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, 1998

STATE OF OHIO

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

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JUNE 30, 1998

(amounts expressed in thousands)

	GOVERNMENTAL FUND TYPES			
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
ASSETS AND OTHER DEBITS				
Cash Equity with Treasurer	$ 2,981,408	$ 2,709,399	$ 80,507	$ 551,031
Cash and Cash Equivalents	11,291	27,392	2,175	—
Investments	—	99,554	94,354	13,975
Collateral on Lent Securities	2,280,277	2,065,216	61,413	420,144
Deposit with Federal Government	—	—	—	—
Receivables:				
Taxes	759,377	191,244	176	—
Intergovernmental	516,203	262,131	—	—
Premiums and Assessments	—	—	—	—
Investment Trade	—	—	—	—
Loans, Net	14,823	383,438	5,200	127,985
Other	18,130	47,153	864	2,595
Due from Other Funds	13,113	22,853	1,239	2,340
Inventories	1,835	35,226	—	—
Food Stamps	—	197,425	—	—
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	794	7,107	—	—
Amount Available in Debt Service Fund	—	—	—	—
Amount to be Provided for General Long-Term Obligations	—	—	—	—
TOTAL ASSETS AND OTHER DEBITS	**$ 6,597,251**	**$ 6,048,138**	**$ 245,928**	**$ 1,118,070**
LIABILITIES, FUND EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts Payable	$ 101,334	$ 212,995	$ —	$ 90,435
Medicaid Claims Payable	525,696	—	—	—
Accrued Liabilities	113,940	67,459	802	42
Obligations Under Securities Lending	2,280,277	2,065,216	61,413	420,144
Intergovernmental Payable	216,752	385,136	—	—
Investment Trade Payable	—	—	—	—
Due to Other Funds	39,851	10,277	—	2,056
Deferred Revenues	62,545	269,331	—	—
Benefits Payable	—	—	—	—
Refund and Other Liabilities	595,009	70,460	1,170	—
Liability for Escheat Property	—	—	—	—
Liability for Deferred Compensation	—	—	—	—
Liabilities Payable from Restricted Assets	—	—	—	—
Advances from Other Funds	—	114,629	—	—
General Obligation Bonds	—	—	—	—
Revenue Bonds and Notes	—	—	—	—
Special Obligation Bonds	—	—	—	—
Certificates of Participation	—	—	—	—
Other General Long-Term Obligations	—	—	—	—
Total Liabilities	3,935,404	3,195,503	63,385	512,677
Fund Equity and Other Credits:				
Investment in General Fixed Assets	—	—	—	—
Contributed Capital	—	—	—	—
Reserved Retained Earnings	—	—	—	—
Unreserved Retained Earnings	—	—	—	—
Fund Balances:				
Reserved for:				
Debt Service	1,370	—	176,745	—
Encumbrances	525,312	2,536,152	—	883,787
Budget Stabilization	862,707	—	—	—
Noncurrent Portion of Loans Receivable	13,996	258,102	5,199	127,047
Pension and Other Postemployment Benefits	—	—	—	—
Unemployment Benefits	—	—	—	—
External Investment Pool Participants	—	—	—	—
Restricted Fund Balances	—	—	—	—
Other	114,655	63,283	—	42,051
Unreserved/Designated	945,574	—	—	—
Unreserved/Undesignated (Deficits)	198,233	(4,902)	599	(447,492)
Total Fund Equity and Other Credits	2,661,847	2,852,635	182,543	605,393
TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS	**$ 6,597,251**	**$ 6,048,138**	**$ 245,928**	**$ 1,118,070**

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)
$ 172,195	$ 55,862	$ 189,047	$ —	$ —	$ 6,739,449	$ 241	$ 6,739,690
3,157,143	158	151,633	—	—	3,349,792	199,151	3,548,943
15,979,393	1,772	112,588,950	—	—	128,777,998	3,894,558	132,672,556
3,648,664	42,565	984,345	—	—	9,502,624	—	9,502,624
—	—	2,000,059	—	—	2,000,059	—	2,000,059
—	—	159,371	—	—	1,110,168	—	1,110,168
6,021	1,773	35	—	—	786,163	25,672	811,835
1,274,314	—	—	—	—	1,274,314	—	1,274,314
1,002,701	—	—	—	—	1,002,701	—	1,002,701
—	—	—	—	—	531,446	1,931,373	2,462,819
248,724	37,207	35,394	—	—	390,067	416,829	806,896
2,085	42,521	8,448	—	—	92,599	437,634	530,233
24,185	20,572	—	—	—	81,818	43,764	125,582
—	—	—	—	—	197,425	—	197,425
—	—	1,025,872	—	—	1,025,872	9,863	1,035,735
—	—	114,629	—	—	114,629	—	114,629
22,153	—	—	—	—	22,153	—	22,153
154	55	—	—	—	209	3,532	3,741
—	47,319	—	—	—	47,319	16,426	63,745
1,708,831	—	—	—	—	1,708,831	—	1,708,831
1,225,785	—	—	—	—	1,255,785	—	1,255,785
20,480	—	—	—	—	20,480	—	20,480
277,955	27,674	2,826	3,660,405	—	3,968,860	8,241,499	12,210,359
52,695	304	403,720	—	—	464,620	722,232	1,236,852
—	—	—	—	178,115	178,115	—	178,115
—	—	—	—	7,427,730	7,427,730	—	7,427,730
$ 28,853,478	**$ 277,782**	**$ 117,664,329**	**$ 3,660,405**	**$ 7,605,845**	**$ 172,071,226**	**$ 15,992,774**	**$ 188,064,000**
$ 141,647	$ 28,431	$ 1,024	$ —	$ —	$ 575,866	$ 197,826	$ 773,692
—	—	—	—	—	525,696	—	525,696
47,899	10,349	289	—	—	240,780	695,682	936,462
3,648,664	42,565	984,345	—	—	9,502,624	—	9,502,624
—	2,584	76,020	—	—	680,492	1,634	682,126
2,119,164	—	132,411	—	—	2,251,575	—	2,251,575
2,278	3,895	34,329	—	—	92,686	437,634	530,320
449,482	794	—	—	—	782,152	175,511	957,663
12,900,986	—	24,932	—	—	12,925,918	—	12,925,918
1,981,269	—	107,725,201	—	—	110,373,109	133,350	110,506,459
—	—	71,779	—	—	71,779	—	71,779
—	—	1,029,285	—	—	1,029,285	9,863	1,039,148
2,873,848	—	—	—	—	2,873,848	—	2,873,848
—	—	—	—	—	114,629	—	114,629
—	—	—	—	1,568,183	1,568,183	—	1,568,183
197,470	34,677	—	—	236,805	468,952	2,282,815	2,751,767
—	—	—	—	4,831,558	4,831,558	—	4,831,558
—	—	—	—	18,615	18,615	14,145	32,760
—	—	—	—	950,684	950,684	—	950,684
24,362,707	123,295	110,079,615	—	7,605,845	149,878,431	3,948,460	153,826,891
—	—	—	3,660,405	—	3,660,405	7,423,813	11,084,218
—	46,114	—	—	—	46,114	—	46,114
181,587	148	—	—	—	181,735	—	181,735
4,309,184	108,225	—	—	—	4,417,409	1,165,290	5,582,699
—	—	—	—	—	178,115	—	178,115
—	—	—	—	—	3,945,251	—	3,945,251
—	—	—	—	—	862,707	—	862,707
—	—	—	—	—	404,344	—	404,344
—	—	588,684	—	—	588,684	—	588,684
—	—	2,286,657	—	—	2,286,657	—	2,286,657
—	—	4,499,046	—	—	4,499,046	—	4,499,046
—	—	—	—	—	—	2,622,969	2,622,969
—	—	114,629	—	—	334,618	—	334,618
—	—	—	—	—	945,574	322,500	1,268,074
—	—	95,698	—	—	(157,864)	509,742	351,878
4,490,771	154,487	7,584,714	3,660,405	—	22,192,795	12,044,314	34,237,109
$ 28,853,478	**$ 277,782**	**$ 117,664,329**	**$ 3,660,405**	**$ 7,605,845**	**$ 172,071,226**	**$ 15,992,774**	**$ 188,064,000**

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, 1998
(amounts expressed in thousands)

	GOVERNMENTAL FUND TYPES		
	GENERAL	SPECIAL REVENUE	DEBT SERVICE
REVENUES:			
Income Taxes	$ 6,107,084	$ 721,158	$ —
Sales Taxes	5,277,997	282,405	—
Corporate and Public Utility Taxes	1,862,497	106,693	—
Motor Vehicle Fuel Taxes	—	1,355,223	44,725
Unemployment Taxes	—	—	—
Other Taxes	844,815	45,736	—
Licenses, Permits and Fees	96,411	767,452	19,985
Sales, Services and Charges	38,947	37,144	—
Federal Government	3,436,650	4,916,722	—
Investment Income	381,574	124,106	15,227
Other	161,077	534,219	968
TOTAL REVENUES	**18,207,052**	**8,890,858**	**80,905**
EXPENDITURES:			
CURRENT:			
Primary, Secondary and Other Education	4,427,167	1,500,304	—
Higher Education Support	338,714	15,816	—
Public Assistance and Medicaid	6,372,816	2,089,392	—
Health and Human Services	1,006,636	1,478,540	—
Justice and Public Protection	1,457,183	413,324	—
Environmental Protection and Natural Resources	114,018	201,504	—
Transportation	32,992	1,461,138	—
General Government	509,364	115,911	—
Community and Economic Development	103,276	285,809	—
INTERGOVERNMENTAL	982,955	1,752,844	—
CAPITAL OUTLAY	38,806	212,371	—
DEBT SERVICE	1,831	—	1,020,587
TOTAL EXPENDITURES	**15,385,758**	**9,526,953**	**1,020,587**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	**2,821,294**	**(636,095)**	**(939,682)**
OTHER FINANCING SOURCES (USES):			
Bond Proceeds	—	86,848	—
Refunding Bond Proceeds	—	—	339,431
Payment to Refunded Bond Escrow Agents	—	—	(338,895)
Capital Leases	4,737	8,983	—
Operating Transfers-in	180,176	1,915,726	867,125
Operating Transfers-out	(1,142,014)	(983,017)	(36,763)
Operating Transfers to Component Units	(1,520,432)	—	—
TOTAL OTHER FINANCING SOURCES (USES)	**(2,477,533)**	**1,028,540**	**830,898**
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	**343,761**	**392,445**	**(108,784)**
FUND BALANCES, JULY 1 (as restated)	2,319,058	2,458,836	291,327
Increase (Decrease) for Changes in Inventories	(972)	1,354	—
Residual Equity Transfers-out	—	—	—
FUND BALANCES, JUNE 30	**$ 2,661,847**	**$ 2,852,635**	**$ 182,543**

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

		FIDUCIARY FUND TYPE	
	CAPITAL PROJECTS	EXPENDABLE TRUST	TOTAL (memorandum only)
	$ —	$ —	$ 6,828,242
	—	—	5,560,402
	—	—	1,969,190
	—	—	1,399,948
	—	705,380	705,380
	—	—	890,551
	—	—	883,848
	—	—	76,091
	—	10,995	8,364,367
	33,616	145,004	699,527
	3,215	57,937	757,416
	36,831	**919,316**	**28,134,962**
	—	—	5,927,471
	—	—	354,530
	—	—	8,462,208
	—	666,138	3,151,314
	—	—	1,870,507
	—	—	315,522
	—	—	1,494,130
	—	25,980	651,255
	808	—	389,893
	—	—	2,735,799
	997,169	—	1,248,346
	—	—	1,022,418
	997,977	**692,118**	**27,623,393**
	(961,146)	**227,198**	**511,569**
	784,461	—	871,309
	—	—	339,431
	—	—	(338,895)
	—	—	13,720
	259,707	—	3,222,734
	(260,942)	—	(2,422,736)
	—	—	(1,520,432)
	783,226	**—**	**165,131**
	(177,920)	**227,198**	**676,700**
	788,460	2,269,786	8,127,467
	—	—	382
	(5,147)	—	(5,147)
	$ 605,393	**$ 2,496,984**	**$ 8,799,402**

STATE OF OHIO

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) GENERAL, SPECIAL REVENUE, DEBT SERVICE AND CAPITAL PROJECTS FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 1998

(amounts expressed in thousands)

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES:						
Income Taxes	$ 5,645,198	$ 6,212,543	$ 567,345	$ 733,545	$ 733,545	$ —
Sales Taxes	5,169,600	5,265,523	95,923	281,499	281,499	—
Corporate and Public Utility Taxes	1,806,201	1,869,598	63,397	107,051	107,051	—
Motor Vehicle Fuel Taxes	—	—	—	1,348,701	1,348,701	—
Other Taxes	831,545	842,599	11,054	46,242	46,242	—
Licenses, Permits and Fees	134,328	103,351	(30,977)	939,725	939,725	—
Sales, Services and Charges	31,706	33,285	1,579	33,039	33,039	—
Federal Government	3,844,151	3,373,017	(471,134)	4,809,913	4,809,913	—
Investment Income	91,948	137,152	45,204	115,676	115,676	—
Other	314,686	352,152	37,466	754,822	754,822	—
TOTAL REVENUES	17,869,363	18,189,220	319,857	9,170,213	9,170,213	—
BUDGETARY EXPENDITURES:						
CURRENT:						
Primary, Secondary and Other Education	4,545,392	4,516,190	29,202	1,727,252	1,688,123	39,129
Higher Education Support	1,871,114	1,863,219	7,895	16,764	14,096	2,668
Public Assistance and Medicaid	6,749,354	6,379,031	370,323	2,546,229	2,054,708	491,521
Health and Human Services	1,073,096	1,052,016	21,080	1,987,825	1,581,515	406,310
Justice and Public Protection	1,482,416	1,445,502	36,914	520,412	454,464	65,948
Environmental Protection and Natural Resources	136,921	131,292	5,629	272,067	224,235	47,832
Transportation	42,259	42,186	73	1,931,186	1,536,769	394,417
General Government	420,232	386,197	34,035	132,139	117,437	14,702
Community and Economic Development	139,363	135,042	4,321	375,260	295,191	80,069
INTERGOVERNMENTAL	1,008,892	985,011	23,881	1,966,473	1,936,046	30,427
CAPITAL OUTLAY	45,857	33,451	12,406	937,974	696,126	241,848
DEBT SERVICE	801,266	762,132	39,134	26,534	23,303	3,231
TOTAL BUDGETARY EXPENDITURES	18,316,162	17,731,269	584,893	12,440,115	10,622,013	1,818,102
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES	(446,799)	457,951	904,750	(3,269,902)	(1,451,800)	1,818,102
OTHER FINANCING SOURCES (USES):						
Bond Proceeds	—	—	—	86,848	86,848	—
Operating Transfers-in	73,531	476,468	402,937	1,900,388	1,900,388	—
Operating Transfers-out	(268,142)	(660,560)	(392,418)	(928,286)	(928,286)	—
Encumbrance Reversions	—	74,232	74,232	514,623	514,623	—
TOTAL OTHER FINANCING SOURCES (USES)	(194,611)	(109,860)	84,751	1,573,573	1,573,573	—
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) BUDGETARY EXPENDITURES AND OTHER FINANCING USES	(641,410)	348,091	989,501	$ (1,696,329)	121,773	$ 1,818,102
UNRESERVED, UNDESIGNATED BUDGETARY FUND BALANCES (DEFICITS), JULY 1	337,992	337,992	—		(215,975)	
Decrease (Increase) in Budgetary Designations	(288,862)	(288,862)	—		—	
UNRESERVED, UNDESIGNATED BUDGETARY FUND BALANCES (DEFICITS), JUNE 30	(592,280)	397,221	989,501		(94,202)	
Budgetary Designations, June 30	1,914,273	1,914,273	—		—	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30	$ 1,321,993	$ 2,311,494	$ 989,501		$ (94,202)	

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

DEBT SERVICE FUNDS			CAPITAL PROJECTS FUNDS		
BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
$ —	$ —	$ —	$ —	$ —	$ —
—	—	—	—	—	—
—	—	—	—	—	—
44,549	44,549	—	—	—	—
—	—	—	—	—	—
19,983	19,983	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
7,095	7,095	—	33,391	33,391	—
106,669	106,669	—	10,856	10,856	—
178,296	**178,296**	**—**	**44,247**	**44,247**	**—**
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	871	802	69
—	—	—	—	—	—
—	—	—	2,318,599	1,194,499	1,124,100
262,339	231,151	31,188	—	—	—
262,339	**231,151**	**31,188**	**2,319,470**	**1,195,301**	**1,124,169**
(84,043)	**(52,855)**	**31,188**	**(2,275,223)**	**(1,151,054)**	**1,124,169**
352	352	—	784,675	784,675	—
24,673	24,673	—	48,525	48,525	—
—	—	—	(48,565)	(48,565)	—
—	—	—	34,566	34,566	—
25,025	**25,025**	**—**	**819,201**	**819,201**	**—**
$ (59,018)	**(27,830)**	**$ 31,188**	**$ (1,456,022)**	**(331,853)**	**$ 1,124,169**
	108,464			(84,425)	
	—			—	
	80,634			(416,278)	
	—			—	
	$ 80,634			**$ (416,278)**	

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, 1998

(amounts expressed in thousands)

	PROPRIETARY FUND TYPES		
	ENTERPRISE	INTERNAL SERVICE	TOTAL PRIMARY GOVERNMENT (memorandum only)
OPERATING REVENUES:			
Charges for Sales and Services	$ 2,656,351	$ 258,167	$ 2,914,518
Premium and Assessment Income	1,827,617	—	1,827,617
Investment Income	3,529,488	—	3,529,488
Other	30,176	12,854	43,030
TOTAL OPERATING REVENUES	8,043,632	271,021	8,314,653
OPERATING EXPENSES:			
Costs of Sales and Services	286,170	99,443	385,613
Administration	177,898	162,974	340,872
Premium Dividend Credits and Rebates	3,625,086	—	3,625,086
Bonuses and Commissions	137,846	—	137,846
Prizes	1,244,715	—	1,244,715
Benefits and Claims	2,027,923	—	2,027,923
Depreciation	33,929	9,992	43,921
Other	417,443	13,414	430,857
TOTAL OPERATING EXPENSES	7,951,010	285,823	8,236,833
OPERATING INCOME (LOSS)	92,622	(14,802)	77,820
NONOPERATING REVENUES (EXPENSES):			
Investment Income	77	3,417	3,494
Interest Expense	—	(2,026)	(2,026)
Federal Grants	—	—	—
Other	(2,977)	(1,442)	(4,419)
TOTAL NONOPERATING REVENUES (EXPENSES)	(2,900)	(51)	(2,951)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	89,722	(14,853)	74,869
OPERATING TRANSFERS:			
Operating Transfers-in	29,657	37,412	67,069
Operating Transfers-out	(836,979)	(30,085)	(867,064)
TOTAL OPERATING TRANSFERS	(807,322)	7,327	(799,995)
NET INCOME (LOSS)	(717,600)	(7,526)	(725,126)
RETAINED EARNINGS, JULY 1 (as restated)	5,208,371	115,899	5,324,270
RETAINED EARNINGS, JUNE 30	$ 4,490,771	$ 108,373	$ 4,599,144

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

COMPONENT UNIT OHIO WATER DEVELOPMENT AUTHORITY	TOTAL REPORTING ENTITY (memorandum only)
$ 102,517	$ 3,017,035
—	1,827,617
40,303	3,569,791
1,555	44,585
144,375	**8,459,028**
71,897	457,510
4,491	345,363
—	3,625,086
—	137,846
—	1,244,715
—	2,027,923
53	43,974
—	430,857
76,441	**8,313,274**
67,934	**145,754**
—	3,494
—	(2,026)
40,673	40,673
923	(3,496)
41,596	**38,645**
109,530	**184,399**
—	67,069
—	(867,064)
—	**(799,995)**
109,530	**(615,596)**
1,055,760	6,380,030
$ 1,165,290	**$ 5,764,434**

STATE OF OHIO
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT
FOR THE FISCAL YEAR ENDED JUNE 30, 1998
(amounts expressed in thousands)

	ENTERPRISE	INTERNAL SERVICE	TOTAL PRIMARY GOVERNMENT (memorandum only)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating Income (Loss)	$ 92,622	$ (14,802)	$ 77,820
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Investment Income	(3,529,488)	—	(3,529,488)
Depreciation	33,929	9,992	43,921
Provision for Uncollectible Accounts	(2,442)	—	(2,442)
Amortization of Premiums and Discounts	101,051	—	101,051
Amortization of Bond Issuance Costs	—	—	—
Interest on Bonds, Notes and Capital Leases	11,381	—	11,381
Interest Received on Loans	—	—	—
Miscellaneous Nonoperating (Revenues) Expenses	—	—	—
Decrease (Increase) in Assets:			
Intergovernmental Receivables	(620)	(393)	(1,013)
Premiums and Assessments Receivable	672,004	—	672,004
Other Receivables	121,217	967	122,184
Due from Other Funds	15	(4,306)	(4,291)
Inventories	(1,237)	1,583	346
Other Assets	4,109	88	4,197
Increase (Decrease) in Liabilities:			
Accounts Payable	109,899	6,389	116,288
Accrued Liabilities	648	(421)	227
Intergovernmental Payable	—	2,584	2,584
Due to Other Funds	2,262	1,857	4,119
Deferred Revenues	3,889	(51)	3,838
Benefits Payable	43,946	—	43,946
Refund and Other Liabilities	119,250	—	119,250
Liabilities Payable from Restricted Assets	(36,155)	—	(36,155)
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	**(2,253,720)**	**3,487**	**(2,250,233)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating Transfers-in	29,235	37,412	66,647
Operating Transfers-out	(836,979)	(30,085)	(867,064)
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	**(807,744)**	**7,327**	**(800,417)**

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

COMPONENT UNIT	
OHIO WATER DEVELOPMENT AUTHORITY	TOTAL REPORTING ENTITY (memorandum only)
$ 67,934	$ 145,754
(40,303)	(3,569,791)
53	43,974
—	(2,442)
—	101,051
1,039	1,039
70,858	82,239
(102,517)	(102,517)
1,904	1,904
—	(1,013)
—	672,004
305	122,489
(500)	(4,791)
—	346
—	4,197
160	116,448
—	227
500	3,084
	4,119
—	3,838
—	43,946
—	119,250
—	(36,155)
(567)	**(2,250,800)**
—	66,647
—	(867,064)
342,242	342,242
40,673	40,673
(142,592)	(142,592)
(68,046)	(68,046)
(3,880)	(3,880)
168,397	**(632,020)**

(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, 1998

(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 and Capital Leases	(21,467)	(2,736)	(24,203)
Interest Paid	(11,381)	(2,264)	(13,645)
Principal Receipts on Capital Leases	—	4,853	4,853
Acquisition and Construction of Capital Assets	(12,208)	(3,417)	(15,625)
Proceeds from Sales of Fixed Assets	1,127	11	1,138
NET CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(43,929)**	**(3,553)**	**(47,482)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from the Sales and Maturities of Investments	33,357,663	174,374	33,532,037
Purchase of Investments	(29,417,255)	(179,699)	(29,596,954)
Investment Income Received	1,258,596	3,518	1,262,114
Borrower Rebate and Agent Fees	(68,818)	—	(68,818)
Loan Principal Repayments Received	—	—	—
Loan Disbursements	—	—	—
Loan Interest Received	—	—	—
NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES	**5,130,186**	**(1,807)**	**5,128,379**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,024,793**	**5,454**	**2,030,247**
CASH AND CASH EQUIVALENTS, JULY 1 (as restated)	1,326,852	50,621	1,377,473
CASH AND CASH EQUIVALENTS, JUNE 30	**$ 3,351,645**	**$ 56,075**	**$ 3,407,720**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Increase in Contributed Capital - Fixed Assets Donated from Other Funds	$ —	$ 5,147	$ —
Fixed Assets Acquired Under Capital Leases	17,500	—	—

Cash and Cash Equivalents in the Component Units Column on the Combined Balance Sheet include:

Proprietary-Ohio Water Development Authority	$ 10,331
Colleges and Universities	192,593
Total	**$ 202,924**

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

COMPONENT UNIT — OHIO WATER DEVELOPMENT AUTHORITY	TOTAL REPORTING ENTITY (memorandum only)
—	(24,203)
—	(13,645)
—	4,853
(47)	(15,672)
—	1,138
(47)	**(47,529)**
7,911,770	41,443,807
(8,068,579)	(37,665,533)
39,489	1,301,603
—	(68,818)
89,902	89,902
(233,958)	(233,958)
96,551	96,551
(164,825)	**4,963,554**
2,958	**2,033,205**
7,373	1,384,846
$ 10,331	**$ 3,418,051**
$ —	$ 5,147
—	17,500

STATE OF OHIO
STATEMENT OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1998
(amounts expressed in thousands)

	STATE HIGHWAY PATROL RETIREMENT SYSTEM (for the year ended December 31, 1997)		
	PENSION	POST-EMPLOYMENT	TOTAL
ADDITIONS:			
Contributions:			
Employer	$ 12,237	$ 2,543	$ 14,780
Employees	6,147	—	6,147
Other Contributions	226	5	231
Total Contributions	18,610	2,548	21,158
Investment Income:			
Net Appreciation in Fair Value of Investments	52,627	9,177	61,804
Interest	11,799	2,058	13,857
Dividends	3,752	654	4,406
Other Investment Income	625	109	734
	68,803	11,998	80,801
Less: Investment Expense	2,644	461	3,105
Net Investment Income	66,159	11,537	77,696
TOTAL ADDITIONS	**84,769**	**14,085**	**98,854**
DEDUCTIONS:			
Benefits and Claims	18,683	2,499	21,182
Refunds of Employee Contributions	232	—	232
Administrative Expenses	704	124	828
TOTAL DEDUCTIONS	**19,619**	**2,623**	**22,242**
NET INCREASE (DECREASE)	**65,150**	**11,462**	**76,612**
FUND BALANCE RESERVED FOR EMPLOYEES' PENSION AND POSTEMPLOYMENT HEALTHCARE BENEFITS			
JANUARY 1	434,763	77,309	512,072
DECEMBER 31	**$ 499,913**	**$ 88,771**	**$ 588,684**

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

STATE OF OHIO

STATEMENT OF CHANGES IN NET ASSETS
INVESTMENT TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

(amounts expressed in thousands)

	STAROHIO
OPERATIONS:	
Investment Income	$ 244,620
Expenses:	
Administration Fees	1,127
Custodian and Transfer Agent Fees and Related Expenses	827
Management Fees	441
Other	170
Total Expenses	2,565
Net Investment Income	242,055
Dividends to Shareholders from Net Investment Income	(242,055)
INCREASE (DECREASE) FROM OPERATIONS	—
CAPITAL SHARE TRANSACTIONS	
(dollar amounts and number of shares are the same):	
Shares Sold	17,089,772
Less: Shares Redeemed	16,303,597
INCREASE FROM CAPITAL SHARE TRANSACTIONS	**786,175**
NET ASSETS HELD IN TRUST FOR POOL PARTICIPANTS	
JULY 1 (as restated)	3,712,871
JUNE 30	**$ 4,499,046**

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, 1998

(amounts expressed in thousands)

	COMPONENT UNITS
REVENUES AND OTHER ADDITIONS:	
Unrestricted Current Fund Revenues	$ 2,859,714
Local Appropriations-Restricted	14,584
Federal Grants and Contracts-Restricted	456,729
State Grants and Contracts-Restricted	103,439
Local Grants and Contracts-Restricted	5,847
Private Gifts, Grants and Contracts-Restricted	336,442
Endowment Income-Restricted	31,977
Investment Income-Restricted	293,422
Interest on Loans Receivable	5,066
Investment in Plant-Additions	640,741
Other	12,291
TOTAL REVENUES AND OTHER ADDITIONS	**4,760,252**
EXPENDITURES AND OTHER DEDUCTIONS:	
Educational and General Expenditures	3,788,287
Auxiliary Enterprises Expenditures	521,759
Hospital Expenditures	562,279
Indirect Costs Recovered	74,829
Grant Refunds and Adjustments	894
Loan Cancellations and Write-offs	4,532
Administrative and Collection Costs	1,843
Expended for Plant Facilities	236,529
Retirement of Indebtedness	55,784
Interest on Indebtedness	39,376
Investment in Plant-Deductions	184,608
Other	14,296
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	**5,485,016**
TRANSFERS:	
Operating Transfers from Primary Government	1,520,432
NET INCREASE (DECREASE) FOR THE YEAR	**795,668**
FUND BALANCE AND OTHER CREDITS, JULY 1 (as restated)	10,083,356
FUND BALANCE AND OTHER CREDITS, JUNE 30	**$ 10,879,024**

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, 1998

(amounts expressed in thousands)

	COMPONENT UNITS
REVENUES:	
Tuition, Fees and Other Student Charges	$ 1,389,690
Local Appropriations	15,893
Federal Grants and Contracts	451,889
State Grants and Contracts	95,227
Local Grants and Contracts	6,264
Private Gifts, Grants and Contracts	258,294
Endowment Income	57,941
Sales and Services	1,186,257
Investment Income	77,118
Other Sources	102,810
TOTAL REVENUES	3,641,383
EXPENDITURES AND MANDATORY TRANSFERS:	
EDUCATIONAL AND GENERAL:	
Instruction and Departmental Research	1,611,970
Separately Budgeted Research	369,269
Public Service	203,300
Academic Support	373,085
Student Services	217,106
Institutional Support	381,014
Operation and Maintenance of Plant	269,621
Scholarships and Fellowships	359,670
TOTAL EDUCATIONAL AND GENERAL	3,785,035
AUXILIARY ENTERPRISES	519,599
HOSPITALS	564,027
TOTAL EXPENDITURES	4,868,661
MANDATORY TRANSFERS, NET:	
Principal and Interest	91,964
Renewals and Replacements	2,928
Other	1,230
TOTAL MANDATORY TRANSFERS, NET	96,122
TOTAL EXPENDITURES AND MANDATORY TRANSFERS	4,964,783
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):	
OPERATING TRANSFERS FROM PRIMARY GOVERNMENT	1,505,415
NONMANDATORY TRANSFERS, NET:	
Capital Improvements	(53,942)
Other	4,425
ADDITIONS/(DEDUCTIONS):	
Excess of Restricted Receipts over Transfers to Revenue	91,111
Indirect Costs Recovered	(73,910)
Other	(5,462)
TOTAL OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)	1,467,637
NET INCREASE (DECREASE) IN FUND BALANCES	$ 144,237

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, 1998, 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
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:

a. 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.

b. 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.

c. 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, pension, and investment trust funds. The Pension Trust Fund includes the State Highway Patrol Retirement System for its fiscal year ended December 31, 1997.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 1997.

d. 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, 1997.

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, pension trust, and investment 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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, pension trust, and investment trust funds. Under this method, revenues are recorded when earned, and expenses are recorded when incurred.

The State's proprietary 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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 a line-item 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-item appropriations within a state agency not to exceed a cumulative total of $50,000 (or $75,000 for institutional-type state agencies) from each line-item appropriation 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 the fiscal year-end while capital encumbrances are generally canceled two years after the biennial period for which they were appropriated. Unencumbered appropriations lapse at the end of the biennium budget period. 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.

Additionally, on the Combined Statement of Revenues, Expenditures and Changes in Fund Balances — Budget and Actual (Non-GAAP Budgetary Basis), "Actual" budgetary expenditures include cash disbursements against the current fiscal year's appropriations and outstanding encumbrances, as of June 30, 1998, that were committed during the current fiscal year. Encumbrance reversions represent lapses of prior years' appropriations. For the Capital Projects Fund, amounts reported under the "Budget" column include unexpended appropriations carried forward into the second year of the biennial budget.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Employment Services Expendable Trust Fund, State Highway Patrol Pension Trust Fund, and STAROhio Investment 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 fair value. 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, University of Toledo, Youngstown State University, and Southern State Community College 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. With the exception of holdings in the State Treasury Asset Reserve of Ohio (STAROhio) investment pool, investments are carried at fair value. STAROhio operates in a manner consistent with Rule 2a7 of the Investment Company Act of 1940; investments in the 2a7-like pool are reported at amortized cost (which approximates fair value). For the colleges and universities, investments received as gifts are reported at the fair value at the donation date.

The primary government does not manage or provide investment services for investments reported in the Agency Fund that are owned by other, legally separate entities that are not part of the State of Ohio's reporting entity.

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-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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The State recognizes revenue and expenditures in the Special Revenue Fund when 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's 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.

L. 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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, claims, litigation, 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.

M. 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.

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 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.

N. Fund Equity

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

O. 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 24A). 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.

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

Q. 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

A. Restatements

Certain restatements of fund balances/retained earning balances, as of June 1997, are summarized as follows (amounts expressed in thousands).

Fund	Fund Balance/ Retained Earnings as Previously Reported, June 30, 1997	Increase (Decrease) for Restatement	Fund Balance/ Retained Earnings as Restated, July 1, 1997
Primary Government:			
General Fund	$2,320,267	$ (1,209)	$2,319,058
Special Revenue Fund:			
Community and Economic Development	$ 592,758	$ 2,278	$ 595,036
Human Services	218,710	(38)	218,672
Health	23,166	(2)	23,164
Mental Health and Retardation	62,801	(1)	62,800
Education	342,539	(172)	342,367
Highway Safety	96,706	(57)	96,649
Highway Operating	726,910	(379)	726,531
Natural Resources	138,644	(21)	138,623
Wildlife and Waterway Safety	44,999	(22)	44,977
Revenue Distribution	120,144	(21)	120,123
Local Transportation Improvements	70,520	(43)	70,477
All Other Special Revenue Funds	19,417	—	19,417
Total Special Revenue Fund	$2,457,314	$ 1,522	$2,458,836
Debt Service Funds:			
Highway Obligations Bond Retirement	$ 108,351	$ (75)	$ 108,276
Ohio Building Authority	57,004	407	57,411
All Other Debt Service Funds	125,640	—	125,640
Total Debt Service Fund	$ 290,995	$ 332	$ 291,327
Capital Projects Funds:			
Arts Facilities Building Improvements	$ 35,251	$ (13)	$ 35,238
Higher Education Improvements	49,767	(63)	49,704
Highway Obligations Construction	32,561	(33)	32,528
Mental Health/Retardation Facilities Improvements	16,698	(16)	16,682
Parks and Recreation Improvements	8,859	(7)	8,852
Local Infrastructure Improvements	186,442	(40)	186,402
Administrative Services Building Improvements	41,211	(18)	41,193
Youth Services Building Improvements	19,832	(14)	19,818
Transportation Building Improvements	8,976	(9)	8,967
Adult Correctional Building Improvements	85,713	(32)	85,681
Highway Safety Building Improvements	44,603	(14)	44,589
Ohio Parks and Natural Resources	53,705	(12)	53,693
Highway Capital Improvement	160,248	(18)	160,230
Sports Facilities Building	37,609	(11)	37,598
All Other Capital Projects Funds	7,285	—	7,285
Total Capital Projects Fund	$ 788,760	$ (300)	$ 788,460
Enterprise Funds:			
Tuition Trust Authority	$ 38,126	$ 22,939	$ 61,065
All Other Enterprise Funds	5,147,306	—	5,147,306
Total Enterprise Fund	$5,185,432	$ 22,939	$5,208,371

(Continued)

NOTE 2 RESTATEMENTS AND CHANGES IN ACCOUNTING PRINCIPLES (Continued)

Fund	Fund Balance/ Retained Earnings as Previously Reported, June 30, 1997	Increase (Decrease) for Restatement	Fund Balance/ Retained Earnings as Restated, July 1, 1997
Primary Government (Continued):			
Internal Service Funds:			
Ohio Building Authority	$ 32,440	$ 17	$ 32,457
Ohio Data Network	23,266	(14)	23,252
Telecommunications	12,187	(3)	12,184
All Other Internal Service Funds	48,006	—	48,006
Total Internal Service Fund	$ 115,899	$ —	$ 115,899
Trust Funds:			
STAROhio Investment Trust	$ —	$3,712,871	$ 3,712,871
All Other Trust Funds	2,781,858	—	2,781,858
Total Trust Funds	$2,781,858	$3,712,871	$ 6,494,729
Component Units:			
College and University Funds:			
Ohio State University	$3,223,797	$ 108,053	$ 3,331,850
University of Cincinnati	1,690,943	204,444	1,895,387
Ohio University	575,188	7,554	582,742
Miami University	559,009	13,318	572,327
University of Akron	511,899	6,040	517,939
University of Toledo	372,799	7,009	379,808
Wright State University	342,135	749	342,884
Central State University	—	96,596	96,596
Medical College of Ohio	324,550	144	324,694
Columbus State Community College	121,843	775	122,618
Clark State Community College	41,760	(102)	41,658
Washington State Community College	22,660	(48)	22,612
Northwest State Community College	19,263	(578)	18,685
All Other College and University Funds	1,833,556	—	1,833,556
Total College and University Funds	$9,639,402	$ 443,954	$10,083,356

For fiscal year 1998, the State implemented the provisions of Governmental Accounting Standards (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pool*s, which became effective for fiscal years beginning after June 15, 1997. GASB Statement No. 31 requires the State to report its investments at fair value as of the balance sheet date and to reflect the changes in the fair value of investments as revenue in the operating statements. Also, the new accounting pronouncement requires the State for the first time to report its external investment pool, STAROhio, as an investment trust fund.

For the primary government, implementation of the new reporting standard resulted in the following restatements of beginning fund equity balances, as of July 1, 1997: a $1.2 million decrease in the General Fund, a $332 thousand increase in the Debt Service Fund, a $300 thousand decrease in the Capital Projects Fund, a $22.9 million increase in the Enterprise Fund, and a $3.71 billion increase for the Investment Trust Fund.

For the Special Revenue Fund, the $1.5 million net increase in opening fund balance is due to a $1 million decrease also resulting from the implementation of GASB Statement No. 31, plus a $2.5 million increase in the cash and outstanding loans balances for the Department of Development's Office of Financial Incentives.

NOTE 2 RESTATEMENTS AND CHANGES IN ACCOUNTING PRINCIPLES (Continued)

For the discretely presented College and University Funds, the prior year's fund balance has been increased approximately $444 million to reflect:

- a $347.3 million increase to the investment balance resulting from the implementation of GASB Statement No. 31.
- a $96.6 million increase due to the inclusion of Central State University's financial statements, for the fiscal year ended June 30, 1998. The University's financial statements had been excluded from the State financial statements presented for the fiscal year ended June 30, 1997, when they were unavailable in time for publication in the State's 1997 Comprehensive Annual Financial Report.
- for Columbus State Community College, a $1.52 million increase due to the inclusion of its Development Foundation, a $24 thousand increase in cash and cash equivalents, a $73 thousand increase in accounts receivable, and a $842 thousand decrease in the fixed assets balance.
- adjustments principally to the accounts receivable, accounts payable, and fixed assets balances for Clark State Community College, which collectively decreased fund balance by $102 thousand.
- a write-off of accounts receivable at Washington State Community College, which decreased fund balance by $48 thousand.
- an adjustment to the opening fixed asset balance for Northwest State Community College, which decreased fund balance by $578 thousand.

B. Changes in Accounting Principles

Beginning in fiscal year 1998, the Tuition Trust Authority changed its method of reporting sales of tuition units in the Enterprise Fund from the net sales method to the gross sales method. Under the gross sales method, the Authority reports sales of tuition units as revenue and tuition payouts as expenses. In prior years, the Authority reported tuition unit sales and tuition payouts as increases and reductions, respectively, to the "Benefits Payable" account using the net sales method.

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 $531.4 million, $1.83 billion, and $117.8 million increases in the budgets of the General, Special Revenue, and Capital Projects funds, respectively, and a $1.3 million decrease in the budget of the Debt Service Fund.

A reconciliation of the fund balances recorded under the two bases for the General, Special Revenue, Debt Service, and Capital Projects 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, 1998
(in thousands)

	General	Special Revenue	Debt Service	Capital Projects
Total Fund Balances - GAAP Basis	$2,661,847	$2,852,635	$182,543	$605,393
Less: Unbudgeted Fund Balances	—	85,423 *	101,208	14,075
Total Budgeted Fund Balances - GAAP Basis	2,661,847	2,767,212	81,335	591,318
Less: Reserved Fund Balances	1,518,040	2,846,011	80,739	1,052,885
Less: Designated Fund Balances	945,574	—	—	—
Unreserved/Undesignated Fund Balances - GAAP Basis	198,233	(78,799)	596	(461,567)
BASIS DIFFERENCES				
Revenue Accruals/Adjustments:				
Cash Equity with Treasurer	2,559	1,981	126	610
Taxes Receivable	(759,377)	(191,244)	(176)	—
Intergovernmental Receivable	(516,203)	(262,131)	—	—
Loans Receivable	(14,823)	(255,524)	—	(127,985)
Other Receivables	(18,130)	(40,963)	(329)	(2,495)
Due from Other Funds	(13,113)	(22,853)	(124)	(2,340)
Inventories	(1,835)	(34,631)	—	—
Other Assets	(794)	(6,435)	—	—
Deferred Revenues	62,545	71,234	—	—
Total Revenue Accruals/Adjustments	(1,259,171)	(740,566)	(503)	(132,210)
Expenditure Accruals/Adjustments:				
Accounts Payable	101,334	184,328	—	90,435
Medicaid Claims Payable	525,696	—	—	—
Accrued Liabilities	113,940	60,335	321	42
Intergovernmental Payable	216,752	385,136	—	—
Due to Other Funds	39,851	7,064	—	2,056
Refund and Other Liabilities	595,009	70,436	993	—
Total Expenditure Accruals/Adjustments	1,592,582	707,299	1,314	92,533
Other Adjustments:				
Fund Balance Reclassifications:				
From Unreserved (Non-GAAP Budgetary Basis) to Reserved for:				
Debt Service	1,370	—	80,739	—
Budget Stabilization	862,707	—	—	—
Noncurrent Portion of Loans Receivable	13,996	255,065	—	127,047
Other	114,655	60,828	—	42,051
From Undesignated (Non-GAAP Budgetary Basis) to Designated	945,574	—	—	—
Cash and Investments Held Outside of State Treasury	(11,291)	(32,889)	(1,513)	—
Other	—	3	1	(1)
Total Other Adjustments	1,927,011	283,007	79,227	169,097
Total Basis Differences	2,260,422	249,740	80,038	129,420
TIMING DIFFERENCES				
Encumbrances	(147,161)	(265,143)	—	(84,131)
Unreserved/Undesignated and Designated Fund Balances (Deficits) — Non-GAAP Budgetary Basis	$2,311,494	$ (94,202)	$ 80,634	$(416,278)

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

- Debt of domestic corporations and foreign nations diplomatically recognized by the United States, rated investment grade by nationally rccognized 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. State-Sponsored Investment Pool

The Treasurer of State is the investment advisor and administrator of the State Treasury Asset Reserve of Ohio (STAROhio), a statewide external investment pool authorized under Section 135.45, Ohio Revised Code. STAROhio issues a stand-alone financial report, copies of which may be obtained by making a written request to: Director of Investments, Treasurer of State, 30 East Broad Street, 9th Floor, Columbus, Ohio 43266-0421, or by calling (614) 466-2160.

C. Deposits

1. Primary Government

As of June 30, 1998, the carrying amount of deposits was (in thousands) $818,010, and the bank balance was $816,889. Of the bank balance, $62,894 was fully insured or collateralized with securities held by the primary government or its agent in the primary government's name (Category 1), $687,052 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 $66,943, although meeting legal collateralization requirements, was categorized as uninsured and uncollateralized (Category 3).

2. Component Units

As of June 30, 1998, the carrying amount of deposits was (in thousands) $194,991, and the bank balance was $279,662. Of the bank balance, $15,024 was fully insured or collateralized with securities held by the respective component units or their agents in the component unit's name (Category 1), $201,767 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 $62,871, although meeting legal collateralization requirements, was categorized as uninsured and uncollateralized (Category 3).

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

D. 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, 1998, are as follows (in thousands):

Primary Government

	Category 1	Category 2	Category 3	Total Fair Value
U.S. Government and Agency Obligations:				
Not on Securities Loan	$ 34,304,863	$40,939	$ 5,315,541	$ 39,661,343
On Securities Loan	—	—	207,162	207,162
Common and Preferred Stock:				
Not on Securities Loan	38,753,252	—	4,736,980	43,490,232
On Securities Loan	—	—	272,349	272,349
Corporate Bonds and Notes	10,956,504	—	2,210,822	13,167,326
Foreign Stocks and Bonds	12,076,265	—	—	12,076,265
Commercial Paper	3,650,028	—	3,118,938	6,768,966
Repurchase Agreements	298,883	723	257	299,863
Bankers' Acceptances	987	—	—	987
Municipal Obligations	845	—	—	845
Securities Lending Collateral:				
U.S. Government and Agency Obligations	100,000	—	2,383,961	2,483,961
Repurchase Agreements	5,246,981	—	—	5,246,981
Common and Preferred Stock	—	—	1,141,016	1,141,016
Corporate Bonds and Notes	1,436,448	—	—	1,436,448
	$106,825,056	$41,662	$19,387,026	126,253,744
Investments Held by Broker-dealers under Securities Loans with Cash Collateral:				
U.S. Government and Agency Obligations				9,541,941
Common and Preferred Stock				1,107,938
Mutual Funds				4,070,764
Real Estate				9,371,249
Venture Capital				235,431
Limited Partnerships				25,000
Direct Mortgage Loans				38,294
Investment Contracts				4,200
Securities Lending Collateral — Mutual Funds				69,617
Securities Lending Collateral — Investment Contracts				514,000
Deposit with Federal Government				2,000,059
Deposit with Deferred Compensation Plan				1,025,872
Less: Component Units' Equity in the State Treasury Asset Reserve of Ohio (STAROhio)				(256,618)
Total Investments — Primary Government				$154,001,491

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Component Units

	Category 1	Category 2	Category 3	Total Fair Value
U.S. Government and Agency Obligations	$462,369	$ 709,449	$156,284	$1,328,102
Common and Preferred Stock	355,600	805,015	5,052	1,165,667
Corporate Bonds and Notes	121,048	42,791	27,765	191,604
Foreign Stocks and Bonds	11,011	—	—	11,011
Commercial Paper	—	13,263	7,441	20,704
Repurchase Agreements	1,582	413,383	31,496	446,461
Bankers' Acceptances	—	1,990	3,170	5,160
Municipal Obligations	117	—	80	197
Negotiable Certificates of Deposit	100	—	4,000	4,100
Other Investments	127	—	7,230	7,357
	$951,954	$1,985,891	$242,518	3,180,363
Mutual Funds				330,520
Investment in the State Treasury Asset Reserve of Ohio (STAROhio)				256,618
Real Estate				29,274
Life Insurance				8,545
Limited Partnerships				5,378
Investment Contracts				107,978
Deposit with Deferred Compensation Plan				9,863
Total Investments — Component Units				$3,928,539

The total carrying amount of deposits and investments, as of June 30, 1998, reported for the primary government and its component units is (in thousands) $158,943,031. The total carrying amount of deposits and investments categorized and disclosed in this note is $158,553,862. A reconciliation of the difference follows (in thousands).

	Deposits	Investments	Total
Cash equity with Treasurer (unrestricted and restricted)	$ 383,836	$ 6,378,007	$ 6,761,843
Cash and cash equivalents (unrestricted and restricted)	402,841	3,149,843	3,552,684
Investments	23,172	132,649,384	132,672,556
Collateral on Lent Securities (unrestricted and restricted)	—	10,758,409	10,758,409
Deposit with federal government	—	2,000,059	2,000,059
Deposit with deferred compensation plan	—	1,035,735	1,035,735
Restricted Assets:			
Investments	—	63,745	63,745
Dedicated investments	—	1,708,831	1,708,831
Carrying amount per combined balance sheet	809,849	157,744,013	158,553,862
Outstanding warrants and other reconciling items	203,152	186,017	389,169
Total Reporting Entity	$1,013,001	$157,930,030	$158,943,031

E. 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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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.

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 1998, 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, 1998, consist of the following (in thousands):

	General	Special Revenue	Debt Service	Trust and Agency	Total
Income Taxes	$266,807	$ 31,534	$ —	$ —	$ 298,341
Sales Taxes	492,570	26,012	—	—	518,582
Motor Vehicle Fuel Taxes	—	126,160	176	—	126,336
Unemployment Taxes	—	—	—	159,371	159,371
Other Taxes	—	7,538	—	—	7,538
Total Taxes Receivable	$759,377	$191,244	$176	$159,371	$1,110,168

As of June 30, 1998, refund liabilities for income and corporation franchise taxes, totaling $656.6 million, are reported as "Refunds and Other Liabilities," of which $593.7 million is reported in the General Fund and $62.9 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, 1998, consist of the following (in thousands):

Primary Government

Loan Type	General	Special Revenue	Debt Service	Capital Projects	Total
Columbiana County Economic Stabilization	$ 3,209	$ —	$ —	$ —	$ 3,209
Community and Economic Development:					
Office of Minority Financial Incentives	5,160	—	—	—	5,160
Office of Financial Incentives	—	231,803	—	—	231,803
Ohio Housing Finance Agency	—	124,877	—	—	124,877
Rail Development	—	2,506	—	—	2,506
Total Community and Economic Development	5,160	359,186	—	—	364,346
Higher Education Research Investment Loans	—	—	5,200	—	5,200
Natural Resources	—	245	—	—	245

(Continued)

NOTE 6 LOANS AND OTHER RECEIVABLES (Continued)

Primary Government *(Continued)*

Loan Type	General	Special Revenue	Debt Service	Capital Projects	Total
Primary, Secondary and Other Education:					
Vocational Education	835	236	—	—	1,071
Wayne Trace Local School District	5,619	—	—	—	5,619
Public School Building	—	4,216	—	—	4,216
Vocational School Assistance	—	7,219	—	—	7,219
School Building	—	2,963	—	—	2,963
Teacher Education	—	538	—	—	538
Nurses Education Assistance	—	182	—	—	182
Total Primary, Secondary and Other Education	6,454	15,354	—	—	21,808
Highway and Transit Infrastructure Bank	—	8,653	—	—	8,653
Local Infrastructure Improvements	—	—	—	127,985	127,985
Total Loans Receivable	$14,823	$383,438	$5,200	$127,985	$531,446

Component Units

Loan Type	Ohio Water Development Authority (12/31/97)	Ohio State University	University of Cincinnati	Kent State University	Other Component Units	Total Component Units
Water and Wastewater Treatment	$1,750,905	$ —	$ —	$ —	$ —	$1,750,905
Student	—	53,703	28,487	17,928	79,642	179,760
Other	—	—	663	—	45	708
Total Loans Receivable	$1,750,905	$53,703	$29,150	$17,928	$79,687	$1,931,373

B. Other Receivables

Other receivables for the primary government, as of June 30, 1998, 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	$ 1,629	$ 5,268	$ —	$ —	$119,383	$ 3,255	$ —	$129,535
Interest and Dividends Receivable	14,836	10,898	864	2,595	105,812	356	13,839	149,200
Women, Infants and Children Program Rebate Receivable	—	15,932	—	—	—	—	—	15,932
Nursing Facility Bed Assessments Receivable	—	12,831	—	—	—	—	—	12,831
Leases Receivable	—	—	—	—	—	32,213	—	32,213
Receivables from Lottery Sales Agents	—	—	—	—	23,519	—	—	23,519
Claims & Settlements Receivable	—	—	—	—	—	—	21,204	21,204
Employer Interest and Penalties on Unemployment Taxes	—	1,266	—	—	—	—	—	1,266
Refunds from Academic Grants and Scholarships Programs	1,665	—	—	—	—	—	—	1,665
Miscellaneous Receivables	—	958	—	—	10	1,383	351	2,702
Total Unrestricted	18,130	47,153	864	2,595	248,724	37,207	35,394	390,067
Restricted:								
Interest Receivable	—	—	—	—	17,780	—	—	17,780
Investment Trade Receivable	—	—	—	—	2,700	—	—	2,700
Total Restricted	—	—	—	—	20,480	—	—	20,480
Total Unrestricted and Restricted	$18,130	$47,153	$864	$2,595	$269,204	$37,207	$35,394	$410,547

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.

NOTE 6 LOANS AND OTHER RECEIVABLES (Continued)

Future lease payments due the Ohio Building Authority Internal Service Fund, net of executory costs, are as follows (in thousands):

	Year Ending June 30,	Leases Receivable
	1999	$ 4,994
	2000	4,997
	2001	5,001
	2002	5,008
	2003	5,012
	Thereafter	25,892
	Total minimum lease payments	50,904
Less:	Amount representing interest	18,691
	Present value of net minimum lease payments	$32,213

Other receivables for the State's component units, as of June 30, 1998, consist of the following (in thousands):

	Component Units					
	Ohio State University	University of Cincinnati	Ohio University	Medical College of Ohio	Other Component Units	Total Component Units
Accounts Receivable	$190,686	$32,062	$17,318	$22,257	$ 92,397	$354,720
Interest Receivable	13,463	6,108	527	912	5,070	26,080
Pledges Receivable	—	29,303	—	—	—	29,303
Miscellaneous Receivable	—	—	—	—	6,726	6,726
Total Other Receivables	$204,149	$67,473	$17,845	$23,169	$104,193	$416,829

NOTE 7 INTERFUND AND INTRA-ENTITY BALANCES AND TRANSFERS

Interfund balances, as of June 30, 1998, and operating transfers among the primary government's funds, for the year ended June 30, 1998, 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	$ 13,113	$ 39,851	$ —	$ —	$ 180,176	$1,142,014
Special Revenue:						
Community and Economic Development	3,040	3,474	—	114,629	75,423	45,854
Human Services	992	697	—	—	10,611	12,575
Health	120	296	—	—	14,766	733
Mental Health and Retardation	347	764	—	—	3,311	4
Employment Services	—	—	—	—	36	1,832
Education	838	107	—	—	963,815	36,196
Highway Safety	2,071	864	—	—	145,739	10,732
Highway Operating	3,144	3,780	—	—	609,306	173,546
Natural Resources	430	144	—	—	4,182	3,305
Wildlife and Waterway Safety	250	11	—	—	1,002	—
Revenue Distribution	9,571	138	—	—	27,605	698,240
Local Transportation Improvements	2,050	2	—	—	59,930	—
Total Special Revenue Fund	22,853	10,277	—	114,629	1,915,726	983,017
Debt Service:						
Economic Development Bond Service	—	—	—	—	15,846	—
Coal Research/Development Bond Retirement	—	—	—	—	5,605	5
Development Bond Retirement	—	—	—	—	—	22
Highway Obligations Bond Retirement	122	—	—	—	—	43
Public Improvements Bond Retirement	—	—	—	—	—	12
Local Infrastructure Improvements Bond Retirement	1	—	—	—	91,576	—
Ohio Public Facilities Commission	1,115	—	—	—	440,107	—
Ohio Building Authority	—	—	—	—	218,992	2,296

(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	—	—	—	—	39,624	34,309
State Projects Bond Service	—	—	—	—	9,412	19
School Building Program Bond Service	—	—	—	—	21,290	—
Highway Capital Improvement Bond Service	1	—	—	—	24,673	57
Total Debt Service Fund	1,239	—	—	—	867,125	36,763
Capital Projects:						
Arts Facilities Building Improvements	16	—	—	—	—	—
Higher Education Improvements	92	1,115	—	—	—	91
Highway Obligations Construction	31	—	—	—	—	—
Mental Health/Mental Retardation Facilities Improvements	30	2	—	—	—	—
Parks and Recreation Improvements	23	—	—	—	—	—
Local Infrastructure Improvements	1,614	5	—	—	—	40
Ohio Building Authority	—	—	—	—	14,000	246,186
Administrative Services Building Improvements	154	—	—	—	132,526	14,000
Youth Services Building Improvements	26	—	—	—	—	—
Transportation Building Improvements	17	161	—	—	12,012	—
Adult Correctional Building Improvements	127	109	—	—	101,169	—
Highway Safety Building Improvements	13	416	—	—	—	—
Ohio Parks and Natural Resources	48	248	—	—	—	625
Highway Capital Improvement	20	—	—	—	—	—
Sports Facilities Building	49	—	—	—	—	—
Infrastructure Bank Obligations	80	—	—	—	—	—
Total Capital Projects Fund	2,340	2,056	—	—	259,707	260,942
Enterprise:						
Liquor Control	73	2,278	—	—	—	106,714
Ohio Lottery Commission	—	—	—	—	—	723,865
Workers' Compensation	—	—	—	—	15	5,377
Underground Parking Garage	—	—	—	—	—	1,023
Office of Auditor of State	2,012	—	—	—	29,642	—
Total Enterprise Fund	2,085	2,278	—	—	29,657	836,979
Internal Service:						
Ohio Building Authority	—	—	—	—	28,465	29,596
Ohio Data Network	10,031	781	—	—	—	489
Ohio Penal Industries	23,003	1,833	—	—	8,947	—
Support Services	5,044	124	—	—	—	—
Telecommunications	4,443	1,157	—	—	—	—
Total Internal Service Fund	42,521	3,895	—	—	37,412	30,085
Expendable Trust:						
Unclaimed Funds	3,213	—	114,629	—	—	—
Pension Trust:						
State Highway Patrol	1,634	—	—	—	—	—
Agency:						
Holding and Distribution	—	20,027	—	—	—	—
Payroll Withholding and Fringe Benefits	122	14,302	—	—	—	—
Deferred Compensation	3,413	—	—	—	—	—
Other	66	—	—	—	—	—
Total Trust and Agency Funds	8,448	34,329	114,629	—	—	—
Total per Financial Statements — Primary Government	92,599	92,686	114,629	114,629	3,289,803	3,289,800
Reconciliation for Timing Differences for Funds with December 31, 1997 Year-Ends	87	—	—	—	—	3
Reconciled Total for the Primary Government	92,686	92,686	$114,629	$114,629	$3,289,803	$3,289,803
Component Units:						
Ohio State University	255,225	255,225				
University of Cincinnati	109,570	109,570				
Other Component Units	72,839	72,839				
Total per Financial Statements — Component Units	437,634	437,634				
Total Reporting Entity	$530,320	$530,320				

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

For the fiscal year ended June 30, 1998, the Capital Projects Fund reports approximately $5.1 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, 1998, consist of the following (in thousands):

	Operating Transfers from Primary Government	Operating Transfers to Component Units
Primary Government:		
General Fund	$ —	$1,520,432
Component Units:		
College and University Funds		
Ohio State University	$406,596	—
University of Cincinnati	184,335	—
Ohio University	129,478	—
Miami University	72,330	—
University of Akron	97,465	—
Bowling Green State University	76,853	—
Kent State University	105,962	—
University of Toledo	82,602	—
Cleveland State University	67,385	—
Youngstown State University	46,508	—
Wright State University	86,306	—
Shawnee State University	14,138	—
Central State University	17,303	—
Medical College of Ohio	36,033	—
Terra State Community College	6,220	—
Columbus State Community College	30,386	—
Clark State Community College	6,330	—
Edison State Community College	4,773	—
Southern State Community College	3,727	—
Washington State Community College	4,228	—
Cincinnati State Community College	15,967	—
Northwest State Community College	3,780	—
Owens State Community College	21,727	—
Total Reporting Entity	$1,520,432	$1,520,432

NOTE 8 FIXED ASSETS

A. Primary Government

Fixed assets by category, as of June 30, 1998, are as follows (in thousands):

	Enterprise	Internal Service	Pension Trust	General Fixed Assets	Total Primary Government
Land	$ 18,070	$ —	$ 370	$ 198,023	$ 216,463
Buildings	272,782	5,610	2,992	2,256,807	2,538,191
Land Improvements	66	708	—	156,987	157,761
Machinery and Equipment	179,140	78,570	232	228,811	486,753
State Vehicles	5,562	2,183	16	230,879	238,640
Construction-in-Progress	—	—	—	588,898	588,898
Total Fixed Assets (at cost)	475,620	87,071	3,610	$3,660,405	4,226,706
Less: Accumulated Depreciation	197,665	59,397	784	—	257,846
Total Fixed Assets (net)	$277,955	$27,674	$2,826	$3,660,405	$3,968,860

NOTE 8 FIXED ASSETS (Continued)

No projects were under construction, for the year ended June 30, 1998, that resulted in capitalized interest for the proprietary and fiduciary fund types.

Changes in general fixed assets, for the year ended June 30, 1998, are as follows (in thousands):

	Balance July 1, 1997	Beginning Balance Adjustments	Additions	Deletions/ Net Transfers	Balance June 30, 1998
Land	$ 186,169	$ 73	$ 11,997	$ (216)	$ 198,023
Buildings	2,167,257	10,355	101,886	(22,691)	2,256,807
Land Improvements	155,364	44	3,563	(1,984)	156,987
Machinery and Equipment	214,561	16,060	28,299	(30,109)	228,811
State Vehicles	225,095	617	27,736	(22,569)	230,879
Construction-in-Progress	446,095	55,714	487,246	(400,157)	588,898
Total General Fixed Assets	$3,394,541	$82,863	$660,727	$(477,726)	$3,660,405

B. Component Units

Fixed assets by category for the State's component units, as of June 30, 1998, are as follows (in thousands).

	Ohio State University	University of Cincinnati	Ohio University	Miami University	University of Akron
Land	$ 33,221	$ 17,130	$ 10,174	$ 2,294	$ 16,968
Buildings	1,256,997	737,339	331,578	324,503	269,095
Land Improvements	138,361	18,214	52,526	32,731	31,273
Machinery, Equipment, and Vehicles	659,537	109,067	86,140	87,757	98,794
Library Books and Publications	121,797	83,801	49,353	37,093	47,879
Construction-in-Progress	235,765	125,761	3,814	30,567	18,464
Total Fixed Assets (at cost)	2,445,678	1,091,312	533,585	514,945	482,473
Less: Accumulated Depreciation	—	—	—	—	—
Total Fixed Assets (net)	$2,445,678	$1,091,312	$533,585	$514,945	$482,473

	Kent State University	University of Toledo	Cleveland State University	Other Component Units	Total Component Units
Land	$ 6,747	$ 17,738	$ 50,930	$ 53,267	$ 208,469
Buildings	252,315	305,114	293,122	1,201,836	4,971,899
Land Improvements	27,250	28,663	14,304	80,761	424,083
Machinery, Equipment, and Vehicles	66,086	58,521	57,963	353,657	1,577,522
Library Books and Publications	47,632	17,971	44,670	92,800	542,996
Construction-in-Progress	20,126	9,581	—	72,774	516,852
Total Fixed Assets (at cost)	420,156	437,588	460,989	1,855,095	8,241,821
Less: Accumulated Depreciation	—	—	—	322	322
Total Fixed Assets (net)	$420,156	$437,588	$460,989	$1,854,773	$8,241,499

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 1997 are as follows:

	Contribution Rates — Calendar Year 1997	
	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
1997	$218,984	$2,747	1998	$97,944
1996	196,501	2,410	1997	96,962
1995	188,913	2,480	1996	98,615

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 5.46 percent of covered payroll for law enforcement employees, and 4.29 percent of covered payroll for regular employees for calendar year 1997. Employees do not fund any portion of healthcare costs.

PERS healthcare benefits are funded on a pay-as-you-go basis. As of December 31, 1997, the unaudited estimate of the value of net assets available for future healthcare benefits is $8.3 billion.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

The State's net costs for the PERS healthcare plan are as follows (in thousands):

Primary Government:	
(for the year ended December 31, 1997)	
Regular Employees	$104,151
Law Enforcement Employees	1,342
Total	$105,493
Component Units:	
(for the year ended June 30, 1998)	$ 46,583

The number of eligible benefit recipients for PERS as a whole is 113,906, as of December 31, 1997; a breakout of the number of eligible recipients for the primary government and its component units, as of December 31, 1997, is unavailable.

During calendar year 1997, PERS adopted a new calculation method for determining employer contributions applied to healthcare benefits. Under the new method, effective January 1, 1998, PERS applies employer contributions equal to 4.2 percent of member covered payroll to fund healthcare costs. Under the prior method, PERS determined accrued liabilities and normal cost rates for retiree healthcare coverage.

B. State Teachers Retirement System (STRS)

Pension Benefits

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

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 retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is determined by multiplying final average salary by 2.5 percent for each year of Ohio contributing service in excess of 30 years and by 2.1 percent for all other years of credited service up to a maximum annual allowance of 100 percent of final average salary.

Effective August 1997, enacted legislation provided an adjustment for retirees for whom benefits have not kept pace with the inflation rate. This legislation also changed the formula benefit for Ohio service greater than 30 years. Retroactively to July 1, 1997, each year over 30 years is incremented by .1 percent, starting at 2.5 percent for the 31^{st} year of service.

Under the "money-purchase benefit" calculation, a member's lifetime 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. Members and the employer make contributions during the period of re-

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 1998 were 14 percent for employers and 9.3 percent for employees.

For STRS, 10.5 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
1998	$4,384	$101,964
1997	5,051	111,928
1996	4,780	112,449

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. Retirees must pay additional premiums 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 3.5 percent of covered payroll are allocated to pay for healthcare benefits.

The employer contribution is financed on a pay-as-you-go basis. As of June 30, 1997, net assets available for future healthcare benefits are $1.9 billion. Net healthcare costs paid by the primary government and its component units, for the year ended June 30, 1998, totaled approximately $1.5 million and $34 million, respectively. The number of eligible benefit recipients for STRS as a whole is 88,718, as of June 30, 1997; a breakout of the number of eligible recipients for the primary government and its component units, as of June 30, 1997, is unavailable.

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.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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.

During calendar year 1997, active employees and the employer contributed 10 percent and 24 percent, respectively, of active member payroll, of which all of the employees' contributions and 19.87 percent of the employer's contributions fund pension benefits. The difference in the total employer rates charged during calendar year 1997 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.

The employer's annual pension costs for the last three calendar years are as follows (in thousands):

Year Ended December 31,	Primary Government	Percentage of Employer's Annual Pension Cost Contributed
1997	$12,202	100%
1996	11,856	100%
1995	11,768	100%

SHPRS used the entry-age normal actuarial cost method for the Schedule of Funding Progress for the actuarial valuation, dated December 31, 1997. 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 .5 percent 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).

The unfunded acturial accured liability is being amortized using the level-percentage of project payroll method over a closed perod of nine years.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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)
1997	$487,392	$460,667	$26,725	94.5	62,233	42.9
1996	454,514	411,316	43,198	90.5	59,239	72.9
1995 (a)&(b)	424,351	370,425	53,926	87.3	59,825	90.1
1995 (b)	427,757	370,425	57,332	86.6	59,825	95.8
1995	402,450	370,425	32,025	92.0	59,825	53.5

(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, 1997, was 1,445. The cost of retiree healthcare benefits is recognized as claims are incurred and premiums are paid. The calendar year 1997 expense was $2.5 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, 1997 was $82.8 mil lion, and include investments, which are carried at fair value, as previously described.

As of December 31, 1997, the actuarial accrued liability for healthcare benefits, the portion of the present value of plan promises to pay benefits in the future th at are not covered by future normal cost contributions, was $72.2 million; the prefunded actuarial accrued liability for healthcare benefits at that date was $10.6 million.

Employer contributions are made in accordance with actuarially determined requirements. The employer contribution requirement was approximately $2.5 million or 4.13 percent of active member payroll for the period January 1 through December 31, 1997.

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 15 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

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

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, 1998, the General Assembly had authorized $1.2 billion of these bonds to be sold, of which approximately $1.2 billion had been issued and $1.02 billion (net of unaccreted discount of $151.5 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, 1998, the General Assembly had authorized $360 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, 1998, for Highway Obligations, was $1.86 billion, of which $1.75 billion had been issued and $275.2 million was outstanding. Pursuant to an 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, 1998, the General Assembly had authorized the issuance of $772.5 million in Highway Capital Improvements Bonds, of which $175 million had been issued and $152.5 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, 1998, the General Assembly had authorized the issuance of $150 million in Coal Research and Development Bonds, of which $95 million had been issued and $28.3 million was outstanding. Legislative authorizations for the issuance of Parks and Natural Resources Bonds totaled $180 million, as of June 30, 1998, of which $100 million had been issued and $88.6 million was outstanding.

General obligation bonds outstanding and bonds authorized but unissued, as of June 30, 1998, are as follows (in thousands):

Purpose	Fiscal Years Issued	Average Net Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Infrastructure Improvements....................	1990-98	4.6%-8.2%	2018	$1,023,633	$ 360,000
Highway Obligations................................	1992-97	4.5%-4.8%	2005	275,200	—
Highway Capital Improvements	1997	4.7%-4.8%	2007	152,500	597,500
Coal Research and Development.............	1992-96	4.5%-5.6%	2005	28,250	55,000
Parks, Recreation, and Natural Resources	1995-97	4.5%-5.6%	2012	88,600	80,000
Total General Obligation Bonds				$1,568,183	$1,092,500

For the year ended June 30, 1998, NOTE 15 summarizes changes in general obligation bonds reported in the General Long-Term Obligations Account Group.

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Future general obligation debt service requirements, as of June 30, 1998, are as follows (in thousands):

Year Ending June 30,	Principal	Interest	Total
1999	$ 149,115	$ 64,543	$ 213,658
2000	137,625	57,815	195,440
2001	140,395	52,570	192,965
2002	143,150	47,024	190,174
2003	146,270	41,174	187,444
Thereafter	1,003,160	207,720	1,210,880
	1,719,715	470,846	2,190,561
Less: Unaccreted Discount	151,532	—	151,532
Total	$1,568,183	$470,846	$2,039,029

On January 1, 1998, the Treasurer of State issued $50.3 million in Infrastructure Improvement Refunding Bonds, Series 1997R to advance refund $17.7 million and $32.6 million in certain maturities of the Infrastructure Improvement Bonds, Series 1991 and 1995, respectively. The net proceeds of $55.8 million (after payment of approximately $536 thousand in bond issuance costs, including the underwriter's discount) 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 refunded bonds. As a result, the bonds are considered to be defeased, and the liability for the bonds has been removed from the General Long-Term Obligations Account Group.

The State advance refunded the bonds to reduce its total debt service payments over the next 17.5 years by approximately $2.4 million. The refunding resulted in an economic gain of $1.5 million. The economic gain is the difference between the present value of the debt service payments on the old and new debt.

NOTE 11 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 constructed assets to pay the debt service. Issuers for the primary government include the Ohio Building Authority (OBA), which has issued revenue bonds on its own behalf and for the Ohio Bureau of Workers' Compensation, the Treasurer of State for the Ohio Department of Development's Office of Financial Incentives, and the Department of Transportation. 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 taxable 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

NOTE 11 REVENUE BONDS AND NOTES (Continued)

financial institution. As of June 30, 1998, approximately $163.2 million in economic development bonds payable from liquor profits were outstanding.

Additionally, taxable economic development bonds in the amount of $3.6 million, issued by the Treasurer of State in connection with the Ohio Enterprise Bond Program, were outstanding, as of June 30, 1998. 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 1998, $5.6 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.

In fiscal year 1998, the Treasurer of State issued $70 million in State Infrastructure Bank Bonds for the Department of Transportation. The bonds finance construction costs of the Spring -Sandusky Highway Project in Columbus. The State has pledged federal highway receipts as the primary source of moneys for meeting the principal and interest requirements on the bonds.

Revenue bonds outstanding for the primary government, as of June 30, 1998, 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	$197,470
Internal Service:				
Ohio Building Authority	1986-97	4.5%-9.8%	2008	34,677
General Long-Term Obligations:				
Treasurer of State:				
Economic Development	1997	6.2%-7.7%*	2022	166,805
State Infrastructure Bank	1998	5.02%*	2008	70,000
Total General Long-Term Obligations				236,805
Total Revenue Bonds				$468,952

*Average net interest rates

For the year ended June 30, 1998, 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, 1998, are as follows (in thousands):

Year Ending June 30,	Enterprise Fund Principal	Enterprise Fund Interest	Enterprise Fund Total	Internal Service Fund Principal	Internal Service Fund Interest	Internal Service Fund Total	General Long-Term Obligations Account Group Principal	General Long-Term Obligations Account Group Interest	General Long-Term Obligations Account Group Total
1999	$ 6,000	$ 9,455	$ 15,455	$ 2,893	$ 2,029	$ 4,922	$ 12,045	$ 15,911	$ 27,956
2000	7,000	9,209	16,209	3,039	1,882	4,921	11,440	14,851	26,291
2001	8,000	8,915	16,915	3,194	1,728	4,922	12,090	14,170	26,260
2002	9,000	8,571	17,571	3,359	1,565	4,924	11,375	13,487	24,862
2003	10,000	8,135	18,135	3,531	1,394	4,925	12,045	12,819	24,864
Thereafter	160,254	49,091	209,345	19,085	6,155	25,240	177,810	117,537	295,347
	200,254	93,376	293,630	35,101	14,753	49,854	236,805	188,775	425,580
Less: Unamortized Discount	2,784	—	2,784	424	—	424	—	—	—
Total	$197,470	$93,376	$290,846	$34,677	$14,753	$49,430	$236,805	$188,775	$425,580

NOTE 11 REVENUE BONDS AND NOTES (Continued)

In October 1996, the Treasurer of State defeased outstanding Series 1989 Liquor Profits Refunding Bonds issued for the Office of Financial Incentives' Direct Loan Program by placing the proceeds of the Series 1996 Development Assistance Bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the State financial statements. As of June 30, 1998, $35.2 million of the Series 1989 bonds are considered defeased.

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 has 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, 1997, approximately $575.8 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, 1997, are as follows (in thousands):

Year Ending December 31,	Principal	Interest	Total
1998	$ 18,385	$ 31,365	$ 49,750
1999	20,730	29,035	49,765
2000	19,910	28,087	47,997
2001	21,535	27,057	48,592
2002	22,860	25,984	48,844
Thereafter	468,965	196,956	665,921
	572,385	338,484	910,869
Add: Unamortized Premium	3,401	—	3,401
Total	$575,786	$338,484	$914,270

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.

NOTE 11 REVENUE BONDS AND NOTES (Continued)

Future bond service requirements for revenue bonds and notes reported in the component unit funds, as of June 30, 1998, are as follows (in thousands):

Year Ending December 31 or June 30,	Ohio Water Development Authority (12/31/97) Principal	Interest	Total	Ohio State University Principal	Interest	Total	University of Cincinnati Principal	Interest	Total
1998	$ 83,880	$ 78,807	$ 162,687						
1999	81,465	73,002	154,467	$ 17,033	$ 9,626	$ 26,659	$ 25,551	$ 12,337	$ 37,888
2000	84,370	68,878	153,248	15,516	8,887	24,403	11,766	11,242	23,008
2001	86,150	65,044	151,194	14,322	8,222	22,544	11,126	10,640	21,766
2002	85,720	61,472	147,192	14,784	7,532	22,316	11,771	10,073	21,844
2003				9,521	6,924	16,445	12,471	9,462	21,933
Thereafter	1,073,630	412,709	1,486,339	145,093	47,731	192,824	162,297	72,536	234,833
	1,495,215	759,912	2,255,127	216,269	88,922	305,191	234,982	126,290	361,272
Less: Unamortized Discount	29,454	—	29,454	—	—	—	—	—	—
Total	$1,465,761	$759,912	$2,225,673	$216,269	$88,922	$305,191	$234,982	$126,290	$361,272

Year Ending December 31 or June 30,	University of Toledo Principal	Interest	Total	Other Component Units Principal	Interest	Total	Total Component Units Principal	Interest	Total
1998							$ 83,880	$ 78,807	$ 162,687
1999	$ 2,925	$ 4,559	$ 7,484	$ 14,982	$ 14,187	$ 29,169	141,956	113,711	255,667
2000	3,080	4,409	7,489	15,381	13,550	28,931	130,113	106,966	237,079
2001	3,225	4,251	7,476	18,346	12,829	31,175	133,169	100,986	234,155
2002	3,230	4,082	7,312	15,677	11,948	27,625	131,182	95,107	226,289
2003	3,395	3,910	7,305	15,363	11,148	26,511	40,750	31,444	72,194
Thereafter	66,130	38,677	104,807	204,446	91,872	296,318	1,651,596	663,525	2,315,121
	81,985	59,888	141,873	284,195	155,534	439,729	2,312,646	1,190,546	3,503,192
Less: Unamortized Discount	—	—	—	377	—	377	29,831	—	29,831
Total	$81,985	$59,888	$141,873	$283,818	$155,534	$439,352	$2,282,815	$1,190,546	$3,473,361

NOTE 12 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 11).

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.

NOTE 12 SPECIAL OBLIGATION BONDS (Continued)

Special obligation bonds outstanding and bonds authorized but unissued, as of June 30, 1998, are as follows (in thousands):

Organization	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Ohio Building Authority............................	1986-98	2.0%-9.8%	2019	$2,121,003	$ 538,200
Ohio Public Facilities Commission...........	1991-98	4.5%-6.4%*	2013	2,521,630	599,075
Elementary and Secondary Education	1995-98	3.9%-5.8%	2008	188,925	315,000
Total Special Obligation Bonds				$4,831,558	$1,452,275

*Average Effective Interest Rates

For the year ended June 30, 1998, 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, 1998, are as follows (in thousands):

Year Ending June 30,	Principal	Interest	Total
1999........................	$ 440,158	$ 245,887	$ 686,045
2000........................	428,853	225,497	654,350
2001........................	420,770	200,974	621,744
2002........................	394,991	176,672	571,663
2003........................	380,984	157,098	538,082
Thereafter	2,765,802	683,898	3,449,700
Total.................	$4,831,558	$1,690,026	$6,521,584

In January 1998, the OBA issued $35.2 million in special obligation bonds with an average interest rate of 4.5 percent to retire $35 million in bonds with an interest rate of 6.6 percent. In March 1998, the OBA issued $34.8 million in special obligation bonds with an average interest rate of 4.5 percent to retire $35 million in bonds with an interest rate of 6.7 percent. The net proceeds of $71.3 million, plus an additional $4.6 million from existing debt service moneys were placed with trustees 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 January and March reduced the OBA's total future debt service payments by about $2.8 million and $3.2 million, respectively, and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately $2.1 million and $2 million, respectively.

During fiscal year 1998, the OPFC transacted the following advance refundings of debt.

- In September 1997, the OPFC issued $86.5 million in special obligation bonds to advance refund $121.2 million of outstanding Higher Education Facilities Bonds, Series 1988A and 1989B. The net proceeds of $87 million, plus an additional $40.8 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. The OPFC refunded the Higher Education Facilities Bonds to reduce its debt service over the next eight years by approximately $12.1 million to obtain an economic gain of approximately $5.1 million.

NOTE 12 SPECIAL OBLIGATION BONDS (Continued)

- In November 1997, the OPFC issued $15.9 million in special obligation bonds to advance refund $26.9 million of outstanding Parks and Recreation Facilities Bonds, Series 1986A and 1989A. The net proceeds of $15.9 million, plus an additional $11.9 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. The OPFC refunded the Parks and Recreation Facilities Bonds to reduce its debt service over the next eight years by approximately $3.4 million to obtain an economic gain of approximately $835 thousand.

- In February 1998, the OPFC issued $107.8 million in special obligation bonds to advance refund $136.8 million of outstanding Higher Education Facilities Bonds, Series II-1990A and 1991A. The net proceeds of $108.9 million, plus an additional $37.7 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. The OPFC refunded the Higher Education Facilities Bonds to reduce its debt service over the next nine years by approximately $14 million to obtain an economic gain of approximately $4.9 million.

As a result of these transactions, the advance refunded bonds for the OPFC are considered defeased, and the related liability has been removed from the General Long-Term Obligations Account Group.

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, 1998, $415.2 million and $276.3 million of OBA and OPFC bonds outstanding, respectively, are considered defeased.

NOTE 13 CERTIFICATES OF PARTICIPATION

As of June 30, 1998, approximately $18.6 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 the Rickenbacker 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, 1998, are as follows (in thousands):

NOTE 13 CERTIFICATES OF PARTICIPATION (Continued)

Project	Fiscal Year Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
General Long-Term Obligations:				
Department of Transportation:				
Panhandle Rail Line Project	1992	5.8%-6.5%	2012	$ 7,195
Waterfront Transit Line Project	1996	4.5%-8.0%	2003	7,710
Rickenbacker Port Authority Improvements	1996	6.13%	2007	3,710
Total Certificates of Participation Obligations				$18,615

As of June 30, 1998, 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
1999	$ 1,850	$ 922	$ 2,772
2000	2,175	913	3,088
2001	2,285	803	3,088
2002	2,405	685	3,090
2003	2,530	558	3,088
Thereafter	7,370	2,357	9,727
Total	$18,615	$6,238	$24,853

For the year ended June 30, 1998, 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 $14.1 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.

As of June 30, 1998, future commitments under the certificate of participation financing arrangements for the State's component units are as follows (in thousands):

	Ohio State University			University of Cincinnati			Total Component Units		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
1999	$ 675	$ 528	$ 1,203	$ 250	$109	$ 359	$ 925	$ 637	$ 1,562
2000	795	501	1,296	250	98	348	1,045	599	1,644
2001	820	471	1,291	250	87	337	1,070	558	1,628
2002	870	437	1,307	250	75	325	1,120	512	1,632
2003	925	401	1,326	250	63	313	1,175	464	1,639
Thereafter	7,880	2,885	10,765	930	284	1,214	8,810	3,169	11,979
Total	$11,965	$5,223	$17,188	$2,180	$716	$2,896	$14,145	$5,939	$20,084

NOTE 14 OTHER LONG-TERM OBLIGATIONS

As of June 30, 1998, 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.)	$276,913
Lease Agreements (B.)	14,035
Judgments, Settlements, and Claims (C.)	62,886
Litigation Liabilities (C.)	59,150
Workers' Compensation Obligation (D.)	537,700
Total Other General Long-Term Obligations	$950,684

NOTE 14 OTHER LONG-TERM OBLIGATIONS (Continued)

For the year ended June 30, 1998, 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, 1998 was approximately $46.8 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, 1998, was $354.8 million, of which $35.8 million is allocable to the proprietary funds and $319 million is allocable to the General Long-Term Obligations Account Group. The net (after reduction of the $46.8 million) compensated absence liability, as of June 30, 1998, was $308 million, of which $31.1 million is reported in the proprietary funds and $276.9 million is reported in the General Long-Term Obligations Account Group.

For the State's component units, the compensated absences liability, as of June 30, 1998, in the amount of $189.4 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.

NOTE 14 OTHER LONG-TERM OBLIGATIONS (Continued)

The primary government's total operating lease expenditures/expenses for fiscal year 1998 were approximately $85 million. Future minimum lease commitments for operating leases and capital leases judged to be noncancelable, as of June 30, 1998, are as follows (in thousands):

Primary Government

		CAPITAL LEASES		
Year Ending June 30,	Operating Leases	Enterprise Fund	General Long-Term Obligations	Total
1999	$10,550	$ 17,240	$ 4,832	$22,072
2000	909	14,101	4,004	18,105
2001	146	1,165	3,439	4,604
2002	34	1,165	2,160	3,325
2003	19	1,165	1,042	2,207
Thereafter	—	—	405	405
Total Minimum Lease Payments	$11,658	34,836	15,882	50,718
Less: Amount Representing Interest		18,162	1,847	20,009
Present Value of Net Minimum Lease Payments		$16,674	$14,035	$30,709

As of June 30, 1998, 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):

Primary Government

	Enterprise Fund	General Fixed Assets	Total
Equipment	$25,928	$21,157	$47,085
Vehicles	—	73	73
Total	$25,928	$21,230	$47,158

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

Capital lease obligations for the component units are included under the "Accrued Liabilities" account. Future minimum lease commitments for capital leases judged to be noncancelable, as of June 30, 1998, are as follows (in thousands):

Component Units

Year Ending June 30,	University of Cincinnati	Miami University	University of Akron	Other Component Units	Total Component Units
1999	$ 6,353	$ 4,017	$1,976	$ 6,544	$ 18,890
2000	7,029	3,697	1,688	5,459	17,873
2001	7,922	3,362	582	4,821	16,687
2002	7,924	3,227	3,905	2,789	17,845
2003	7,923	2,808	241	1,372	12,344
Thereafter	143,363	8,172	360	4,618	156,513
Total Minimum Lease Payments	180,514	25,283	8,752	25,603	240,152
Less: Amount Representing Interest	76,961	4,906	1,140	3,762	86,769
Present Value of Net Minimum Lease Payments	$103,553	$20,377	$7,612	$21,841	$153,383

NOTE 14 OTHER LONG-TERM OBLIGATIONS (Continued)

As of June 30, 1998, the component units had the following fixed assets under capital leases (in thousands):

	Component Units				
Year Ending June 30,	University of Cincinnati	Miami University	University of Akron	Other Component Units	Total Component Units
Land	$ —	$ —	$ 517	$ —	$ 517
Buildings	27,472	1,212	5,305	1,949	35,938
Land Improvements	—	—	—	5,340	5,340
Equipment	—	19,165	7,767	28,621	55,553
Vehicles	—	—	—	54	54
Total	$27,472	$20,377	$13,589	$35,964	$97,402

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 the State was responsible for sharing in all past and future desegregation costs. As of June 30, 1998, the State was responsible for an estimated $57.5 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 $5 million for legal costs and $386 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 $537.7 million.

E. Liabilities Payable from Restricted Assets

Deferred Prize Awards

Deferred prize awards payable in installments over future years totaling approximately $1.36 billion, as of June 30, 1998, 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 4.0 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, 1998, is as follows (in thousands):

	Year Ending June 30,	
	1999	$ 163,196
	2000	162,952
	2001	163,013
	2002	162,949
	2003	162,704
	Thereafter	1,499,058
		2,313,872
Less:	Unamortized Discount	956,109
	Net Prize Liability	$1,357,763

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 $260.3 million, as of June 30, 1998, 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, 1998, in the amount of $12.9 billion. The reserve, which includes estimates for reported claims and claims incurred but not reported, is included in the "Benefits Payable" balance reported for the Enterprise Fund. NOTE 24A. describes the changes in this liability.

NOTE 15 CHANGES IN GENERAL LONG-TERM OBLIGATIONS

Changes in general long-term obligations, for the year ended June 30, 1998, are as follows (in thousands):

	General Obligation Bonds (NOTE 10)	Revenue Bonds (NOTE 11)	Special Obligation Bonds (NOTE 12)	Certificates of Participation (NOTE 13)	Other General Long-Term Obligations (NOTE 14)	Total
Balance, as of June 30, 1997	$1,598,596	$171,595	$4,664,837	$26,630	$1,010,267	$7,471,925
Additions:						
Debt Issues	170,260	70,000	958,262	—	—	1,198,522
Deep-Discount Accretions	15,792	—	2,435	—	—	18,227
Reclassification of Revenue Bonds from the Internal Service Fund	—	—	2,816	—	—	2,816
Increase in Compensated Absences	—	—	—	—	366	366
Increase in Lease Obligations	—	—	—	—	13,720	13,720
Increase in Judgments, Settlements, and Claims	—	—	—	—	22,862	22,862
Increase in Litigation Liabilities	—	—	—	—	49,075	49,075
Total Additions	186,052	70,000	963,513	—	86,023	1,305,588
Deductions:						
Debt Retirements, Terminations, and Defeasances	216,465	4,790	796,792	8,015	—	1,026,062
Decrease in Lease Obligations	—	—	—	—	11,757	11,757
Decrease in Judgments, Settlements, and Claims	—	—	—	—	82,414	82,414
Decrease in Litigation Liabilities	—	—	—	—	27,235	27,235
Decrease in Workers' Compensation Obligation	—	—	—	—	24,200	24,200
Total Deductions	216,465	4,790	796,792	8,015	145,606	1,171,668
Balance, as of June 30, 1998	$1,568,183	$236,805	$4,831,558	$18,615	$ 950,684	$7,605,845

Fiscal year 1998 additions to the general obligation bonds, revenue bonds, and special obligation bonds do not include premiums/(discounts) and bond issuance costs. These costs came to approximately $7.2 million, $819 thousand, and $3.7 million, respectively for each type of bond issuance, and are netted with bond proceeds reported on the governmental funds' combined 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.

NOTE 16 NO COMMITMENT DEBT (Continued)

As of June 30, 1998, revenue bonds and notes outstanding that represent "no commitment" debt for the State are as follows (in thousands):

Organization	Outstanding Amount
Ohio Department of Development:	
Ohio Housing Finance Agency	$1,960,177
Ohio Enterprise Bond Program	103,765
Hospital Facilities Bonds	4,220
Total No Commitment Debt	$2,068,162

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 Section 457 that is reported in the Deferred Compensation Agency Fund. The plan, known as the Ohio Public Employees Deferred Compensation Program (OPEDCP), is available to any public employee and 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.

As of June 30, 1998, 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 were (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 were 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.

Consequently, the $1.03 billion and $9.9 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.

Effective September 1, 1998, the plan has been amended, pursuant to the Small Business Job Protection Act of 1996, to comply with subsection (g) of IRC Section 457. Under the provisions of the revised plan, all assets and income are to be held by the Ohio Public Employees Deferred Compensation (OPEDC) Board, the plan administrator, in trust on behalf of the employer for the exclusive benefit of eligible employees and their beneficiaries. The amended plan essentially provides that plan assets are no longer subject to the claims of an employer's general creditors; however, the plan continues to carry the provision that employees do not own the assets until they are distributed. The amended plan agreement also continues the provision that the State and the OPEDC Board has no liability for losses under the plan with exception of fraud or wrongful taking.

Recently, 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 — 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, 1998, 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	$ 86,291	$380,791	$2,426,248	$ 5,115,778	$ 2,580	$31,944	$ 8,043,632
Depreciation	92	716	14,048	16,709	415	1,949	33,929
Amortization of Premiums	—	—	100,690	361	—	—	101,051
Operating Income (Loss)	23,574	103,990	785,914	(792,340)	809	(29,325)	92,622
Operating Transfers-in	—	—	—	15	—	29,642	29,657
Operating Transfers-out	—	106,714	723,865	5,377	1,023	—	836,979
Net Income (Loss)	23,564	(2,739)	59,210	(797,702)	(137)	204	(717,600)
Fixed Asset Additions	179	1,020	20,548	8,155	163	1,538	31,603
Fixed Asset Disposals	92	357	8,171	4,672	—	2,078	15,370
Net Working Capital	28,442	14,925	155,210	1,034,455	1,472	15,832	1,250,336
Increase in Cash & Cash Equivalents	45	4,064	35,728	1,984,833	90	33	2,024,793
Total Assets	345,526	54,270	3,033,513	25,383,376	10,160	26,633	28,853,478
Liabilities Payable from Restricted Assets	260,300	—	2,613,548	—	—	—	2,873,848
Bonds and Other Non-current Liabilities Payable from Operating Revenues	104	1,873	5,068	13,110,706	85	4,738	13,122,574
Total Equity (Deficits)	84,629	17,065	261,329	4,101,187	8,809	17,752	4,490,771

NOTE 19 CHANGES IN CONTRIBUTED CAPITAL

For the fiscal year ended June 30, 1998, 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, 1997	$34,198	$1,512	$5,257	$40,967
Additions:				
Capital Contributions from Other Funds (reported as Residual Equity Transfers-out):				
Capital Projects Funds:				
Administrative Services Building Improvements	5,147	—	—	5,147
Total Additions	5,147	—	—	5,147
Contributed Capital Balance, June 30, 1998	$39,345	$1,512	$5,257	$46,114

NOTE 20 FUND EQUITY

A. Fund Deficits

The Highway Capital Improvement Fund reports a fund balance deficit of $4.3 million, as of June 30, 1998.

NOTE 20 FUND EQUITY (Continued)

B. Other Reserves and Designations

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, 1998, consists of the following (in thousands):

Reserved for Other:	General	Special Revenue	Capital Projects	Expendable Trust	Total
Inventories	$ 1,835	$35,226	$ —	$ —	$ 37,061
Other Assets — Prepaids	794	201	—	—	995
Human Services Stabilization	105,992	—	—	—	105,992
Loan Commitments	—	22,658	42,049	—	64,707
Health Care Benefits	4,625	3,338	2	—	7,965
Advances to Other Funds	—	—	—	114,629	114,629
Department of Development's Office of Minority Financial Incentives — Mini-Loan Program Deposits	1,409	—	—	—	1,409
Guaranteed Student Loan Program	—	1,860	—	—	1,860
Total	$114,655	$63,283	$42,051	$114,629	$334,618

Reserved retained earnings for the Enterprise Fund, as of June 30, 1998, 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 $40 thousand, $77.6 million, and $104 million, respectively.

Reserved retained earnings for the Internal Service Fund, as of June 30, 1998, are provided for the funding of future health care benefits in the amount of $148 thousand.

As of June 30, 1998, designations of the General Fund's unreserved fund balance are as follows (in thousands):

General Fund	Unreserved, Designated Fund Balance
Income Tax Reduction Program	$701,390
Public School Building Program	170,000
Budget Stabilization	44,184
School District Solvency Assistance Program	30,000
Total Designations	$945,574

Component Units

Reservations of fund balances for the component unit funds, as of June 30, 1998, 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)	$ 106,169	$ 79,951	$ 72,414	$ 258,534
Loan Programs	62,518	29,938	99,523	191,979
Endowment and Quasi-Endowment Activities	885,032	990,843	174,829	2,050,704
Plant Operations	10,500	25,375	6,343	42,218
Annuity and Life Income	5,573	5,281	—	10,854
University Foundations	—	65,600	750	66,350
Grants and Contracts	—	—	2,270	2,270
Student Organizations and Support Services	—	—	35	35
Outside Scholarships	—	—	25	25
Total Reserved Balance	$1,069,792	$1,196,988	$356,189	$2,622,969

NOTE 20 FUND EQUITY (Continued)

As of June 30, 1998, 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	$166,726
Auxiliary Enterprises	12,355
Hospital Operations	480
Loan Programs	2,763
Endowment and Quasi-Endowment Activities	58,628
Plant Operations	81,160
Federal and State Grants	388
Total Designations	$322,500

NOTE 21 COMPONENT UNIT FUNDS

Condensed financial statements for the component unit funds, as of and for the fiscal year ended June 30, 1998, are as follows (in thousands):

Condensed Balance Sheet — Component Units

	Ohio Water Development Authority (12/31/97)	Ohio State University	University of Cincinnati	Other Component Units	Total Component Units
Assets					
Cash Equity with Treasurer	$ 241	$ —	$ —	$ —	$ 241
Cash and Cash Equivalents	10,090	51,673	43,978	93,410	199,151
Investments	883,437	1,440,841	687,541	882,739	3,894,558
Receivables	1,751,232	265,690	96,623	260,329	2,373,874
Due from Other Funds	844	255,225	109,570	71,995	437,634
Inventories	—	18,226	4,382	21,156	43,764
Deposit with Deferred Compensation Plan	877	—	—	8,986	9,863
Restricted Assets	—	10,704	—	9,254	19,958
Fixed Assets (net of accumulated depreciation)	164	2,445,678	1,091,312	4,704,345	8,241,499
Other Assets	19,827	27,838	692,594	31,973	772,232
Total Assets	$2,666,712	$4,515,875	$2,726,000	$6,084,187	$15,992,774
Liabilities					
Accounts Payable	$ 22,040	$ 75,977	$ 26,739	$ 73,070	$ 197,826
Accrued Liabilities	8,203	195,894	199,412	292,173	695,682
Intergovernmental Payable	—	—	—	1,634	1,634
Due to Other Funds	844	255,225	109,570	71,995	437,634
Deferred Revenues	—	65,141	10,892	99,478	175,511
Refund and Other Liabilities	3,697	24,932	63,477	41,244	133,350
Liability for Deferred Compensation	877	—	—	8,986	9,863
Revenue Bonds and Notes	1,465,761	216,269	234,982	365,803	2,282,815
Certificates of Participation	—	11,965	2,180	—	14,145
Total Liabilities	1,501,422	845,403	647,252	954,383	3,948,460
Fund Equity and Other Credits					
Investment in General Fixed Assets	—	2,231,257	869,509	4,323,047	7,423,813
Total Unreserved Retained Earnings	1,165,290	—	—	—	1,165,290
Total Fund Balance	—	1,439,215	1,209,239	806,757	3,455,211
Total Fund Equity and Other Credits	1,165,290	3,670,472	2,078,748	5,129,804	12,044,314
Total Liabilities, Fund Equity and Other Credits	$2,666,712	$4,515,875	$2,726,000	$6,084,187	$15,992,774

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	$1,844,668	$ 641,603	$2,273,981	$ 4,760,252
Total Expenditures and Other Deductions	(1,912,642)	(642,577)	(2,929,797)	(5,485,016)
Operating Transfers from Primary Government	406,596	184,335	929,501	1,520,432
Net Increase (Decrease) for the Year	338,622	183,361	273,685	795,668
Fund Balance and Other Credits, July 1 *(as restated)*	3,331,850	1,895,387	4,856,119	10,083,356
Fund Balance and Other Credits, June 30	$3,670,472	$2,078,748	$5,129,804	$10,879,024

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	$1,357,047	$427,777	$1,856,559	$3,641,383
Expenditures:				
Educational and General	1,094,444	519,409	2,171,182	3,785,035
Auxiliary Enterprises	113,013	52,960	353,626	519,599
Hospitals	431,602	—	132,425	564,027
Total Expenditures	1,639,059	572,369	2,657,233	4,868,661
Mandatory Transfers, Net	31,339	20,513	44,270	96,122
Total Expenditures and Mandatory Transfers	1,670,398	592,882	2,701,503	4,964,783
Other Transfers and Additions (Deductions):				
Operating Transfers from Primary Government	396,832	180,529	928,054	1,505,415
Nonmandatory Transfers, Net	(3,120)	(16,096)	(30,301)	(49,517)
Additions (Deductions)	(3,471)	10,130	5,080	11,739
Total Other Transfers and Additions (Deductions)	390,241	174,563	902,833	1,467,637
Net Increase in Fund Balances	$ 76,890	$ 9,458	$ 57,889	$ 144,237

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 the GLPF's membership. Under the GLPF's articles 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.

NOTE 22 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

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 $908 thousand for the year ended December 31, 1997) 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, 1997 (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, 1997, is as follows (in thousands):

Cash and Investments	$119,176
Other Assets	1,238
Total Assets	$120,414
Total Liabilities	$ 4,273
Total Fund Equity	116,141
Total Liabilities and Fund Equity	$120,414
Total Revenues and Other Additions	$23,898
Total Expenditures	(8,920)
Net Increase in Fund Equity	$14,978

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.

NOTE 22 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

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 whom 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 1998, 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	$ 39,828	$ 8,117	$ 47,945
Jefferson Community College	3,729	457	4,186
Lakeland Community College	13,813	2,931	16,744
Lorain County Community College	14,848	776	15,624
Rio Grande Community College	3,934	173	4,107
Sinclair Community College	32,903	3,880	36,783
Total Local Community Colleges	109,055	16,334	125,389
Technical Colleges:			
Belmont Technical College	4,617	491	5,108
Central Ohio Technical College	4,098	224	4,322
Hocking Technical College	16,219	3,401	19,620
Lima Technical College	6,327	8,710	15,037
Marion Technical College	3,396	654	4,050
Muskingum Technical College	5,309	83	5,392
North Central Technical College	6,754	269	7,023
Stark State College of Technology	8,664	2,598	11,262
Total Technical Colleges	55,384	16,430	71,814
Total	$164,439	$32,764	$197,203

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.

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

NOTE 22 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

Foundation. However, the primary government's accountability for these organizations does not extend beyond making the appointments.

During fiscal year 1998,

- The primary government distributed $2.3 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 $612 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 1998, the Ohio Legal Assistance Foundation received approximately $650 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, 1998, $59.2 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 March 1997 decision 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. The Court has 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. Hearings at the trial court level have taken place. The parties await the trial court decision on the adequacy of steps taken to date by the State to enhance school funding consistent with the Supreme Court decision.

As part of its response, the General Assembly has increased state funding for public schools. In addition, the General Assembly placed two issues on the May 1998 primary ballot. The voters approved neither. One was a constitutional amendment authorizing additional state debt issuing capacity, and the other was an increase in

NOTE 23 CONTINGENCIES AND COMMITMENTS (Continued)

Ohio's sales tax. The constitutional amendment would have authorized general obligation debt to pay costs of school facilities throughout Ohio and facilities at State supported and assisted institutions of higher education. The sales tax proposal would have increased the state sales and use tax from five to six percent, estimated to generate more than $1 billion; half of the increased revenues would have been applied to pay costs of school operations and facilities while the other half would have been earmarked for additional homestead property tax relief.

Other litigation pending in the Ohio Court of Claims 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. The Department appealed an order of the federal court directing it to provide notice to persons potentially affected by the former rules from 1990 through 1995, and the Court of Appeals ruled in favor of the Department. The plaintiffs filed a petition for certiorari with the U.S. Supreme Court, which petition was denied. Should the plaintiffs ultimately prevail, it is not possible to state the period (beyond fiscal year 1999) 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. The Court of Claims has certified the action there as a class action.

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 Awards

The State of Ohio receives significant awards from the federal government in the form of grants and entitlements, including certain 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 1997 State of Ohio Single Audit (completed in December 1997), approximately $115 thousand 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, 1998.

C. Construction Commitments

As of June 30, 1998, the Department of Transportation had contractual commitments of approximately $1.17 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 $504.5 million, $255.1 million, $366.3 million, and $43.1 million, respectively.

NOTE 23 CONTINGENCIES AND COMMITMENTS (Continued)

As of June 30, 1998, construction (non-highway) commitments for the primary government's budgeted capital projects funds are as follows (in thousands):

Capital Projects Fund	
Arts Facilities Building Improvements	$ 53,652
Higher Education Improvements	221,057
Mental Health/Mental Retardation Facilities Improvements	40,505
Parks and Recreation Improvements	9,839
Local Infrastructure Improvements	14
Administrative Services Building Improvements	78,441
Youth Services Building Improvements	40,241
Transportation Building Improvements	6,972
Adult Correctional Building Improvements	85,915
Highway Safety Building Improvements	2,804
Ohio Parks and Natural Resources	32,786
Sports Facilities Building	29,384
Total	$601,610

NOTE 24 RISK FINANCING

A. Workers' Compensation Benefits

The Ohio Workers' Compensation System, which the Bureau of Workers' Compensation and the Industrial Commission administer, is the exclusive provider of workers' compensation insurance to private and public employers in Ohio who are not self insured. The Workers' Compensation Enterprise Fund provides benefits to employees for losses sustained from work-related injuries or illnesses.

The "Benefits Payable" account balance, as of June 30, 1998, in the amount of $12.9 billion includes reserves for indemnity and medical claims, including actuarial estimates for both reported claims and claims incurred but not reported. 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 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.

Benefits payable and the compensation adjustment expenses liability are discounted at 6.5 percent in fiscal year 1998 and 6.75 percent in fiscal year 1997. The undiscounted reserves for the benefits and compensation adjustment expenses totaled $33.6 billion, as of June 30, 1998, and $32.4 billion, as of June 30, 1997. For additional information, refer to the Fund's separate audited financial report, for the fiscal year ended June 30, 1998.

NOTE 24 RISK FINANCING (Continued)

Changes in the balance of benefits payable and the compensation adjustment expenses liability for the Workers' Compensation Program during the past two fiscal years are as follows (in millions):

		Fiscal Year 1998	Fiscal Year 1997
	Benefits Payable and Compensation Adjustment Expenses Liability, as of July 1	$14,464	$13,765
Add:	Incurred Compensation and Compensation Adjustment Benefits	1,628	2,194
Less:	Incurred Compensation and Compensation Adjustment Benefit Payments	(1,909)	(1,802)
Add:	Change in Liability Due to Decrease in Discount Rate	334	307
	Benefits Payable and Compensation Adjustment Expenses Liability, as of June 30	$14,517	$14,464

B. 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 benefit 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. 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, 1998, approximately $29.1 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 1998	Fiscal Year 1997
	Claims Liabilities, as of July 1	$18,732	$17,763
Add:	Incurred Claims	73,311	69,475
Less:	Claims Payments	(71,989)	(68,506)
	Claims Liabilities, as of June 30	$20,054	$18,732

NOTE 24 RISK FINANCING (Continued)

As of June 30, 1998, resources on deposit in the Payroll Withholding and Fringe Benefits Agency Fund for the payment of claims exceeded the estimated claims liability amount by $9.1 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.

C. 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 YEAR 2000 ISSUES

In October 1998, the Governmental Accounting Standards Board (GASB) issued Technical Bulletin 98-1, *Disclosures about Year 2000 Issues.* The provisions of the GASB technical bulletin, effective for financial statements on which the auditor's report is dated after October 31, 1998, require the State to make disclosures about its state of readiness in addressing Year 2000 issues for its internal computer systems and equipment.

The Year 2000 issue is the result of shortcomings in electronic data-processing systems and other equipment that may adversely affect operations in the year 1999 and beyond.

The following stages have been identified as necessary to implement a Year 2000-compliant system.

> **Awareness Stage** — In this first stage, an organization establishes a budget and project plan (for example, a timeline or chart noting major tasks and due dates) for dealing with the Year 2000 issue.
>
> **Assessment Stage** — While in this stage, an organization begins the actual process of identifying all of its systems (preparing an inventory) and individual components of the systems. An organization may decide to review all system components for Year 2000 compliance or, through a risk analysis, identify only mission-critical systems and equipment — systems and equipment critical to conducting operations — to check compliance.
>
> **Remediation Stage** — During this stage, an organization actually makes changes to systems and equipment. This stage involves the technical issues of converting existing systems, or switching to compliant systems. Decisions are made on how to make the system or processes Year 2000-compliant, and the required system changes are made.
>
> **Validation/Testing Stage** — At this stage, an organization validates and tests the changes made during the conversion process. The development of test data and test scripts, the running of test scripts, and the review of test results are crucial for this stage of the conversion process to be successful. If the testing results show anomalies, the tested area needs to be corrected and re-tested.

To address Year 2000 issues, the State of Ohio established the Year 2000 Competency Center within the Department of Administrative Services. The Center's mission is to lead, support, and facilitate achievement of Year 2000 compliance throughout the primary government to ensure uninterrupted service to Ohio's citizens.

NOTE 25 YEAR 2000 ISSUES (Continued)

The Year 2000 Competency Center has identified the stages under which the following computer systems critical to conducting State operations fall, as of June 30, 1998. The stage identified for each system is the stage the respective state agency was in the process of completing at year-end. As of June 30, 1998, all of the following systems have completed the awareness stage.

Stage/System	Description of System
Assessment Stage	
Department of Administrative Services' State Payroll System	System processes and accounts for payroll transactions for State agencies. As of June 30, 1998, the Department of Administrative Services was in the process of tailoring and implementing the GEAC, Inc. Human Resources Management System (HRMS), a new personnel and payroll system for all state agencies. Full implementation of the Year 2000-compliant HRMS by January 1, 2000 is not assured. Consequently, the Department of Administrative Services had decided to place additional focus on contingency planning for the current operating payroll system, which is not Year 2000-compliant, pending the installation of the new HRMS.
Department of Rehabilitation and Correction's Prison Security System	System provides security at the 31 state correctional facilities.
Department of Transportation's Appropriation Accounting System	System tracks and controls costs, budget, and allocations for transportation projects.
Remediation Stage	
Board of Regents':	
Funding System	System allocates funding to State-assisted higher education institutions.
Grants and Scholarships System	System processes and accounts for grants and scholarships to students.
Bureau of Workers' Compensation's:	
Medical Bill Processing System	System processes medical bills for the Health Partnership Program.
Claims Processing and Payments System	System processes Injured worker's claims.
Department of Administrative Services':	
Fleet Management System	System tracks inventory, maintenance costs, and utilization of State-owned vehicles.
Fixed Asset Management System	System supports the management of state-owned fixed assets with data input from state agencies.
Department of Education's School Finance System	System tracks the distribution of education program funds to school districts, county boards, and institutions.
Department of Health's Women, Infants and Children (WIC) System	System processes payments for WIC program participants.
Department of Human Services':	
Client Registry Information-Enhanced System	System supports the issuing of Food Stamps and other public assistance benefits to eligible recipients in Ohio.
Medicaid Management Information System	System processes all Medicaid claims for payment to medical service providers.
Department of Public Safety's Tax Distribution System	System tracks the distribution of motor vehicle registration and license fees to Ohio's counties.
Department of Transportation's Construction Management System	System accounts for highway construction project progress and payments.
Lottery Commission's Gaming System	System accounts for all lottery tickets sold and winning ticket redemptions.
Office of Budget and Management's Central Accounting System	System performs and tracks all State agency budget and accounting activities, such as, appropriations, allotments, payments, payroll, and revenue.
Validation/Testing Stage	
Bureau of Employment Services'	
Unemployment Compensation Tax System	System accounts for employer unemployment tax assessments and payments.
Unemployment Compensation Benefits Delivery System	System accounts for unemployment benefit payments.

(Continued)

NOTE 25 YEAR 2000 ISSUES (Continued)

Stage/System	Description of System
Validation/Testing Stage (Continued)	
Bureau of Workers' Compensation's:	
Oracle Financial System	System constitutes the Bureau of Workers' Compensation's general ledger system, including data on accounts payable, accounts receivable, and budgeting.
Employer System	System tracks employer information that includes rates and status.
Department of Commerce's	
Unclaimed Funds System	System tracks the consolidation, safekeeping, and accounting of escheat property derived from inactive accounts in financial institutions and other companies.
Department of Public Safety's:	
Cashier's System	System accounts for the collection of motor vehicle registration and operator license fees.
Law Enforcement Automated Data System	System maintains data for remote access by law enforcement officials.
Department of Taxation's	
Integrated Tax Administration System	System accounts for collections from various State taxes, including personal income tax, sales tax, and corporation franchise tax.
Treasurer of State's:	
AS400-Cashier's Processing	System accounts for state agency deposits in the State Treasury.
AS400-Warrant Processing – Redemptions	System tracks daily settlements with warrant-clearance banks and provides journals for reconcilement of redeemed state warrants.

The Year 2000 Competency Center identified the following systems as completing the testing stage, as of June 30, 1998.

System	Description of System
Auditor of State's	
Warrant-Writing System	System writes warrants for state payroll, tax refunds, Department of Human Services payments, and payments to vendors for equipment, products, and services.
Department of Transportation's	
Current Billing System	System generates the billing to the federal government for reimbursement of highway construction costs.

As of June 30, 1998, the State had contractual commitments totaling $115.4 million to make computer systems and other equipment Year 2000-compliant.

The primary government's Year 2000 remediation efforts have been aimed primarily at ensuring unimpeded and uninterrupted operation, including tax collections, investment activities, and timely payment of its obligations. However, because of the unprecedented nature of the Year 2000 issues, the effects and the success of the primary government's remediation efforts cannot be fully determinable until the Year 2000 arrives. Consequently, management cannot assure that the primary government will be Year 2000 ready, that its remediation efforts will be successful in whole or in part, or that parties with whom the primary government does business will be Year 2000 ready.

The State's major component units, the Ohio Water Development Authority, Ohio State University, and University of Cincinnati, did not early implement the provisions of GASB Technical Bulletin 98-1 when the independent auditor's report on each respective component unit's financial statements was dated prior to November 1, 1998. Consequently, disclosures on Year 2000 issues under GASB Technical Bulletin 98-1 for the State's major component units are not available for inclusion in this report.

NOTE 26 SUBSEQUENT EVENTS

A. Debt Issuances

Subsequent to June 30, 1998 (December 31, 1997 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 - 1998B	July 14,1998	4.7%	$150,000	Special Obligation
Mental Health Capital Facilities Bonds, Series II – 1998A	July 14, 1998	4.6%	60,800	Special Obligation
			210,800	
Commissioners of the Sinking Fund:				
Highway Capital Improvements, Series C	July 9, 1998	4.4%	200,000	General Obligation
Treasurer of State:				
Infrastructure Improvement Bonds, Series 1998B	August 6, 1998	4.7%	120,000	General Obligation
Infrastructure Improvement Refunding Bonds, Series 1998R	August 6, 1998	4.3%	12,635	General Obligation
			132,635	
Total Primary Government			$543,435	
Component Units:				
Ohio Water Development Authority:				
Freshwater, Series 1998	May 1, 1998	5.0%	$143,325	Revenue
Miami University:				
General Receipts Bonds, Series 1998	October 1, 1998	4.5%	39,190	Revenue
University of Toledo:				
General Receipts Bonds	October 1, 1998	4.8%	13,485	Revenue
Total Component Units			$196,000	

Additionally, the Ohio State University established a $120 million tax-exempt commercial paper program in August 1998. The University's General Receipts Commercial Paper Notes are limited obligations of the University, which are secured by a pledge of the University's general receipts. The notes do not constitute debts or bonded indebtedness of the State of Ohio and are not general obligations of the State or the University, and neither the full faith and credit of the State nor the University are pledged to the payment of the notes. The notes have been issued to provide for interim financing of various projects approved by the Ohio Board of Regents. The first issuance of commercial paper was on August 20, 1998, in the amount of $10 million at a blended rate of 3.4 percent.

B. Tobacco Settlement

On November 18, 1998, Ohio's Attorney General announced that the State would agree to a legal settlement with four of the nation's largest tobacco companies. As of the date of the auditor's report on the State's general-purpose financial statements, a final settlement, which could result in Ohio receiving $9.9 billion in annual payments over a 25-year period commencing in early calendar year 1999, remains contingent on the approval of a majority of the states involved in the settlement's negotiations and the tobacco industry's final acceptance of the plan.