686	183,910	93,347	266,531	549,474
Intergovernmental Payable	—	—	—	309	309
Due to Other Funds	344	274,994	10,258	57,890	343,486
Deferred Revenues	—	63,372	8,801	84,536	156,709
Refund and Other Liabilities	4,855	25,361	63,143	42,612	135,971
Liability for Deferred Compensation	739	—	—	6,442	7,181
Revenue Bonds and Notes	1,265,554	176,174	197,518	376,107	2,015,353
Certificates of Participation	—	4,215	82,610	—	86,825
Total Liabilities	1,306,836	795,892	477,272	899,194	3,479,194
Fund Equity and Other Credits					
Investment in General Fixed Assets	—	2,057,201	826,534	4,042,241	6,925,976
Total Unreserved Retained Earnings	1,055,760	—	—	—	1,055,760
Total Fund Balance	—	1,166,596	864,409	682,421	2,713,426
Total Fund Equity and Other Credits	1,055,760	3,223,797	1,690,943	4,724,662	10,695,162
Total Liabilities, Fund Equity and Other Credits	$2,362,596	$4,019,689	$2,168,215	$5,623,856	$14,174,356

NOTE 21 COMPONENT UNIT FUNDS (Continued)

Condensed Statement of Changes in Fund Balances — Colleges and Universities

	Ohio State University	University of Cincinnati	Other Colleges and Universities	Total College and University Component Units
Total Revenues and Other Additions	$1,642,461	$ 809,362	$2,204,388	$4,656,211
Total Expenditures and Other Deductions	(1,648,111)	(1,105,214)	(2,736,020)	(5,489,345)
Transfers from Primary Government	376,623	175,615	858,429	1,410,667
Net Increase (Decrease) for the Year Before Cumulative Effect of Change in Accounting Principle	370,973	(120,237)	326,797	577,533
Cumulative Effect of Change in Accounting Principle	9,254	—	(4,182)	5,072
Net Increase (Decrease) for the Year	380,227	(120,237)	322,615	582,605
Fund Balance and Other Credits, July 1 *(as restated)*	2,843,570	1,811,180	4,402,047	9,056,797
Fund Balance and Other Credits, June 30	$3,223,797	$1,690,943	$4,724,662	$9,639,402

Condensed Statement of Current Funds Revenues, Expenditures and Other Changes — Colleges and Universities

	Ohio State University	University of Cincinnati	Other Colleges and Universities	Total College and University Component Units
Total Revenues	$1,232,237	$414,124	$1,764,630	$3,410,991
Expenditures:				
Educational and General	1,024,432	486,372	2,006,372	3,517,176
Auxiliary Enterprises	110,113	51,977	334,305	496,395
Hospitals	345,336	—	141,393	486,729
Total Expenditures	1,479,881	538,349	2,482,070	4,500,300
Mandatory Transfers, Net	28,732	20,622	44,002	93,356
Total Expenditures and Mandatory Transfers	1,508,613	558,971	2,526,072	4,593,656
Other Transfers and Additions (Deductions):				
Operating Transfers from Primary Government	373,287	171,932	857,455	1,402,674
Nonmandatory Transfers, Net	(38,541)	(15,874)	(40,174)	(94,589)
Additions (Deductions)	(11,054)	8,397	7,902	5,245
Total Other Transfers and Additions (Deductions)	323,692	164,455	825,183	1,313,330
Net Increase (Decrease) for the Year Before Cumulative Effect of Change in Accounting Principle	47,316	19,608	63,741	130,665
Cumulative Effect of Change in Accounting Principle	9,254	—	—	9,254
Net Increase in Fund Balances	$ 56,570	$ 19,608	$ 63,741	$ 139,919

NOTE 22 JOINT VENTURES AND RELATED ORGANIZATIONS

A. Joint Ventures

Great Lakes Protection Fund (GLPF)

The Great Lakes Protection Fund is an Illinois nonprofit organization that was formed to further federal and state commitments to the restoration and maintenance of the Great Lakes Basin's ecosystem. The governors of seven of the eight states that border on the Great Lakes comprise theGLPF's membership. Under the GLPF's articles

NOTE 22 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

of incorporation, each state is required to make a financial contribution. Income earned on the contributions provides grants to projects that advance the goals of the Great Lakes Toxic Substances Control Agreement and the binational Great Lakes Quality Agreement.

Each governor nominates two individuals to the GLPF's board of directors who serve staggered two-year terms. All budgetary and financial decisions rest with the board except when restricted by the GLPF's articles of incorporation.

Annually, one-third of the GLPF's net earnings is allocated and paid to member states in proportion to their respective cash contributions to the GLPF. The allocation is based on the amount and period of time the states' contributions were invested. GLPF earnings distributions are to be used by the states to finance projects that are compatible with the GLPF's objectives. Ohio has applied its distribution (approximately $612 thousand for the year ended December 31, 1996) to the operations of its own protection program, known as the Lake Erie Protection Program, which is modeled after the GLPF.

Required contributions and contributions received from the states, which border the Great Lakes, as of December 31, 1996 (the GLPF's year end), are as follows (in thousands):

	Contribution Required	Contribution Received	Contribution Percentage
Michigan	$25,000	$25,000	32.6%
Indiana*	16,000	—	—
Illinois	15,000	10,800	14.0
Ohio	14,000	14,000	18.2
New York	12,000	12,000	15.6
Wisconsin	12,000	12,000	15.6
Minnesota	1,500	1,500	2.0
Pennsylvania	1,500	1,500	2.0
Total	$97,000	$76,800	100.0%

*The State of Indiana has not yet elected to join the Great Lakes Protection Fund.

Summary financial information for the GLPF, for the fiscal year ended December 31, 1996, is as follows (in thousands):

Cash and Investments	$103,397
Other Assets	1,048
Total Assets	$104,445
Total Liabilities	$ 3,282
Total Fund Equity	101,163
Total Liabilities and Fund Equity	$104,445
Total Revenues and Other Additions	$ 9,937
Total Expenditures	(6,926)
Change in Unrealized Gain on Investments	5,417
Cumulative Effect of Adoption of Financial Accounting Standards Board Statement No. 24, *Accounting for Certain Investments Held by Not for Profit Organizations*	12,027
Net Increase in Fund Equity	$20,455

NOTE 22 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

In the event of the Fund's dissolution, the State of Ohio would receive a portion of the Fund's assets equal to the lesser of the amount of such assets multiplied by the ratio of its required contribution to the required contributions of all member states, or the amount of its required contribution.

Local Community and Technical Colleges

The State's primary government has an ongoing financial responsibility for the funding of six local community colleges and eight technical colleges. With respect to the local community colleges, State of Ohio officials appoint three members of each college's respective nine-member board of trustees; the remaining six members are appointed by county officials. The governing boards of the technical colleges consist of either seven or nine trustees, of which State officials appoint two and three members, respectively; the remaining members are appointed by the local school boards located in the respective technical college district.

The Ohio General Assembly appropriates moneys to these institutions from the General Fund to subsidize operations so that higher education can become more financially accessible to Ohio residents. These expenditures are included in the "Higher Education Support" expenditure function reported in the General Fund. The primary government also provides financing for the construction of these institutions' capital facilities by meeting the debt service requirements for the Higher Education Facilities bonds issued by the Ohio Public Facilities Commission (OPFC) for these purposes. The capital outlay expenditures for the projects financed by the OPFC bond issuances are included in the Higher Education Improvements Capital Projects Fund.

During fiscal year 1997, expenditures reported in the General Fund and the Higher Education Improvements Capital Projects Fund in support of the local community and technical colleges are as follows (in thousands):

	Higher Education Support Expenditures	Capital Outlay Expenditures	Total
Local Community Colleges:			
Cuyahoga Community College	$ 36,637	$ 5,309	$ 41,946
Jefferson Community College	3,346	622	3,968
Lakeland Community College	12,390	3,204	15,594
Lorain County Community College	13,934	2,960	16,894
Rio Grande Community College	3,571	1,528	5,099
Sinclair Community College	30,454	4,425	34,879
Total Local Community Colleges	100,332	18,048	118,380
Technical Colleges:			
Belmont Technical College	4,230	720	4,950
Central Ohio Technical College	3,776	1,715	5,491
Hocking Technical College	15,052	1,788	16,840
Lima Technical College	5,888	3,078	8,966
Marion Technical College	3,117	155	3,272
Muskingum Technical College	4,883	68	4,951
North Central Technical College	6,235	249	6,484
Stark Technical College	7,867	168	8,035
Total Technical Colleges	51,048	7,941	58,989
Total	$151,380	$25,989	$177,369

Information for obtaining complete financial statements for each of the primary government's joint ventures is available from the Ohio Office of Budget and Management.

NOTE 22 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

B. Related Organizations

Officials of the State's primary government appoint a voting majority of the governing boards of the Ohio Turnpike Commission, the Petroleum Underground Storage Tank Release Compensation Board, the Ohio Air Quality Development Authority, the Higher Education Facility Commission, and the Ohio Legal Assistance Foundation. However, the primary government's accountability for these organizations does not extend beyond making the appointments.

During fiscal year 1997,

- The primary government distributed $2.4 million in motor vehicle fuel excise tax collections from the Special Revenue Fund to the Ohio Turnpike Commission.

- Three separate funds, established for the Petroleum Underground Storage Tank Release Compensation Board, the Ohio Air Quality Development Authority, and the Higher Education Facility Commission, were accounted for on the primary government's Central Accounting System. The primary purpose of the funds is to streamline payroll processing for these organizations. The financial activities of the three funds, which do not receive any funding support from the primary government, have been included in the Other Agency Fund.

- The Public Defender's Office compensated the Ohio Legal Assistance Foundation approximately $576 thousand from the Special Revenue Fund for administrative services performed under contract for the distribution of State funding to nonprofit legal aid societies. Also, during fiscal year 1997, the Ohio Legal Assistance Foundation received approximately $580 thousand in state assistance from the Special Revenue Fund.

NOTE 23 CONTINGENCIES AND COMMITMENTS

A. Litigation

The State, its units, and employees are parties to numerous legal proceedings, which normally occur in governmental operations.

In instances when the unfavorable outcome of pending litigation has been assessed to be probable, liabilities are recorded in the financial statements. As of June 30, 1997, $37.3 million in liabilities ultimately payable from various governmental funds has been recorded in the General Long-Term Obligations Account Group for this purpose.

Litigation, similar to that in other states, has been pending questioning the constitutionality of Ohio's system of school funding. The Ohio Supreme Court concluded in a decision released March 24, 1997 that major aspects of the system (including basic operating assistance and state loans) are unconstitutional. It ordered the State to provide for and fund sufficiently a system complying with the Ohio Constitution, staying its order for a year to permit time for responsive corrective actions by the Ohio General Assembly. In response to a State motion for reconsideration and clarification, the Court on April 25, 1997 indicated that property taxes may still play a role in, but "can no longer be the primary means" of, school funding. The Court also confirmed that contractual repayment provisions of certain debt obligations issued for school funding will remain valid after the stay terminates.

NOTE 23 CONTINGENCIES AND COMMITMENTS (Continued)

Other litigation pending in the U.S. Court of Appeals for the Sixth Circuit contests the Ohio Department of Human Services' former Medicaid financial eligibility rules for married couples where one spouse is living in a nursing facility and the other spouse resides in the community. The Department promulgated new eligibility rules effective January 1, 1996. It is appealing a court order directing it to provide notice to persons potentially affected by the former rules from 1990 through 1995. It is not possible at this time to state whether this appeal will be successful or, should plaintiffs prevail, 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 million 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 million.

All other legal proceedings are not, in the opinion of management after consultation with the Attorney General, likely to have a material adverse effect on the financial position of the State's fund types and account groups.

B. Federal Financial Assistance

The State of Ohio receives significant financial assistance from the federal government in the form of grants and entitlements, including non-cash programs (which are not included in the General Purpose Financial Statements). Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit or to financial compliance audits by the grantor agencies of the federal government or their designees. Disallowances and sanctions as a result of these audits may become liabilities of the applicable funds or the General Long-Term Obligations Account Group.

As a result of the 1996 State of Ohio Single Audit (completed in January 1997), approximately $28.9 million of federal expenditures is in question as not being appropriate under the terms of the respective grants. The amount of expenditures, which may be ultimately disallowed by the grantor, cannot be determined at this time, and consequently, no provision for any liability or adjustments for this matter has been recognized in the State's financial statements for the fiscal year ended June 30, 1997.

C. Construction Commitments

As of June 30, 1997, the Department of Transportation had contractual commitments of approximately $1.07 billion for highway construction projects. Funding for future expenditures is expected to be provided from federal, primary government, general obligation bonds, and local government sources in the amounts of $546.1 million, $265.4 million, $40.5 million, and $217.3 million, respectively.

As of June 30, 1997, construction (non-highway) commitments for the primary government's budgeted capital projects funds are as follows (in thousands):

Capital Projects Fund	
Higher Education Improvements	$229,412
Adult Correctional Building Improvements	116,381
Arts Facilities Building Improvements	61,024
Administrative Services Building Improvements	57,658
Highway Safety Building Improvements	36,120
Ohio Parks and Natural Resources	35,023
Mental Health/Mental Retardation Facilities Improvements	33,655
Youth Services Building Improvements	18,625
Transportation Building Improvements	11,255
Parks and Recreation Improvements	8,569
Sports Facilities Building	5,800
Local Infrastructure Improvements	15
Total	$613,537

NOTE 24 RISK FINANCING

A. OhioMed Health Plan

Employees of the primary government have the option of participating in the OhioMed Health Plan, which is a fully self-insured health benefits plan established July 1, 1989. Medical Mutual of Ohio administers the plan under a claims administration contract with the primary government.

When it is probable that a loss has occurred and the amount of the loss can be reasonably estimated, the primary government reports liabilities for the governmental and proprietary funds. Liabilities include an amount for claims that have been incurred but not reported (IBNR). The plan's actuary calculates estimated claims liabilities based on prior claims data, employee enrollment figures, medical trends, and experience.

Governmental and proprietary funds pay a share of the costs for claims settlement based on the number of employees opting for plan participation and the type of coverage selected by participants. The payments are reported in the Payroll Withholding and Fringe Benefits Agency Fund until such time that the primary government pays the accumulated resources to Medical Mutual of Ohio for claims settlement.

For governmental funds, the primary government recognizes claims as expenditures to the extent that the amounts are payable with expendable available financial resources; any remaining accrued unfunded liabilities are reported in the General Long-Term Obligations Account Group. For proprietary funds, claims are recognized as expenses when incurred.

Consequently, claims liabilities that exceed financial resources accounted for in the Payroll Withholding and Fringe Benefits Agency Fund are reported as unfunded liabilities in the proprietary funds and in the General Long-Term Obligations Account Group. As of June 30, 1997, approximately $36.3 million in assets was available in the Agency Fund.

Changes in the balance of claims liabilities during the past two fiscal years are as follows (in thousands):

		Fiscal Year 1997	Fiscal Year 1996
	Claims Liabilities, as of July 1	$17,763	$13,944
Add:	Incurred Claims	69,475	71,532
Less:	Claims Payments	(68,506)	(67,713)
	Claims Liabilities, as of June 30	$18,732	$17,763

As of June 30, 1997, resources on deposit in the Payroll Withholding and Fringe Benefits Agency Fund for the payment of claims exceeded the estimated claims liability amount by $17.6 million, thereby, resulting in a funding surplus. The surplus is offset with a "Due to Other Funds" balance reported in the Agency Fund with corresponding "Due from Other Funds" balances reported in the paying funds.

B. Other Risk Financing Programs

The primary government has established programs to advance fund potential losses for vehicular liability and theft in office. The potential amount of loss arising from these risks, however, is not considered material in relation to the State's financial position.

NOTE 25 SUBSEQUENT EVENTS

Subsequent to June 30, 1997 (December 31, 1996 for the Ohio Water Development Authority), the State issued the following major debt (in thousands):

Organization/Issue	Delivery Date of Issue	Net Interest Cost	Amount	Type of Debt
Primary Government:				
Ohio Public Facilities Commission:				
Higher Education Capital Facilities Bonds, Series II - 1997B	October 1, 1997	4.7%	$236,500	Special Obligation
Component Units:				
Ohio Water Development Authority:				
1997 Safe Water Series Refunding	February 6, 1997	4.8%	$ 74,340	Revenue
Water Pollution Control Loan Fund, Water Quality Series 1997	October 15, 1997	5.2%	211,440	Revenue
Water Development, Community Assistance Series 1997	October 15, 1997	5.3%	51,830	Revenue
Total Component Units			$337,610	