

Ohio Office of Budget  
and Management

State of Ohio  
***Bob Taft***  
Governor



**OHIO**

C	O	M	P	R	E	H	E	N	S	I	V	E
A	N	N	U	A	L							
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R	E	P	O	R	T							

FOR THE FISCAL YEAR  
ENDED JUNE 30, 2004

# **BASIC FINANCIAL STATEMENTS**

**STATE OF OHIO**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2004**  
(dollars in thousands)

	<b>PRIMARY GOVERNMENT</b>			
	<b>GOVERNMENTAL ACTIVITIES</b>	<b>BUSINESS-TYPE ACTIVITIES</b>	<b>TOTAL</b>	<b>COMPONENT UNITS</b>
<b>ASSETS:</b>				
Cash Equity with Treasurer.....	\$ 5,107,379	\$ 50,295	\$ 5,157,674	\$ 388,266
Cash and Cash Equivalents.....	94,120	1,716,627	1,810,747	730,630
Investments.....	742,645	14,973,939	15,716,584	5,189,911
Collateral on Lent Securities.....	2,108,403	2,673,153	4,781,556	153,934
Deposit with Federal Government.....	—	711,038	711,038	—
Taxes Receivable.....	1,076,897	—	1,076,897	—
Intergovernmental Receivable.....	1,508,497	4,828	1,513,325	46,022
Premiums and Assessments Receivable.....	—	1,410,658	1,410,658	—
Investment Trade Receivable.....	—	350,491	350,491	—
Loans Receivable, Net.....	907,439	—	907,439	249,326
Receivable from Primary Government.....	—	—	—	47,879
Other Receivables.....	518,257	318,045	836,302	746,130
Inventories.....	45,218	33,304	78,522	50,013
Other Assets.....	63,876	14,602	78,478	407,986
Restricted Assets:				
Cash and Cash Equivalents.....	—	1,768	1,768	121,243
Investments.....	—	1,573,953	1,573,953	1,260,909
Loans Receivable, Net.....	—	—	—	2,683,771
Capital Assets Being Depreciated, Net.....	2,394,839	171,170	2,566,009	5,905,188
Capital Assets Not Being Depreciated.....	20,552,125	12,631	20,564,756	1,206,072
<b>TOTAL ASSETS.....</b>	<b>35,119,695</b>	<b>24,016,502</b>	<b>59,136,197</b>	<b>19,187,280</b>
<b>LIABILITIES:</b>				
Accounts Payable.....	607,443	39,151	646,594	409,196
Accrued Liabilities.....	274,852	4,322	279,174	349,246
Medicaid Claims Payable.....	954,720	—	954,720	—
Obligations Under Securities Lending.....	2,108,403	2,673,153	4,781,556	153,934
Investment Trade Payable.....	—	1,451,130	1,451,130	—
Intergovernmental Payable.....	1,148,395	837	1,149,232	1,127
Internal Balances.....	802,254	(802,254)	—	—
Payable to Component Units.....	47,879	—	47,879	—
Unearned Revenue.....	574,918	2,822	577,740	144,722
Benefits Payable.....	—	2,290	2,290	—
Refund and Other Liabilities.....	777,664	81,274	858,938	100,976
Noncurrent Liabilities:				
Bonds and Notes Payable:				
Due in One Year.....	907,383	6,991	914,374	613,017
Due in More Than One Year.....	9,025,766	151,546	9,177,312	3,707,024
Certificates of Participation:				
Due in One Year.....	945	—	945	810
Due in More Than One Year.....	5,535	—	5,535	28,930
Other Noncurrent Liabilities:				
Due in One Year.....	105,842	2,393,944	2,499,786	893,514
Due in More Than One Year.....	453,761	16,441,630	16,895,391	1,933,429
<b>TOTAL LIABILITIES.....</b>	<b>17,795,760</b>	<b>22,446,836</b>	<b>40,242,596</b>	<b>8,335,925</b>

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

	<b>GOVERNMENTAL ACTIVITIES</b>	<b>BUSINESS-TYPE ACTIVITIES</b>	<b>TOTAL</b>	<b>COMPONENT UNITS</b>
<b>NET ASSETS:</b>				
<i>Invested in Capital Assets,</i>				
<i>Net of Related Debt.....</i>	19,868,078	5,873	19,873,951	4,637,663
<i>Restricted for:</i>				
<i>Primary, Secondary and Other Education</i>	15,862	—	15,862	—
<i>Transportation and Highway Safety.....</i>	698,428	—	698,428	—
<i>State and Local Government</i>				
<i>Highway Construction.....</i>	126,517	—	126,517	—
<i>Federal Programs.....</i>	32,858	—	32,858	110
<i>Coal Research</i>				
<i>and Development Program.....</i>	—	—	—	4,518
<i>Clean Ohio Program.....</i>	80,530	—	80,530	—
<i>Debt Service.....</i>	—	—	—	1,961,617
<i>Intergovernmental and Capital Purposes..</i>	924,533	—	924,533	—
<i>Enterprise Bond Program.....</i>	10,000	—	10,000	—
<i>Workers' Compensation.....</i>	—	866,307	866,307	—
<i>Deferred Lottery Prizes.....</i>	—	83,603	83,603	—
<i>Unemployment Compensation.....</i>	—	809,037	809,037	—
<i>Ohio Building Authority.....</i>	—	28,457	28,457	—
<i>Nonexpendable for</i>				
<i>Colleges and Universities.....</i>	—	—	—	2,573,715
<i>Expendable for</i>				
<i>Colleges and Universities.....</i>	—	—	—	1,475,444
<i>Unrestricted (Deficits).....</i>	(4,432,871)	(223,611)	(4,656,482)	198,288
<b>TOTAL NET ASSETS.....</b>	<b>\$ 17,323,935</b>	<b>\$ 1,569,666</b>	<b>\$ 18,893,601</b>	<b>\$ 10,851,355</b>

**STATE OF OHIO**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**  
(dollars in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES				NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES, FEES, FINES AND FORFEITURES	OPERATING GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)	CAPITAL GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)		
<b>PRIMARY GOVERNMENT:</b>						
<b>GOVERNMENTAL ACTIVITIES:</b>						
Primary, Secondary						
and Other Education.....	\$ 9,190,983	\$ 35,932	\$ 1,416,161	\$ —	\$ (7,738,890)	
Higher Education Support .....	2,495,208	5,722	14,011	—	(2,475,475)	
Public Assistance and Medicaid .....	13,573,040	556,006	9,080,821	—	(3,936,213)	
Health and Human Services .....	3,247,382	200,636	1,780,344	1,170	(1,265,232)	
Justice and Public Protection .....	2,452,891	832,787	204,566	372	(1,415,166)	
Environmental Protection						
and Natural Resources.....	419,933	169,611	83,113	201	(167,008)	
Transportation .....	1,463,959	20,350	46,198	887,938	(509,473)	
General Government .....	607,374	413,028	1,980	763	(191,603)	
Community and Economic						
Development.....	821,841	295,078	318,778	—	(207,985)	
Intergovernmental.....	3,770,780	—	—	—	(3,770,780)	
Interest on Long-Term Debt						
(excludes interest charged as program expense).....	189,583	—	—	—	(189,583)	
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>38,232,974</b>	<b>2,529,150</b>	<b>12,945,972</b>	<b>890,444</b>	<b>(21,867,408)</b>	
<b>BUSINESS-TYPE ACTIVITIES:</b>						
Workers' Compensation.....	3,072,477	2,138,634	1,249,889	—	316,046	
Lottery Commission.....	1,575,279	2,166,512	(12,294)	—	578,939	
Unemployment Compensation.....	1,639,014	61,033	1,109,081	—	(468,900)	
Ohio Building Authority.....	27,524	26,385	—	99	(1,040)	
Tuition Trust Authority.....	118,834	39,431	108,999	—	29,596	
Liquor Control.....	374,507	520,161	—	19	145,673	
Underground Parking Garage.....	2,199	2,570	30	206	607	
Office of Auditor of State.....	75,758	42,434	78	8	(33,238)	
<b>TOTAL BUSINESS-TYPE ACTIVITIES...</b>	<b>6,885,592</b>	<b>4,997,160</b>	<b>2,455,783</b>	<b>332</b>	<b>567,683</b>	
<b>TOTAL PRIMARY GOVERNMENT.....</b>	<b>\$ 45,118,566</b>	<b>\$ 7,526,310</b>	<b>\$ 15,401,755</b>	<b>\$ 890,776</b>	<b>\$ (21,299,725)</b>	
<b>COMPONENT UNITS:</b>						
School Facilities Commission.....	\$ 444,888	\$ 1,607	\$ 9,591	\$ —	\$ (433,690)	
Ohio Water Development Authority.....	91,543	128,688	84,321	—	121,466	
Ohio State University.....	2,794,873	1,753,935	508,974	80,147	(451,817)	
University of Cincinnati.....	826,737	304,345	440,847	8,263	(73,282)	
Other Component Units.....	3,772,765	2,210,417	506,593	56,800	(998,955)	
<b>TOTAL COMPONENT UNITS.....</b>	<b>\$ 7,930,806</b>	<b>\$ 4,398,992</b>	<b>\$ 1,550,326</b>	<b>\$ 145,210</b>	<b>\$ (1,836,278)</b>	

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

	<b>PRIMARY GOVERNMENT</b>			
	<b>GOVERNMENTAL ACTIVITIES</b>	<b>BUSINESS-TYPE ACTIVITIES</b>	<b>TOTAL</b>	<b>COMPONENT UNITS</b>
<b>CHANGES IN NET ASSETS:</b>				
Net Expense.....	\$ (21,867,408)	\$ 567,683	\$ (21,299,725)	\$ (1,836,278)
<b>General Revenues:</b>				
Taxes:				
Income.....	8,526,572	—	8,526,572	—
Sales.....	7,915,493	—	7,915,493	—
Corporate and Public Utility .....	1,755,736	—	1,755,736	—
Cigarette.....	557,543	—	557,543	—
Other.....	641,273	—	641,273	—
Restricted for Transportation Purposes:				
Motor Vehicle Fuel Taxes.....	1,631,631	—	1,631,631	—
Total Taxes.....	21,028,248	—	21,028,248	—
Tobacco Settlement.....	316,799	—	316,799	—
Escheat Property.....	74,268	—	74,268	—
Unrestricted Investment Income.....	18,159	622	18,781	370,645
State Assistance .....	—	—	—	2,548,830
Federal.....	193,033	12	193,045	—
Other.....	1,940	—	1,940	44,222
Contributions.....	—	—	—	90,618
Transfers-Internal Activities.....	781,149	(781,149)	—	—
<b>TOTAL GENERAL REVENUES, CONTRIBUTIONS, AND TRANSFERS...</b>	<b>22,413,596</b>	<b>(780,515)</b>	<b>21,633,081</b>	<b>3,054,315</b>
<b>CHANGE IN NET ASSETS.....</b>	<b>546,188</b>	<b>(212,832)</b>	<b>333,356</b>	<b>1,218,037</b>
<b>NET ASSETS, JULY 1 (as restated)..</b>	<b>16,777,747</b>	<b>1,782,498</b>	<b>18,560,245</b>	<b>9,633,318</b>
<b>NET ASSETS, JUNE 30.....</b>	<b>\$ 17,323,935</b>	<b>\$ 1,569,666</b>	<b>\$ 18,893,601</b>	<b>\$ 10,851,355</b>

**STATE OF OHIO**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2004**  
(dollars in thousands)

	<b>MAJOR FUNDS</b>		
	<u>GENERAL</u>	<u>JOB, FAMILY AND OTHER HUMAN SERVICES</u>	<u>EDUCATION</u>
<b>ASSETS:</b>			
Cash Equity with Treasurer . . . . .	\$ 1,505,364	\$ 219,625	\$ 57,401
Cash and Cash Equivalents . . . . .	14,156	7,447	491
Investments . . . . .	242,017	16,097	3,310
Collateral on Lent Securities . . . . .	629,082	92,235	23,949
Taxes Receivable . . . . .	811,159	—	—
Intergovernmental Receivable . . . . .	454,312	572,397	127,753
Loans Receivable, Net . . . . .	41,757	—	9,438
Interfund Receivable . . . . .	269,421	6	—
Other Receivables . . . . .	297,374	41,059	560
Inventories . . . . .	21,614	—	—
Other Assets . . . . .	16,919	1,994	4,577
<b>TOTAL ASSETS . . . . .</b>	<b>\$ 4,303,175</b>	<b>\$ 950,860</b>	<b>\$ 227,479</b>
<b>LIABILITIES AND FUND BALANCES:</b>			
<b>LIABILITIES:</b>			
Accounts Payable . . . . .	\$ 153,398	\$ 53,630	\$ 10,001
Accrued Liabilities . . . . .	99,842	11,872	1,373
Medicaid Claims Payable . . . . .	954,720	—	—
Obligations Under Securities Lending . . . . .	629,082	92,235	23,949
Intergovernmental Payable . . . . .	286,132	231,759	70,017
Interfund Payable . . . . .	580,085	15,251	2,696
Payable to Component Units . . . . .	10,728	1,498	1,043
Deferred Revenue . . . . .	160,128	282,324	11,759
Unearned Revenue . . . . .	—	330,740	58,335
Refund and Other Liabilities . . . . .	686,075	8,006	—
Liability for Escheat Property . . . . .	7,149	—	—
<b>TOTAL LIABILITIES . . . . .</b>	<b>3,567,339</b>	<b>1,027,315</b>	<b>179,173</b>
<b>FUND BALANCES:</b>			
Reserved for:			
Debt Service . . . . .	—	—	—
Encumbrances . . . . .	290,374	1,268,135	32,421
Noncurrent Portion of Loans Receivable . . . . .	39,529	—	9,170
Noncurrent Portion of Interfund Receivable . . . . .	265,875	—	—
Loan Commitments . . . . .	—	—	—
Inventories . . . . .	21,614	—	—
State and Local Highway Construction . . . . .	—	—	—
Federal Programs . . . . .	—	410	8,704
Other . . . . .	20,696	1,994	203
Unreserved/Designated . . . . .	97,748	—	—
Unreserved/Undesignated (Deficits):			
Special Revenue Funds . . . . .	—	(1,346,994)	(2,192)
Capital Projects Funds . . . . .	—	—	—
<b>TOTAL FUND BALANCES . . . . .</b>	<b>735,836</b>	<b>(76,455)</b>	<b>48,306</b>
<b>TOTAL LIABILITIES AND FUND BALANCES . . . . .</b>	<b>\$ 4,303,175</b>	<b>\$ 950,860</b>	<b>\$ 227,479</b>

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

<u>HIGHWAY OPERATING</u>	<u>REVENUE DISTRIBUTION</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL</u>
\$ 674,454	\$ 350,262	\$ 2,300,273	\$ 5,107,379
365	6,818	64,843	94,120
—	—	481,221	742,645
272,097	141,308	949,732	2,108,403
48,302	212,641	4,795	1,076,897
85,264	—	268,771	1,508,497
55,311	—	800,933	907,439
—	—	3,257	272,684
986	—	178,278	518,257
23,403	—	201	45,218
3,175	—	11,408	38,073
<u>\$ 1,163,357</u>	<u>\$ 711,029</u>	<u>\$ 5,063,712</u>	<u>\$ 12,419,612</u>
\$ 134,401	\$ —	\$ 256,013	\$ 607,443
19,046	—	34,576	166,709
—	—	—	954,720
272,097	141,308	949,732	2,108,403
1,386	356,021	203,080	1,148,395
100,045	56	376,805	1,074,938
682	—	33,928	47,879
850	16,289	253,710	725,060
34,629	8,162	143,052	574,918
—	70,389	7,624	772,094
—	—	—	7,149
<u>563,136</u>	<u>592,225</u>	<u>2,258,520</u>	<u>8,187,708</u>
—	—	83,398	83,398
1,346,264	—	1,438,773	4,375,967
54,617	—	690,574	793,890
—	—	—	265,875
—	—	103,629	103,629
23,403	—	201	45,218
—	126,517	—	126,517
—	—	12,205	21,319
3,175	—	26,388	52,456
—	—	6,584	104,332
(827,238)	(7,713)	621,503	(1,562,634)
—	—	(178,063)	(178,063)
<u>600,221</u>	<u>118,804</u>	<u>2,805,192</u>	<u>4,231,904</u>
<u>\$ 1,163,357</u>	<u>\$ 711,029</u>	<u>\$ 5,063,712</u>	<u>\$ 12,419,612</u>



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**STATE OF OHIO**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS**  
**BALANCE SHEET TO THE STATEMENT OF NET ASSETS**  
**JUNE 30, 2004**  
*(dollars in thousands)*

**Total Fund Balances for Governmental Funds.....** **\$ 4,231,904**

Total net assets reported for governmental activities in the Statement of Net Assets is different because:

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds. Those assets consist of:

<i>Infrastructure, net of \$1,101 accumulated depreciation.....</i>	17,251,080
<i>Land.....</i>	1,573,861
<i>Buildings and Improvements, net of \$1,205,986 accumulated depreciation.....</i>	2,016,005
<i>Land Improvements, net of \$126,924 accumulated depreciation.....</i>	143,262
<i>Machinery and Equipment, net of \$300,596 accumulated depreciation.....</i>	141,704
<i>Vehicles, net of \$107,789 accumulated depreciation.....</i>	125,976
<i>Construction-in-Progress.....</i>	1,695,076
	<u>22,946,964</u>

Some of the State's revenues are collected after year-end but are not available soon enough to pay for the current period's (within 60 days of year-end) expenditures, and therefore, are deferred in the funds.

<i>Taxes Receivable.....</i>	155,129
<i>Intergovernmental Receivable.....</i>	390,414
<i>Other Receivables.....</i>	169,807
<i>Other Assets - Federal Commodities Programs.....</i>	9,710
	<u>725,060</u>

Unamortized bond issue costs are not financial uses, and therefore, are not reported in the funds.

25,803

The following liabilities are not due and payable in the current period, and therefore, are not reported in the funds.

<i>Accrued Liabilities:</i>	
<i>Interest Payable.....</i>	(104,591)
<i>Other .....</i>	(3,552)
<i>Refund and Other Liabilities.....</i>	(5,570)
<i>Bonds and Notes Payable:</i>	
<i>General Obligation Bonds.....</i>	(5,420,711)
<i>Revenue Bonds.....</i>	(607,958)
<i>Special Obligation Bonds.....</i>	(3,904,480)
<i>Certificates of Participation.....</i>	(6,480)
<i>Other Noncurrent Liabilities:</i>	
<i>Compensated Absences.....</i>	(382,208)
<i>Capital Leases Payable.....</i>	(3,460)
<i>Liability for Escheat Property.....</i>	(166,786)
	<u>(10,605,796)</u>

**Total Net Assets of Governmental Activities.....** **\$ 17,323,935**

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

**STATE OF OHIO**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**  
(dollars in thousands)

	<b>MAJOR FUNDS</b>		
	<b>GENERAL</b>	<b>JOB, FAMILY AND OTHER HUMAN SERVICES</b>	<b>EDUCATION</b>
<b>REVENUES:</b>			
Income Taxes . . . . .	\$ 7,645,597	\$ —	\$ —
Sales Taxes . . . . .	7,596,254	—	—
Corporate and Public Utility Taxes . . . . .	1,381,752	—	—
Motor Vehicle Fuel Taxes . . . . .	—	—	—
Cigarette Taxes . . . . .	557,532	—	—
Other Taxes . . . . .	580,143	4,446	—
Licenses, Permits and Fees . . . . .	121,953	423,731	1,139
Sales, Services and Charges . . . . .	44,233	—	292
Federal Government . . . . .	5,786,013	3,926,300	1,358,057
Tobacco Settlement . . . . .	—	—	—
Escheat Property . . . . .	103,767	—	—
Investment Income . . . . .	43,029	8,593	1,354
Other . . . . .	240,020	89,638	20,061
<b>TOTAL REVENUES . . . . .</b>	<b>24,100,293</b>	<b>4,452,708</b>	<b>1,380,903</b>
<b>EXPENDITURES:</b>			
<b>CURRENT OPERATING:</b>			
Primary, Secondary and Other Education . . . . .	7,042,643	56,152	1,949,883
Higher Education Support . . . . .	2,094,674	264	23,327
Public Assistance and Medicaid . . . . .	9,656,641	3,960,302	—
Health and Human Services . . . . .	1,134,812	504,835	725
Justice and Public Protection . . . . .	1,828,501	31,136	16,745
Environmental Protection and Natural Resources . . . . .	108,268	—	—
Transportation . . . . .	27,277	—	—
General Government . . . . .	330,042	4,305	—
Community and Economic Development . . . . .	131,895	4,204	—
<b>INTERGOVERNMENTAL . . . . .</b>	<b>1,341,542</b>	<b>—</b>	<b>—</b>
<b>CAPITAL OUTLAY . . . . .</b>	<b>—</b>	<b>1,150</b>	<b>—</b>
<b>DEBT SERVICE . . . . .</b>	<b>541</b>	<b>—</b>	<b>—</b>
<b>TOTAL EXPENDITURES . . . . .</b>	<b>23,696,836</b>	<b>4,562,348</b>	<b>1,990,680</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES . . . . .</b>	<b>403,457</b>	<b>(109,640)</b>	<b>(609,777)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Bonds Issued . . . . .	613,000	—	—
Refunding Bonds Issued . . . . .	—	—	—
Payment to Refunded Bond Escrow Agents . . . . .	—	—	—
Bond Premiums . . . . .	—	—	—
Bond Discounts . . . . .	—	—	—
Capital Leases . . . . .	260	—	18
Transfers-in . . . . .	543,443	24,942	667,352
Transfers-out . . . . .	(1,019,566)	(9,776)	(31,843)
<b>TOTAL OTHER FINANCING SOURCES (USES) . . . . .</b>	<b>137,137</b>	<b>15,166</b>	<b>635,527</b>
<b>NET CHANGE IN FUND BALANCES . . . . .</b>	<b>540,594</b>	<b>(94,474)</b>	<b>25,750</b>
<b>FUND BALANCES, JULY 1 (as restated) . . . . .</b>	<b>192,787</b>	<b>18,019</b>	<b>22,556</b>
Increase (Decrease) for Changes in Inventories . . . . .	2,455	—	—
<b>FUND BALANCES, JUNE 30 (DEFICITS) . . . . .</b>	<b>\$ 735,836</b>	<b>\$ (76,455)</b>	<b>\$ 48,306</b>

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

<u>HIGHWAY OPERATING</u>	<u>REVENUE DISTRIBUTION</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL</u>
\$ —	\$ 829,717	\$ 4,586	\$ 8,479,900
—	301,264	17,975	7,915,493
—	359,869	14,115	1,755,736
504,945	1,097,801	28,886	1,631,632
—	—	11	557,543
—	13,200	43,485	641,274
70,447	345,990	841,031	1,804,291
2,124	—	38,898	85,547
924,943	—	1,780,053	13,775,366
—	—	316,322	316,322
—	—	—	103,767
5,064	478	52,358	110,876
10,987	83	216,848	577,637
<u>1,518,510</u>	<u>2,948,402</u>	<u>3,354,568</u>	<u>37,755,384</u>
—	—	35,585	9,084,263
—	—	268,685	2,386,950
—	—	320	13,617,263
—	—	1,446,859	3,087,231
—	—	567,199	2,443,581
—	—	257,243	365,511
1,780,103	—	532	1,807,912
—	—	158,888	493,235
—	—	664,925	801,024
—	2,146,246	219,428	3,707,216
—	—	456,968	458,118
—	—	1,334,905	1,335,446
<u>1,780,103</u>	<u>2,146,246</u>	<u>5,411,537</u>	<u>39,587,750</u>
<u>(261,593)</u>	<u>802,156</u>	<u>(2,056,969)</u>	<u>(1,832,366)</u>
—	—	961,566	1,574,566
—	—	247,297	247,297
—	—	(260,146)	(260,146)
—	—	111,270	111,270
—	—	(7,923)	(7,923)
—	—	122	400
524,896	51,094	1,434,602	3,246,329
(277,825)	(841,052)	(285,118)	(2,465,180)
<u>247,071</u>	<u>(789,958)</u>	<u>2,201,670</u>	<u>2,446,613</u>
<u>(14,522)</u>	<u>12,198</u>	<u>144,701</u>	<u>614,247</u>
615,689	106,606	2,660,290	3,615,947
(946)	—	201	1,710
<u>\$ 600,221</u>	<u>\$ 118,804</u>	<u>\$ 2,805,192</u>	<u>\$ 4,231,904</u>

# STATE OF OHIO

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(dollars in thousands)

<b>Net Change in Fund Balances -- Total Governmental Funds.....</b>	<b>\$ 614,247</b>
Change in Inventories.....	1,710
	<u>615,957</u>

The change in net assets reported for governmental activities in the Statement of Activities is different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlay Expenditures.....	757,990
Depreciation Expense.....	<u>(179,535)</u>
Excess of Capital Outlay Over Depreciation Expense.....	<u>578,455</u>

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. In the current period, proceeds were received from:

General Obligation Bonds.....	(1,093,000)
Revenue Bonds.....	(213,765)
Special Obligation Bonds.....	(267,801)
Refunding Bonds, including Bond Premium/Discount, Net.....	(259,521)
Premiums and Discounts, Net:	
General Obligation Bonds.....	(62,722)
Revenue Bonds.....	(8,594)
Special Obligation Bonds.....	(17,639)
Deferred Refunding Loss.....	20,119
Capital Leases.....	<u>(400)</u>
Total Debt Proceeds.....	<u>(1,903,323)</u>

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current year, these amounts consist of:

<i>Debt Principal Retirement and Defeasements:</i>	
General Obligation Bonds.....	461,345
Revenue Bonds.....	60,800
Special Obligation Bonds.....	596,238
Certificates of Participation.....	890
Capital Lease Payments.....	<u>1,828</u>
Total Long-Term Debt Repayment.....	<u>1,121,101</u>

Revenues in the Statement of Activities that do not provide current financial resources are deferred in the governmental funds. Deferred revenues increased by this amount this year.

153,575

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

Some expenses reported in the Statement of Activities are not reported as expenditures in the governmental funds. Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the changes in the following balances:

<i>Increase in Bond Issue Costs Included in Other Assets.....</i>	7,070	
<i>Increase in Accrued Interest and Other Accrued Liabilities.....</i>	(8,636)	
<i>Decrease in Payable to Component Units.....</i>	512	
<i>Amortization of Bond Premiums/Accretion of Bond Discount, Net.....</i>	18,286	
<i>Amortization of Deferred Refunding Loss.....</i>	(18,841)	
<i>Decrease in Compensated Absences.....</i>	1,429	
<i>Decrease in Refund and Other Liabilities.....</i>	101	
<i>Decrease in Litigation Liabilities.....</i>	10,000	
<i>Increase in Liability for Escheat Property.....</i>	(29,498)	
	<hr/>	
<i>Total additional expenditures.....</i>		<u>(19,577)</u>
<b>Change in Net Assets of Governmental Activities.....</b>		<b><u>\$ 546,188</u></b>

# STATE OF OHIO

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -- BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(dollars in thousands)

	GENERAL			VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
	BUDGET		ACTUAL	
	ORIGINAL	FINAL		
<b>REVENUES:</b>				
Income Taxes .....	\$ 7,602,000	\$ 7,386,700	\$ 7,696,895	\$ 310,195
Sales Taxes .....	7,633,700	7,635,001	7,530,590	(104,411)
Corporate and Public Utility Taxes .....	1,381,300	1,382,200	1,374,579	(7,621)
Motor Vehicle Fuel Taxes .....	—	—	—	—
Cigarette Taxes.....	560,000	558,000	557,532	(468)
Other Taxes .....	628,053	586,053	579,937	(6,116)
Licenses, Permits and Fees .....	126,708	126,708	132,765	6,057
Sales, Services and Charges .....	44,240	44,240	44,577	337
Federal Government .....	5,919,522	5,919,522	5,942,045	22,523
Tobacco Settlement.....	—	—	—	—
Investment Income .....	27,070	27,070	20,036	(7,034)
Other .....	1,296,874	1,296,874	1,264,442	(32,432)
<b>TOTAL REVENUES.....</b>	<b>25,219,467</b>	<b>24,962,368</b>	<b>25,143,398</b>	<b>181,030</b>
<b>BUDGETARY EXPENDITURES:</b>				
<b>CURRENT OPERATING:</b>				
Primary, Secondary and Other Education .....	6,492,873	6,584,548	6,562,207	22,341
Higher Education Support .....	2,104,063	2,099,701	2,097,585	2,116
Public Assistance and Medicaid .....	10,404,031	10,465,243	10,413,047	52,196
Health and Human Services .....	1,316,594	1,305,174	1,286,806	18,368
Justice and Public Protection .....	2,011,641	2,008,933	1,972,163	36,770
Environmental Protection and Natural Resources .....	150,435	150,774	145,797	4,977
Transportation .....	54,260	54,753	54,055	698
General Government .....	667,908	714,108	608,395	105,713
Community and Economic Development .....	210,746	208,351	200,720	7,631
<b>INTERGOVERNMENTAL.....</b>	<b>1,357,644</b>	<b>1,358,983</b>	<b>1,341,295</b>	<b>17,688</b>
<b>CAPITAL OUTLAY .....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>DEBT SERVICE.....</b>	<b>1,053,714</b>	<b>1,042,163</b>	<b>948,210</b>	<b>93,953</b>
<b>TOTAL BUDGETARY EXPENDITURES.....</b>	<b>25,823,909</b>	<b>25,992,731</b>	<b>25,630,280</b>	<b>362,451</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES.....</b>	<b>(604,442)</b>	<b>(1,030,363)</b>	<b>(486,882)</b>	<b>543,481</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Bond Proceeds .....	—	—	—	—
Transfers-in .....	470,240	489,970	617,063	127,093
Transfers-out .....	(7,811)	(7,811)	(144,006)	(136,195)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>462,429</b>	<b>482,159</b>	<b>473,057</b>	<b>(9,102)</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>(142,013)</b>	<b>(548,204)</b>	<b>(13,825)</b>	<b>534,379</b>
<b>BUDGETARY FUND BALANCES (DEFICITS), JULY 1 .....</b>	<b>536,953</b>	<b>536,953</b>	<b>536,953</b>	<b>—</b>
<b>Outstanding Encumbrances at Beginning of Fiscal Year</b>	<b>411,162</b>	<b>411,162</b>	<b>411,162</b>	<b>—</b>
<b>BUDGETARY FUND BALANCES (DEFICITS), JUNE 30 .....</b>	<b>\$ 806,102</b>	<b>\$ 399,911</b>	<b>\$ 934,290</b>	<b>\$ 534,379</b>

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

**JOB, FAMILY AND OTHER HUMAN SERVICES**

**EDUCATION**

<b>JOB, FAMILY AND OTHER HUMAN SERVICES</b>				<b>EDUCATION</b>			
<b>BUDGET</b>		<b>ACTUAL</b>	<b>VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)</b>	<b>BUDGET</b>		<b>ACTUAL</b>	<b>VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)</b>
<b>ORIGINAL</b>	<b>FINAL</b>			<b>ORIGINAL</b>	<b>FINAL</b>		
		\$ —				\$ —	
		—				—	
		—				—	
		—				—	
		—				—	
		4,446				—	
		424,681				1,139	
		—				292	
		3,085,862				1,366,820	
		—				—	
		8,964				1,610	
		176,434				30,770	
		<b>3,700,387</b>				<b>1,400,631</b>	
\$ 57,504	\$ 57,504	57,249	\$ 255	\$ 2,065,760	\$ 2,154,022	2,062,571	\$ 91,451
2,151	2,151	650	1,501	13,656	24,428	20,059	4,369
5,153,017	5,276,592	4,672,886	603,706	—	—	—	—
558,260	580,106	558,282	21,824	279	1,041	781	260
61,501	65,223	37,072	28,151	27,581	29,371	19,944	9,427
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
2,163	2,163	2,109	54	—	—	—	—
5,137	5,137	5,137	—	—	—	—	—
—	—	—	—	—	—	—	—
18,846	18,846	2,004	16,842	—	—	—	—
—	—	—	—	—	—	—	—
<b>\$ 5,858,579</b>	<b>\$ 6,007,722</b>	<b>5,335,389</b>	<b>\$ 672,333</b>	<b>\$ 2,107,276</b>	<b>\$ 2,208,862</b>	<b>2,103,355</b>	<b>\$ 105,507</b>
		<b>(1,635,002)</b>				<b>(702,724)</b>	
		—				—	
		15				656,106	
		(1,595)				(29)	
		<b>(1,580)</b>				<b>656,077</b>	
		<b>(1,636,582)</b>				<b>(46,647)</b>	
		(1,266,672)				(36,468)	
		1,461,108				79,111	
		<b>\$ (1,442,146)</b>				<b>\$ (4,004)</b>	

(continued)



# STATE OF OHIO

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -- BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(dollars in thousands)  
(continued)

	HIGHWAY OPERATING			VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
	BUDGET		ACTUAL	
	ORIGINAL	FINAL		
<b>REVENUES:</b>				
Income Taxes .....			\$ —	
Sales Taxes .....			—	
Corporate and Public Utility Taxes .....			—	
Motor Vehicle Fuel Taxes .....			488,683	
Cigarette Taxes.....			—	
Other Taxes .....			—	
Licenses, Permits and Fees .....			70,470	
Sales, Services and Charges .....			2,124	
Federal Government .....			922,980	
Tobacco Settlement.....			—	
Investment Income .....			8,882	
Other .....			92,412	
<b>TOTAL REVENUES.....</b>			<b>1,585,551</b>	
<b>BUDGETARY EXPENDITURES:</b>				
<b>CURRENT OPERATING:</b>				
Primary, Secondary and Other Education .....	\$ —	\$ —	—	\$ —
Higher Education Support .....	—	—	—	—
Public Assistance and Medicaid .....	—	—	—	—
Health and Human Services .....	—	—	—	—
Justice and Public Protection .....	—	—	—	—
Environmental Protection and Natural Resources .....	—	—	—	—
Transportation .....	3,282,477	4,253,728	3,342,889	910,839
General Government .....	—	—	—	—
Community and Economic Development .....	—	—	—	—
<b>INTERGOVERNMENTAL.....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>CAPITAL OUTLAY .....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>DEBT SERVICE.....</b>	<b>85,867</b>	<b>102,926</b>	<b>79,344</b>	<b>23,582</b>
<b>TOTAL BUDGETARY EXPENDITURES.....</b>	<b>\$ 3,368,344</b>	<b>\$ 4,356,654</b>	<b>3,422,233</b>	<b>\$ 934,421</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES.....</b>			<b>(1,836,682)</b>	
<b>OTHER FINANCING SOURCES (USES):</b>				
Bond Proceeds .....			—	
Transfers-in .....			528,150	
Transfers-out .....			(200,525)	
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>			<b>327,625</b>	
<b>NET CHANGE IN FUND BALANCES.....</b>			<b>(1,509,057)</b>	
<b>BUDGETARY FUND BALANCES (DEFICITS), JULY 1.....</b>			<b>(637,175)</b>	
<b>Outstanding Encumbrances at Beginning of Fiscal Year</b>			<b>1,324,654</b>	
<b>BUDGETARY FUND BALANCES (DEFICITS), JUNE 30 .....</b>			<b>\$ (821,578)</b>	

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

**REVENUE DISTRIBUTION**

<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)</u>
<u>ORIGINAL</u>	<u>FINAL</u>		
		\$ 829,717	
		301,264	
		359,590	
		1,096,018	
		—	
		13,200	
		520,886	
		—	
		—	
		702	
		84	
		<u>3,121,461</u>	
\$ —	\$ —	—	\$ —
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
2,363,993	2,451,414	2,282,556	168,858
—	—	—	—
—	—	—	—
<u>\$ 2,363,993</u>	<u>\$ 2,451,414</u>	<u>2,282,556</u>	<u>\$ 168,858</u>
		<u>838,905</u>	
		—	
		51,093	
		(822,077)	
		<u>(770,984)</u>	
		67,921	
		279,826	
		—	
		<u>\$ 347,747</u>	

**STATE OF OHIO**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS -- ENTERPRISE**  
**JUNE 30, 2004**  
(dollars in thousands)

	<b>WORKERS' COMPENSATION</b>	<b>LOTTERY COMMISSION</b>	<b>UNEMPLOYMENT COMPENSATION</b>
<b>ASSETS:</b>			
<b>CURRENT ASSETS:</b>			
Cash Equity with Treasurer.....	\$ 2,429	\$ 27,602	\$ —
Cash and Cash Equivalents.....	1,615,478	19,770	75,032
Investments.....	—	—	1,000
Collateral on Lent Securities.....	2,041,501	11,135	228
Restricted Assets:			
Cash Equity with Treasurer.....	—	625	—
Cash and Cash Equivalents.....	—	—	—
Investments.....	—	84,664	—
Collateral on Lent Securities.....	—	604,622	—
Other Receivables.....	—	2,910	—
Deposit with Federal Government.....	—	—	711,038
Intergovernmental Receivable.....	—	—	4,800
Premiums and Assessments Receivable.....	891,009	—	11,526
Investment Trade Receivable.....	350,491	—	—
Interfund Receivable.....	62,692	—	—
Other Receivables.....	237,868	38,033	10,447
Inventories.....	—	—	—
Other Assets.....	2,659	3,982	6,727
<b>TOTAL CURRENT ASSETS.....</b>	<b>5,204,127</b>	<b>793,343</b>	<b>820,798</b>
<b>NONCURRENT ASSETS:</b>			
Restricted Assets:			
Cash and Cash Equivalents.....	1,768	—	—
Investments.....	—	852,306	—
Investments.....	14,735,716	—	—
Premiums and Assessments Receivable.....	508,123	—	—
Interfund Receivable.....	740,160	—	—
Other Receivables.....	—	—	—
Capital Assets Being Depreciated, Net.....	129,411	30,543	—
Capital Assets Not Being Depreciated.....	12,631	—	—
<b>TOTAL NONCURRENT ASSETS.....</b>	<b>16,127,809</b>	<b>882,849</b>	<b>—</b>
<b>TOTAL ASSETS.....</b>	<b>21,331,936</b>	<b>1,676,192</b>	<b>820,798</b>
<b>CURRENT LIABILITIES:</b>			
Accounts Payable.....	7,814	6,722	—
Accrued Liabilities.....	—	—	—
Obligations Under Securities Lending.....	2,041,501	615,757	228
Investment Trade Payable.....	1,451,130	—	—
Intergovernmental Payable.....	—	—	437
Deferred Prize Awards Payable.....	—	88,200	—
Interfund Payable.....	—	443	—
Unearned Revenue.....	16,930	2,813	—
Benefits Payable.....	1,764,828	—	2,290
Refund and Other Liabilities.....	488,659	48,220	8,806
Bonds and Notes Payable.....	5,300	—	—
<b>TOTAL CURRENT LIABILITIES.....</b>	<b>5,776,162</b>	<b>762,155</b>	<b>11,761</b>
<b>NONCURRENT LIABILITIES:</b>			
Deferred Prize Awards Payable.....	—	768,703	—
Interfund Payable.....	—	4,007	—
Unearned Revenue.....	377,389	—	—
Benefits Payable.....	12,855,045	—	—
Refund and Other Liabilities.....	1,319,480	17,852	—
Bonds and Notes Payable.....	143,090	—	—
<b>TOTAL NONCURRENT LIABILITIES.....</b>	<b>14,695,004</b>	<b>790,562</b>	<b>—</b>
<b>TOTAL LIABILITIES.....</b>	<b>20,471,166</b>	<b>1,552,717</b>	<b>11,761</b>
<b>NET ASSETS:</b>			
Invested in Capital Assets, Net of Related Debt.....	(5,537)	257	—
Restricted for Deferred Lottery Prizes.....	—	83,603	—
Unrestricted (Deficits).....	866,307	39,615	809,037
<b>TOTAL NET ASSETS (DEFICITS).....</b>	<b>\$ 860,770</b>	<b>\$ 123,475</b>	<b>\$ 809,037</b>

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

<b>OHIO BUILDING AUTHORITY</b>	<b>TUITION TRUST AUTHORITY</b>	<b>LIQUOR CONTROL</b>	<b>UNDERGROUND PARKING GARAGE</b>	<b>OFFICE OF AUDITOR OF STATE</b>	<b>TOTAL</b>
\$ —	\$ 120	\$ 10,335	\$ 2,262	\$ 6,922	\$ 49,670
461	499	5,316	—	—	1,716,556
26,359	46	—	—	—	27,405
7	11,115	3,638	907	—	2,068,531
—	—	—	—	—	625
—	71	—	—	—	71
—	54,729	—	—	—	139,393
—	—	—	—	—	604,622
—	—	—	—	—	2,910
—	—	—	—	—	711,038
—	—	—	—	28	4,828
—	—	—	—	—	902,535
—	—	—	—	—	350,491
—	—	12	—	1,738	64,442
2,881	5,046	—	—	8,734	303,009
—	—	33,304	—	—	33,304
578	—	172	35	449	14,602
<b>30,286</b>	<b>71,626</b>	<b>52,777</b>	<b>3,204</b>	<b>17,871</b>	<b>6,994,032</b>
—	—	—	—	—	1,768
—	721,647	—	—	—	1,573,953
—	71,425	—	—	—	14,807,141
—	—	—	—	—	508,123
—	—	—	—	7,385	747,545
12,126	—	—	—	—	12,126
—	116	1,065	7,091	2,944	171,170
—	—	—	—	—	12,631
<b>12,126</b>	<b>793,188</b>	<b>1,065</b>	<b>7,091</b>	<b>10,329</b>	<b>17,834,457</b>
<b>42,412</b>	<b>864,814</b>	<b>53,842</b>	<b>10,295</b>	<b>28,200</b>	<b>24,828,489</b>
3,582	329	20,296	21	387	39,151
114	191	913	59	3,045	4,322
7	11,115	3,638	907	—	2,673,153
—	—	—	—	—	1,451,130
—	—	400	—	—	837
—	—	—	—	—	88,200
—	—	2,798	2	—	3,243
—	—	—	9	—	19,752
—	54,800	—	—	—	1,821,918
105	833	2,584	16	1,237	550,460
1,691	—	—	—	—	6,991
<b>5,499</b>	<b>67,268</b>	<b>30,629</b>	<b>1,014</b>	<b>4,669</b>	<b>6,659,157</b>
—	—	—	—	—	768,703
—	—	2,310	173	—	6,490
—	—	—	—	—	377,389
—	1,086,900	—	—	—	13,941,945
—	—	2,325	109	13,827	1,353,593
8,456	—	—	—	—	151,546
<b>8,456</b>	<b>1,086,900</b>	<b>4,635</b>	<b>282</b>	<b>13,827</b>	<b>16,599,666</b>
<b>13,955</b>	<b>1,154,168</b>	<b>35,264</b>	<b>1,296</b>	<b>18,496</b>	<b>23,258,823</b>
—	116	1,065	7,091	2,881	5,873
—	—	—	—	—	83,603
28,457	(289,470)	17,513	1,908	6,823	1,480,190
<b>\$ 28,457</b>	<b>\$ (289,354)</b>	<b>\$ 18,578</b>	<b>\$ 8,999</b>	<b>\$ 9,704</b>	<b>\$ 1,569,666</b>

# STATE OF OHIO

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS -- ENTERPRISE FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(dollars in thousands)

	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
<b>OPERATING REVENUES:</b>			
Charges for Sales and Services.....	\$ —	\$ 2,154,715	\$ 20,175
Premium and Assessment Income.....	2,126,782	—	847,649
Federal Government.....	—	—	224,417
Investment Income.....	—	—	52,638
Other.....	11,852	11,797	25,235
<b>TOTAL OPERATING REVENUES.....</b>	<b>2,138,634</b>	<b>2,166,512</b>	<b>1,170,114</b>
<b>OPERATING EXPENSES:</b>			
Costs of Sales and Services.....	—	—	—
Administration.....	72,861	82,024	—
Premium Dividend Reductions and Refunds.....	415,523	—	—
Bonuses and Commissions.....	—	132,766	—
Prizes.....	—	1,275,994	—
Benefits and Claims.....	2,549,141	—	1,628,598
Depreciation.....	16,250	14,982	—
Other.....	18,702	141	10,416
<b>TOTAL OPERATING EXPENSES.....</b>	<b>3,072,477</b>	<b>1,505,907</b>	<b>1,639,014</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>(933,843)</b>	<b>660,605</b>	<b>(468,900)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment Income (Loss).....	1,249,889	(12,294)	622
Interest Expense.....	—	(6,356)	—
Federal Grants.....	—	—	12
Other.....	—	(63,016)	—
<b>TOTAL NONOPERATING REVENUES (EXPENSES).....</b>	<b>1,249,889</b>	<b>(81,666)</b>	<b>634</b>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS.....</b>	<b>316,046</b>	<b>578,939</b>	<b>(468,266)</b>
<b>CAPITAL CONTRIBUTIONS AND TRANSFERS:</b>			
Capital Contributions.....	—	—	—
Transfers-in.....	—	—	1,419
Transfers-out.....	(7,655)	(656,229)	(10,795)
<b>TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS..</b>	<b>(7,655)</b>	<b>(656,229)</b>	<b>(9,376)</b>
<b>NET INCOME (LOSS).....</b>	<b>308,391</b>	<b>(77,290)</b>	<b>(477,642)</b>
<b>NET ASSETS (DEFICITS), JULY 1 .....</b>	<b>552,379</b>	<b>200,765</b>	<b>1,286,679</b>
<b>NET ASSETS (DEFICITS), JUNE 30.....</b>	<b>\$ 860,770</b>	<b>\$ 123,475</b>	<b>\$ 809,037</b>

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

OHIO BUILDING AUTHORITY	TUITION TRUST AUTHORITY	LIQUOR CONTROL	UNDERGROUND PARKING GARAGE	OFFICE OF AUDITOR OF STATE	TOTAL
\$ 23,701	\$ 39,431	\$ 519,129	\$ 2,570	\$ 42,056	\$ 2,801,777
—	—	—	—	—	2,974,431
—	—	—	—	—	224,417
—	108,999	—	—	—	161,637
2,684	—	1,032	—	378	52,978
<b>26,385</b>	<b>148,430</b>	<b>520,161</b>	<b>2,570</b>	<b>42,434</b>	<b>6,215,240</b>
21,638	—	321,866	—	64,924	408,428
3,701	7,743	52,020	1,651	8,228	228,228
—	—	—	—	—	415,523
—	—	—	—	—	132,766
—	—	—	—	—	1,275,994
—	110,993	—	—	—	4,288,732
—	98	232	548	2,393	34,503
1,542	—	389	—	182	31,372
<b>26,881</b>	<b>118,834</b>	<b>374,507</b>	<b>2,199</b>	<b>75,727</b>	<b>6,815,546</b>
<b>(496)</b>	<b>29,596</b>	<b>145,654</b>	<b>371</b>	<b>(33,293)</b>	<b>(600,306)</b>
99	—	—	30	—	1,238,346
(643)	—	—	—	(5)	(7,004)
—	—	—	—	78	90
—	—	—	—	(26)	(63,042)
<b>(544)</b>	<b>—</b>	<b>—</b>	<b>30</b>	<b>47</b>	<b>1,168,390</b>
<b>(1,040)</b>	<b>29,596</b>	<b>145,654</b>	<b>401</b>	<b>(33,246)</b>	<b>568,084</b>
—	—	19	206	8	233
15,190	—	—	—	32,548	49,157
(10,293)	—	(144,578)	(756)	—	(830,306)
<b>4,897</b>	<b>—</b>	<b>(144,559)</b>	<b>(550)</b>	<b>32,556</b>	<b>(780,916)</b>
<b>3,857</b>	<b>29,596</b>	<b>1,095</b>	<b>(149)</b>	<b>(690)</b>	<b>(212,832)</b>
24,600	(318,950)	17,483	9,148	10,394	1,782,498
<b>\$ 28,457</b>	<b>\$ (289,354)</b>	<b>\$ 18,578</b>	<b>\$ 8,999</b>	<b>\$ 9,704</b>	<b>\$ 1,569,666</b>

**STATE OF OHIO**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS -- ENTERPRISE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**  
(dollars in thousands)

	<b>WORKERS' COMPENSATION</b>	<b>LOTTERY COMMISSION</b>	<b>UNEMPLOYMENT COMPENSATION</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash Received from Customers.....	\$ —	\$ 2,162,703	\$ 36,491
Cash Received from Premiums and Assessments.....	1,820,694	—	875,769
Cash Received from Multi-State Lottery for Grand Prize Winner.....	—	97,955	—
Cash Received from Reciprocal Transactions with Other Funds.....	48,066	138	—
Cash Received from the Federal Government for Extended Benefits..	—	—	208,794
Other Operating Cash Receipts.....	12,988	11,658	13,424
Cash Payments to Suppliers for Goods and Services.....	(71,367)	(61,279)	—
Cash Payments to Employees for Services.....	(239,224)	(22,854)	—
Cash Payments for Benefits and Claims.....	(2,026,871)	—	(1,639,020)
Cash Payments for Lottery Prizes.....	—	(1,502,751)	—
Cash Payments for Bonuses and Commissions.....	—	(132,663)	—
Cash Payments for Premium Reductions and Refunds.....	(92,172)	—	—
Cash Payments for Reciprocal Transactions with Other Funds.....	(4)	(491)	—
Other Operating Cash Payments.....	—	(141)	(11,845)
<b>NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES.....</b>	<b>(547,890)</b>	<b>552,275</b>	<b>(516,387)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers-in .....	—	—	1,419
Transfers-out .....	(7,655)	(656,229)	(10,795)
Federal Grants.....	—	—	—
<b>NET CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES.....</b>	<b>(7,655)</b>	<b>(656,229)</b>	<b>(9,376)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Principal Payments on Bonds and Capital Leases.....	—	(13,835)	—
Interest Paid .....	(6,183)	(2,270)	—
Acquisition and Construction of Capital Assets .....	(3,762)	(745)	—
Principal Receipts on Capital Leases Receivable.....	—	—	—
Proceeds from Sales of Capital Assets .....	22	108	—
<b>NET CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(9,923)</b>	<b>(16,742)</b>	<b>—</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of Investments.....	(36,249,877)	(341,162)	(16,730,049)
Proceeds from the Sales and Maturities of Investments .....	35,895,078	455,163	17,328,707
Investment Income Received .....	535,547	16,260	622
Borrower Rebates and Agent Fees.....	(75,137)	(4,168)	—
<b>NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES.....</b>	<b>105,611</b>	<b>126,093</b>	<b>599,280</b>
<b>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	<b>(459,857)</b>	<b>5,397</b>	<b>73,517</b>
<b>CASH AND CASH EQUIVALENTS, JULY 1.....</b>	<b>2,079,532</b>	<b>42,600</b>	<b>1,515</b>
<b>CASH AND CASH EQUIVALENTS, JUNE 30 .....</b>	<b>\$ 1,619,675</b>	<b>\$ 47,997</b>	<b>\$ 75,032</b>

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

<b>OHIO BUILDING AUTHORITY</b>	<b>TUITION TRUST AUTHORITY</b>	<b>LIQUOR CONTROL</b>	<b>UNDERGROUND PARKING GARAGE</b>	<b>OFFICE OF AUDITOR OF STATE</b>	<b>TOTAL</b>
\$ 26,363	\$ 33,169	\$ 521,803	\$ 2,007	\$ 33,880	\$ 2,816,416
—	—	—	—	—	2,696,463
—	—	—	—	—	97,955
1,103	—	1	570	8,195	58,073
—	—	—	—	—	208,794
1,713	—	1,033	1	715	41,532
(25,696)	(13,212)	(357,290)	(632)	(8,331)	(537,807)
(1,086)	(5,112)	(17,534)	(1,049)	(65,365)	(352,224)
—	—	—	—	—	(3,665,891)
—	—	—	—	—	(1,502,751)
—	—	—	—	—	(132,663)
—	—	—	—	—	(92,172)
—	(83)	(68)	(1)	—	(647)
—	(33,533)	(123)	—	(55)	(45,697)
<b>2,397</b>	<b>(18,771)</b>	<b>147,822</b>	<b>896</b>	<b>(30,961)</b>	<b>(410,619)</b>
15,190	—	—	—	32,551	49,160
(10,293)	—	(144,577)	(756)	—	(830,305)
—	—	—	—	59	59
<b>4,897</b>	<b>—</b>	<b>(144,577)</b>	<b>(756)</b>	<b>32,610</b>	<b>(781,086)</b>
(3,730)	—	—	—	(13)	(17,578)
(5,544)	—	—	—	(5)	(14,002)
—	(96)	(288)	(24)	(1,476)	(6,391)
3,730	—	—	—	—	3,730
—	—	39	—	212	381
<b>(5,544)</b>	<b>(96)</b>	<b>(249)</b>	<b>(24)</b>	<b>(1,282)</b>	<b>(33,860)</b>
(68,707)	(319,306)	—	—	—	(53,709,101)
66,863	310,203	—	—	—	54,056,014
104	27,436	—	26	—	579,995
—	—	—	—	—	(79,305)
<b>(1,740)</b>	<b>18,333</b>	<b>—</b>	<b>26</b>	<b>—</b>	<b>847,603</b>
10	(534)	2,996	142	367	(377,962)
451	1,224	12,655	2,120	6,555	2,146,652
<b>\$ 461</b>	<b>\$ 690</b>	<b>\$ 15,651</b>	<b>\$ 2,262</b>	<b>\$ 6,922</b>	<b>\$ 1,768,690</b>

(continued)



**STATE OF OHIO**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS -- ENTERPRISE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

(dollars in thousands)

(continued)

	<u>WORKERS'</u> <u>COMPENSATION</u>	<u>OHIO</u> <u>LOTTERY</u> <u>COMMISSION</u>	<u>UNEMPLOYMENT</u> <u>COMPENSATION</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET</b>			
<b>CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating Income (Loss).....	\$ (933,843)	\$ 660,605	\$ (468,900)
Adjustments to Reconcile Operating Income (Loss) to			
Net Cash Provided (Used) by Operating Activities:			
Investment Income.....	—	—	(52,638)
Depreciation .....	16,250	14,982	—
Provision for Uncollectible Accounts.....	105,873	—	—
Amortization of Premiums and Discounts.....	(366)	—	—
Interest on Bonds, Notes and Capital Leases.....	6,194	—	—
Decrease (Increase) in Assets:			
Premiums and Assessments Receivable.....	138,673	—	18,640
Intergovernmental Receivable.....	—	—	692
Other Receivables .....	(84,731)	7,104	(1,956)
Interfund Receivable.....	(21,400)	—	—
Inventories .....	—	—	—
Other Assets .....	(654)	(358)	(65)
Increase (Decrease) in Liabilities:			
Accounts Payable .....	2,324	(2,227)	—
Accrued Liabilities.....	—	—	—
Intergovernmental Payable.....	—	—	437
Deferred Prize Awards Payable.....	—	(135,256)	—
Interfund Payable.....	—	(83)	—
Unearned Revenue .....	(8,117)	884	—
Benefits Payable.....	312,502	—	(10,858)
Refund and Other Liabilities.....	(80,595)	6,624	(1,739)
<b>NET CASH FLOWS PROVIDED (USED) BY</b>			
<b>OPERATING ACTIVITIES.....</b>	<b><u>\$ (547,890)</u></b>	<b><u>\$ 552,275</u></b>	<b><u>\$ (516,387)</u></b>
<b>NONCASH INVESTING,</b>			
<b>CAPITAL AND FINANCING ACTIVITIES:</b>			
Change in Fair Value of Investments.....	\$ 803,577	\$ (73,452)	\$ —
Refunding Bond Proceeds for Defeasance of Debt.....	—	—	—
Contributions of Capital Assets from Other Funds.....	—	—	—

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

<u>OHIO BUILDING AUTHORITY</u>	<u>TUITION TRUST AUTHORITY</u>	<u>LIQUOR CONTROL</u>	<u>UNDERGROUND PARKING GARAGE</u>	<u>OFFICE OF AUDITOR OF STATE</u>	<u>TOTAL</u>
\$ (496)	\$ 29,596	\$ 145,654	\$ 371	\$ (33,293)	\$ (600,306)
—	(108,999)	—	—	—	(161,637)
—	98	232	548	2,393	34,503
—	—	—	—	—	105,873
1,019	—	—	—	—	653
—	—	—	—	—	6,194
—	—	—	—	—	157,313
—	—	—	—	—	692
559	(11,737)	—	—	(209)	(90,970)
—	—	(12)	—	—	(21,412)
—	—	(4,261)	—	—	(4,261)
18	—	(20)	(3)	(36)	(1,118)
1,382	(48)	3,440	6	(37)	4,840
—	131	169	7	341	648
—	—	25	—	—	462
—	—	—	—	—	(135,256)
—	—	1,400	(44)	—	1,273
(81)	—	—	3	—	(7,311)
—	61,200	—	—	—	362,844
(4)	10,988	1,195	8	(120)	(63,643)
<u>\$ 2,397</u>	<u>\$ (18,771)</u>	<u>\$ 147,822</u>	<u>\$ 896</u>	<u>\$ (30,961)</u>	<u>\$ (410,619)</u>

\$ —	\$ —	\$ —	\$ —	\$ —	\$ 730,125
7,368	—	—	—	—	7,368
—	—	19	206	63	288

**STATE OF OHIO**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2004**  
(dollars in thousands)

	PENSION TRUST	PRIVATE- PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (as of 12/31/03)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
<b>ASSETS:</b>			
Cash Equity with Treasurer.....	\$ —	\$ —	\$ —
Cash and Cash Equivalents.....	12,856	234,942	—
Investments (at fair value):			
U.S. Government and Agency Obligations.....	26,885	—	3,489,778
Common and Preferred Stock.....	327,336	—	—
Corporate Bonds and Notes.....	58,139	—	—
Foreign Stocks and Bonds.....	88,671	—	—
Commercial Paper.....	—	—	476,955
Repurchase Agreements.....	—	—	25,666
Mutual Funds.....	—	2,826,597	—
Real Estate.....	63,901	—	—
Venture Capital.....	—	—	—
Direct Mortgage Loans.....	44,073	—	—
State Treasury Asset Reserve of Ohio (STAR Ohio).....	—	—	—
Collateral on Lent Securities.....	166,950	—	910,096
Employer Contributions Receivable.....	1,552	—	—
Employee Contributions Receivable.....	1,329	—	—
Investment Trade Receivable.....	—	16,585	—
Other Receivables.....	1,448	—	—
Other Assets.....	68	—	—
Capital Assets, Net.....	41	—	—
<b>TOTAL ASSETS.....</b>	<b>793,249</b>	<b>3,078,124</b>	<b>4,902,495</b>
<b>LIABILITIES:</b>			
Accounts Payable.....	1,278	—	—
Accrued Liabilities.....	964	4,569	—
Obligations Under Securities Lending.....	166,950	—	910,096
Investment Trade Payable.....	—	16,543	—
Intergovernmental Payable.....	—	—	—
Refund and Other Liabilities.....	70	174	2,227
<b>TOTAL LIABILITIES.....</b>	<b>169,262</b>	<b>21,286</b>	<b>912,323</b>
<b>NET ASSETS:</b>			
Held in Trust for:			
Employees' Pension Benefits.....	535,235	—	—
Employees' Postemployment Healthcare Benefits.....	88,752	—	—
Individuals, Organizations and Other Governments.....	—	3,056,838	—
Pool Participants.....	—	—	3,990,172
<b>TOTAL NET ASSETS.....</b>	<b>\$ 623,987</b>	<b>\$ 3,056,838</b>	<b>\$ 3,990,172</b>

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

AGENCY

\$	170,767
	129,236
	10,559,628
	58,552,590
	10,252,981
	25,408,093
	2,038,838
	52,180
	7,961,507
	9,729,581
	1,780,588
	5,000,276
	32,946
	247,008
	—
	—
	—
	3,325
	424,455
	—
	<b>132,343,999</b>
	—
	—
	247,008
	—
	71,313
	132,025,678
	<b>132,343,999</b>
	—
	—
	—
	—
\$	—

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**STATE OF OHIO**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**  
(dollars in thousands)

	<u>PENSION TRUST</u>	<u>PRIVATE- PURPOSE TRUST</u>	<u>INVESTMENT TRUST</u>
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (for the fiscal year ended 12/31/03)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
<b>ADDITIONS:</b>			
Contributions from:			
Employer.....	\$ 19,757	\$ —	\$ —
Employees.....	8,137	—	—
Plan Participants.....	—	830,034	—
Other.....	763	—	—
<b>Total Contributions.....</b>	<b>28,657</b>	<b>830,034</b>	<b>—</b>
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments.....	112,899	293,866	—
Interest, Dividends and Other.....	15,720	54,058	53,442
<b>Total Investment Income.....</b>	<b>128,619</b>	<b>347,924</b>	<b>53,442</b>
Less: Investment Expense.....	4,620	23,336	4,181
<b>Net Investment Income.....</b>	<b>123,999</b>	<b>324,588</b>	<b>49,261</b>
Capital Share and Individual Account Transactions:			
Shares Sold.....	—	—	17,130,626
Reinvested Distributions.....	—	—	49,261
Shares Redeemed.....	—	—	(18,556,621)
<b>Net Capital Share and Individual Account Transactions.....</b>	<b>—</b>	<b>—</b>	<b>(1,376,734)</b>
<b>TOTAL ADDITIONS.....</b>	<b>152,656</b>	<b>1,154,622</b>	<b>(1,327,473)</b>
<b>DEDUCTIONS:</b>			
Pension Benefits Paid to Participants or Beneficiaries.....	33,075	—	—
Healthcare Benefits Paid to Participants or Beneficiaries....	7,181	—	—
Refunds of Employee Contributions.....	387	—	—
Administrative Expense.....	653	2	—
Transfers to Other Retirement Systems.....	789	—	—
Distributions to Shareholders and Plan Participants.....	—	516,543	49,261
<b>TOTAL DEDUCTIONS.....</b>	<b>42,085</b>	<b>516,545</b>	<b>49,261</b>
<b>CHANGE IN NET ASSETS HELD FOR:</b>			
Employees' Pension Benefits.....	95,564	—	—
Employees' Postemployment Healthcare Benefits.....	15,007	—	—
Individuals, Organizations and Other Governments.....	—	638,077	—
Pool Participants.....	—	—	(1,376,734)
<b>TOTAL CHANGE IN NET ASSETS.....</b>	<b>110,571</b>	<b>638,077</b>	<b>(1,376,734)</b>
<b>NET ASSETS, JULY 1.....</b>	<b>513,416</b>	<b>2,418,761</b>	<b>5,366,906</b>
<b>NET ASSETS, JUNE 30.....</b>	<b>\$ 623,987</b>	<b>\$ 3,056,838</b>	<b>\$ 3,990,172</b>

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

**STATE OF OHIO**  
**COMBINING STATEMENT OF NET ASSETS**  
**DISCRETELY PRESENTED COMPONENT UNITS**  
**JUNE 30, 2004**  
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (as of 12/31/03)	OHIO STATE UNIVERSITY
<b>ASSETS:</b>			
<b>CURRENT ASSETS:</b>			
Cash Equity with Treasurer.....	\$ 367,657	\$ —	\$ —
Cash and Cash Equivalents.....	—	308	180,446
Investments.....	—	89,340	948,124
Collateral on Lent Securities.....	148,325	—	—
Intergovernmental Receivable.....	6,704	577	943
Loans Receivable, Net.....	—	2,295	12,056
Receivable from Primary Government.....	—	—	19,926
Other Receivables.....	—	11	316,347
Inventories.....	—	—	18,770
Other Assets.....	27	—	43,220
<b>TOTAL CURRENT ASSETS.....</b>	<b>522,713</b>	<b>92,531</b>	<b>1,539,832</b>
<b>NONCURRENT ASSETS:</b>			
Restricted Assets:			
Cash and Cash Equivalents.....	—	11,559	34,030
Investments.....	—	852,579	—
Loans Receivable, Net.....	—	2,683,771	—
Investments.....	—	32,147	1,152,338
Loans Receivable, Net.....	—	18,698	59,324
Other Receivables.....	—	6,187	23,771
Other Assets.....	—	15,216	—
Capital Assets Being Depreciated, Net.....	73	1,568	1,669,040
Capital Assets Not Being Depreciated.....	—	539	419,625
<b>TOTAL NONCURRENT ASSETS.....</b>	<b>73</b>	<b>3,622,264</b>	<b>3,358,128</b>
<b>TOTAL ASSETS.....</b>	<b>522,786</b>	<b>3,714,795</b>	<b>4,897,960</b>
<b>CURRENT LIABILITIES:</b>			
Accounts Payable.....	7,836	30,205	196,386
Accrued Liabilities.....	202	6,351	127,082
Obligations Under Securities Lending.....	148,325	—	—
Intergovernmental Payable.....	638,909	746	—
Unearned Revenue.....	—	—	87,954
Refund and Other Liabilities.....	81	—	68,572
Bonds and Notes Payable.....	—	104,241	405,480
Certificates of Participation.....	—	—	720
<b>TOTAL CURRENT LIABILITIES.....</b>	<b>795,353</b>	<b>141,543</b>	<b>886,194</b>
<b>NONCURRENT LIABILITIES:</b>			
Intergovernmental Payable.....	1,352,000	—	—
Unearned Revenue.....	—	—	6,000
Refund and Other Liabilities.....	442	142	185,618
Bonds and Notes Payable.....	—	1,456,740	387,216
Certificates of Participation.....	—	—	6,180
<b>TOTAL NONCURRENT LIABILITIES.....</b>	<b>1,352,442</b>	<b>1,456,882</b>	<b>585,014</b>
<b>TOTAL LIABILITIES.....</b>	<b>2,147,795</b>	<b>1,598,425</b>	<b>1,471,208</b>
<b>NET ASSETS:</b>			
Invested in Capital Assets, Net of Related Debt.....	73	2,107	1,273,058
Restricted for:			
Federal Programs.....	—	—	—
Coal Research and Development Program.....	—	—	—
Debt Service.....	—	1,961,617	—
Nonexpendable:			
Scholarships and Fellowships.....	—	—	—
Research.....	—	—	—
Endowments and Quasi-Endowments.....	—	—	966,758
Loans, Grants and Other College and University Purposes.....	—	—	—
Expendable:			
Scholarships and Fellowships.....	—	—	—
Research.....	—	—	—
Instructional Department Uses.....	—	—	—
Student and Public Services.....	—	—	—
Academic Support.....	—	—	—
Debt Service.....	—	—	—
Capital Purposes.....	—	—	14,784
Endowments and Quasi-Endowments.....	—	—	130,433
Current Operations.....	—	—	278,858
Loans, Grants and Other College and University Purposes.....	—	—	40,927
Unrestricted (Deficits).....	(1,625,082)	152,646	721,934
<b>TOTAL NET ASSETS (DEFICITS).....</b>	<b>\$ (1,625,009)</b>	<b>\$ 2,116,370</b>	<b>\$ 3,426,752</b>

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
\$ —	\$ 20,609	\$ 388,266
87,355	462,521	730,630
104,006	811,325	1,952,795
—	5,609	153,934
—	37,798	46,022
3,201	23,894	41,446
671	27,282	47,879
71,815	231,678	619,851
4,938	26,305	50,013
18,702	57,812	119,761
<b>290,688</b>	<b>1,704,833</b>	<b>4,150,597</b>
—	75,654	121,243
—	408,330	1,260,909
—	—	2,683,771
1,125,696	926,935	3,237,116
29,179	100,679	207,880
31,979	64,342	126,279
246,916	26,093	288,225
993,186	3,241,321	5,905,188
224,182	561,726	1,206,072
<b>2,651,138</b>	<b>5,405,080</b>	<b>15,036,683</b>
<b>2,941,826</b>	<b>7,109,913</b>	<b>19,187,280</b>
45,257	129,512	409,196
67,934	147,677	349,246
—	5,609	153,934
—	381	640,036
12,945	207,008	307,907
38,492	85,251	192,396
60,387	42,909	613,017
90	—	810
<b>225,105</b>	<b>618,347</b>	<b>2,666,542</b>
—	8,992	1,360,992
—	5,923	11,923
188,180	186,132	560,514
700,683	1,162,385	3,707,024
750	22,000	28,930
<b>889,613</b>	<b>1,385,432</b>	<b>5,669,383</b>
<b>1,114,718</b>	<b>2,003,779</b>	<b>8,335,925</b>
547,502	2,814,923	4,637,663
—	110	110
—	4,518	4,518
—	—	1,961,617
105,423	90,467	195,890
77,477	3,515	80,992
552,341	502,770	2,021,869
223,355	51,609	274,964
34,297	108,677	142,974
99,999	14,217	114,216
28,480	63,443	91,923
23,700	12,587	36,287
29,779	72,714	102,493
120	6,783	6,903
9,054	46,028	69,866
119,263	55,531	305,227
38,631	76,504	393,993
9,766	160,869	211,562
(72,079)	1,020,869	198,288
<b>\$ 1,827,108</b>	<b>\$ 5,106,134</b>	<b>\$ 10,851,355</b>



**STATE OF OHIO**  
**COMBINING STATEMENT OF ACTIVITIES**  
**DISCRETELY PRESENTED COMPONENT UNITS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**  
(dollars in thousands)

	<b>MAJOR COMPONENT UNITS</b>		
	<b>SCHOOL FACILITIES COMMISSION</b>	<b>OHIO WATER DEVELOPMENT AUTHORITY (for the year ended 12/31/03)</b>	<b>OHIO STATE UNIVERSITY</b>
<b>EXPENSES:</b>			
Primary, Secondary and Other Education.....	\$ 10,374	\$ —	\$ —
Community and Economic Development.....	—	—	—
Intergovernmental .....	434,471	562	—
Cost of Services.....	—	77,518	—
Administration.....	—	10,269	—
Education and General:			
Instruction and Departmental Research.....	—	—	577,500
Separately Budgeted Research.....	—	—	317,310
Public Service.....	—	—	110,750
Academic Support.....	—	—	103,502
Student Services.....	—	—	65,906
Institutional Support.....	—	—	109,331
Operation and Maintenance of Plant.....	—	—	73,133
Scholarships and Fellowships.....	—	—	49,336
Auxiliary Services.....	—	—	178,645
Hospitals.....	—	—	1,039,526
Interest on Long-Term Debt.....	—	—	23,322
Depreciation.....	43	145	141,477
Other.....	—	3,049	5,135
<b>TOTAL EXPENSES.....</b>	<b>444,888</b>	<b>91,543</b>	<b>2,794,873</b>
<b>PROGRAM REVENUES:</b>			
Charges for Services, Fees, Fines and Forfeitures.....	1,607	126,954	1,753,935
Operating Grants, Contributions and Restricted Investment Income.....	9,591	84,321	508,974
Capital Grants, Contributions and Restricted Investment Income.....	—	—	80,147
<b>TOTAL PROGRAM REVENUES.....</b>	<b>11,198</b>	<b>211,275</b>	<b>2,343,056</b>
<b>NET PROGRAM (EXPENSE) REVENUE .....</b>	<b>(433,690)</b>	<b>119,732</b>	<b>(451,817)</b>
<b>GENERAL REVENUES:</b>			
Unrestricted Investment Income.....	—	1,477	244,013
State Assistance.....	620,562	—	536,693
Other.....	—	35	8,840
<b>TOTAL GENERAL REVENUES.....</b>	<b>620,562</b>	<b>1,512</b>	<b>789,546</b>
<b>CONTRIBUTIONS TO ENDOWMENTS AND PERMANENT FUND PRINCIPAL.....</b>	<b>—</b>	<b>—</b>	<b>51,478</b>
<b>SPECIAL ITEMS.....</b>	<b>—</b>	<b>1,734</b>	<b>—</b>
<b>CHANGE IN NET ASSETS.....</b>	<b>186,872</b>	<b>122,978</b>	<b>389,207</b>
<b>NET ASSETS (DEFICITS), JULY 1 (as restated).....</b>	<b>(1,811,881)</b>	<b>1,993,392</b>	<b>3,037,545</b>
<b>NET ASSETS (DEFICITS), JUNE 30.....</b>	<b>\$ (1,625,009)</b>	<b>\$ 2,116,370</b>	<b>\$ 3,426,752</b>

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
\$ —	\$ 39,744	\$ 50,118
—	8,645	8,645
—	17,137	452,170
—	—	77,518
—	—	10,269
243,226	1,242,002	2,062,728
131,637	154,097	603,044
46,068	124,182	281,000
57,919	318,265	479,686
35,264	199,168	300,338
69,250	351,267	529,848
64,310	237,873	375,316
15,260	153,627	218,223
74,041	454,860	707,546
—	171,449	1,210,975
22,780	35,401	81,503
61,967	220,240	423,872
5,015	42,039	55,238
<b>826,737</b>	<b>3,769,996</b>	<b>7,928,037</b>
304,345	2,210,417	4,397,258
440,847	506,593	1,550,326
8,263	56,800	145,210
<b>753,455</b>	<b>2,773,810</b>	<b>6,092,794</b>
<b>(73,282)</b>	<b>(996,186)</b>	<b>(1,835,243)</b>
—	125,155	370,645
194,145	1,197,430	2,548,830
2,582	32,765	44,222
<b>196,727</b>	<b>1,355,350</b>	<b>2,963,697</b>
<b>12,442</b>	<b>26,698</b>	<b>90,618</b>
—	<b>(2,769)</b>	<b>(1,035)</b>
<b>135,887</b>	<b>383,093</b>	<b>1,218,037</b>
1,691,221	4,723,041	9,633,318
<b>\$ 1,827,108</b>	<b>\$ 5,106,134</b>	<b>\$ 10,851,355</b>



**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the State of Ohio, as of June 30, 2004, 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, which are included in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. The State's significant accounting policies are as follows.

**A. Financial Reporting Entity**

The State of Ohio's primary government includes all funds, 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. Additionally, other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete should be included in a government's financial reporting entity.

GASB Statement No. 14, *The Financial Reporting Entity*, defines financial accountability. The criteria for determining financial accountability include the following circumstances:

- € 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
- € an organization is fiscally dependent on the primary government.

**1. Blended Component Units**

The Ohio Building Authority 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 basic financial statements include the financial data of the organizations listed below. The separate discrete column

labeled, "Component Units," emphasizes these organizations' separateness from the State's primary government. Officials of the primary government appoint a voting majority of each organization's governing board.

The primary government has the ability to impose its will on the following organizations by modifying or approving their respective budgets.

- School Facilities Commission
- Arts and Sports Facilities Commission
- SchoolNet Commission
- Ohio Air Quality Development Authority

The following organizations impose or potentially impose financial burdens on the primary government.

- Ohio Water Development Authority
- Ohio State University
- University of Cincinnati
- Ohio University
- Miami University
- University of Akron
- Bowling Green State University
- Kent State University
- University of Toledo
- Cleveland State University
- Youngstown State University
- Wright State University
- Shawnee State University
- Central State University
- Medical College of Ohio at Toledo
- Terra State Community College
- Columbus State Community College
- Clark State Community College
- Edison State Community College
- Southern State Community College
- Washington State Community College
- Cincinnati State Community College
- Northwest State Community College
- Owens State Community College

The School Facilities Commission, Arts and Sports Facilities Commission, and SchoolNet Commission, which are governmental component units that use special revenue fund reporting, do not issue separately audited financial reports.

Information on how to obtain financial statements for the State's component units that do issue their own separately audited financial reports is available from the Ohio Office of Budget and Management.



**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3. Joint Ventures and Related Organizations**

As discussed in more detail in NOTE 18, 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**

*Government-wide Statements* — The Statement of Net Assets and the Statement of Activities display information about the primary government (the State) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Fiduciary funds of the primary government and component units that are fiduciary in nature are reported only in the statements of fiduciary net assets and changes in fiduciary net assets.

For the government-wide financial statements, eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the State. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole, or in part, by fees charged to external parties for goods or services.

The Statement of Net Assets reports all financial and capital resources using the economic resources measurement focus and the accrual basis of accounting. The State presents the statement in a format that displays *assets less liabilities equal net assets*. *Net assets* section is displayed in three components:

- € The *Invested in Capital Assets, Net of Related Debt* component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The portion of debt attributable to significant unspent related debt proceeds at year-end is not included in the calculation of this net assets component.
- € The *Restricted Net Assets* component represents net assets with constraints placed on their use that are either 1.) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2.) imposed by law through constitutional provisions or enabling legislation. For component units with permanent

endowments, restricted net assets are displayed in two additional components — expendable and nonexpendable. Nonexpendable net assets are those that are required to be retained in perpetuity.

- € The *Unrestricted Net Assets* component consists of net assets that do not meet the definition of the preceding two components.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the State's governmental activities and for the different business-type activities of the State. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular program or function. Centralized expenses have been included in direct expenses. Indirect expenses have not been allocated to the programs or functions reported in the Statement of Activities.

Generally, the State does not incur expenses for which it has the option of first applying restricted or unrestricted resources for their payment.

Program revenues include licenses, permits and other fees, fines, forfeitures, charges paid by the recipients of goods or services offered by the programs, and grants, contributions, and investment earnings that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all tax, tobacco settlement, unrestricted investment income, escheat property revenues, unrestricted federal grants, and state assistance are presented as general revenues.

*Fund Financial Statements* — The fund financial statements provide information about the State's funds, including the fiduciary funds and blended component units. Separate statements for each fund category — governmental, proprietary, and fiduciary — are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Governmental fund types include the General, special revenue, debt service, and capital projects funds. The proprietary funds consist of enterprise funds. Fiduciary fund types include pension trust, private-purpose trust, investment trust, and agency funds.



**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Operating revenues for the State's proprietary funds mainly consist of charges for sales and services and premium and assessment income since these revenues result from exchange transactions associated with the principal activity of the respective enterprise fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Investment income and revenue from the federal government for extended unemployment benefits are also reported as operating revenues for the Unemployment Compensation Fund, since these sources provide significant funding for the payment of unemployment benefits – the fund's principal activity. Investment income for the Tuition Trust Authority Fund is also reported as operating revenue, since this source provides significant funding for the payment of tuition benefits. Nonoperating revenues for the proprietary funds result from nonexchange transactions or ancillary activities; nonoperating revenues are primarily comprised of investment income and federal operating grants.

Proprietary fund operating expenses principally consist of expenses for the cost of sales and services, administration, premium dividend reductions and refunds, bonuses and commissions, prizes, benefits and claims, and depreciation. Nonoperating expenses principally consist of interest expense on debt and the amortization of discount on deferred lottery prize liabilities, which is reported under "Other" nonoperating expenses.

The State reports the following major governmental funds:

*General* — The General Fund, the State's primary operating fund, accounts for resources of the general government, except those required to be accounted for in another fund.

*Job, Family and Other Human Services Special Revenue Fund* — This fund accounts for public assistance programs primarily administered by the Department of Job and Family Services, which provides financial assistance, services, and job training to those individuals and families who do not have sufficient resources to meet their basic needs.

*Education Special Revenue Fund* — This fund accounts for programs administered by the Department of Education, the Ohio Board of Regents, and other various state agencies, which prescribe the State's minimum educational requirements and which provide funding and assistance to local school districts for basic instruction and vocation and technical job training, and to the State's colleges and universities for post-secondary education.

*Highway Operating Special Revenue Fund* — This fund accounts for programs administered by the Department of Transportation, which is responsible for the planning and design, construction, and maintenance of Ohio's highways, roads, and bridges and for Ohio's public transportation programs.

*Revenue Distribution Special Revenue Fund* — This fund accounts for tax relief and aid to local government programs, which derive funding from tax and other revenues levied, collected, and designated by the State for these purposes.

The State reports the following major proprietary funds:

*Workers' Compensation Enterprise Fund* — This fund accounts for the operations of the Ohio Bureau of Workers' Compensation and the Ohio Industrial Commission, which provide workers' compensation insurance services.

*Lottery Commission Enterprise Fund* — This fund accounts for the State's lottery operations.

*Unemployment Compensation Enterprise Fund* — This fund, which is administered by the Ohio Department of Job and Family Services, accounts for unemployment compensation benefit claims.

*Ohio Building Authority Enterprise Fund* — This fund accounts for the Authority's local government office building lease operations and for the maintenance of all government office buildings owned or leased by the Authority.

*Tuition Trust Authority Enterprise Fund* — This fund accounts for the operations of the Ohio Tuition Trust Authority, including the sale of tuition credits under its guaranteed return option program.

*Liquor Control Enterprise Fund* — This fund accounts for the State's liquor sales operations of the Ohio Department of Commerce's Division of Liquor Control.

*Underground Parking Garage Enterprise Fund* — This fund accounts for the operations of the State's underground parking facilities at Capitol Square in Columbus.

*Office of Auditor of State Enterprise Fund* — This fund accounts for the operations of the Ohio Auditor of State's Office, which provides government audit and management advisory services to Ohio's public offices.



**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The State reports the following fiduciary fund types:

*Pension Trust Fund* — The State Highway Patrol Retirement System Pension Trust Fund accounts for resources that are required to be held in trust for members and beneficiaries of the defined benefit plan. The financial statements for the State Highway Patrol Retirement System Pension Trust Fund are presented for the fiscal year ended December 31, 2003.

*Private-Purpose Trust Fund* — The Private-Purpose Trust Fund accounts for trust arrangements under which principal and income benefit participants in the Variable College Savings Plan, which is administered by the Tuition Trust Authority.

*Investment Trust Fund* — The STAR Ohio Investment Trust Fund accounts for the state-sponsored external investment pool, which the Treasurer of State administers for local government participants.

*Agency Funds* — These funds account for the receipt, temporary investment, and remittance of fiduciary resources held on behalf of individuals, private organizations, and other governments.

The State reports the following major component unit funds:

The *School Facilities Commission* accounts for grants that provide assistance to local school districts for the construction of school buildings.

The *Ohio Water Development Authority*, *Ohio State University*, and *University of Cincinnati* funds are business-type activities that use proprietary fund reporting. The financial statements for the Ohio Water Development Authority, which provides financial assistance to local governments for the construction of wastewater and sewage facilities, are presented for the fiscal year ended December 31, 2003. The Ohio State University Fund accounts for the university's operations, including its health system, super-computer center, agricultural research and development center, and other legally separate entities subject to the control of the university's board. The University of Cincinnati Fund accounts for the university's operations, including its related foundation.

**C. Measurement Focus and Basis of Accounting**  
*Government-wide, Enterprise Fund, and Fiduciary Fund Financial Statements* — The State reports the government-wide financial statements and the proprietary fund and fiduciary fund financial statements using the economic resources measurement focus and the accrual basis of accounting. Revenues are

recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

The State recognizes revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions when the exchange takes place. When resources are received in advance of the exchange, the State reports the unearned revenue as a liability.

Nonexchange transactions, in which the State gives (or receives) value without directly receiving (or giving) equal value in exchange, include derived taxes, grants, and entitlements. The revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Under the accrual basis, the State recognizes assets from derived tax revenues (e.g., personal income, sales, motor vehicle fuel taxes) in the fiscal year when the exchange transaction on which the tax is imposed occurs or when the resources are received, whichever occurs first. The State recognizes derived tax revenues, net of estimated refunds and estimated uncollectible amounts, in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred.

Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Resources transmitted in advance of the State meeting eligibility requirements are reported as unearned revenue.

Investment income includes the net increase (decrease) in the fair value of investments.

As permitted by GAAP, all governmental and business-type activities and enterprise funds have elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

*Governmental Fund Financial Statements* — The State reports governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The State considers revenues reported in the governmental funds, with exception to federal revenue reported in the Highway Operating Special Revenue Fund, to be available when the revenues are collectible within 60 days after year-



**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

end or soon enough thereafter to be used to pay liabilities of the current period. The availability period for purposes of recognizing federal revenues for the Highway Operating Special Revenue Fund is 105 days after fiscal year-end or soon enough thereafter to pay liabilities of the current period.

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
- € Charges for goods and services
- € Federal government grants
- € Tobacco settlement
- € Investment income

The State recognizes assets from derived tax revenues (e.g., personal income, sales, motor vehicle fuel taxes) in the fiscal year when the exchange transaction on which the tax is imposed occurs or when the resources are received, whichever occurs first. The State recognizes derived tax revenues, net of estimated refunds and estimated uncollectible amounts, in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred and the revenues are collected during the availability period.

For revenue arising from exchange transactions (i.e., charges for goods and services), the State defers revenue recognition when resources earned from the exchange are not received during the availability period and reports unearned revenue when resources are received in advance of the exchange.

The governmental funds recognize federal government revenue in the period when all applicable eligibility requirements have been met and resources are available. Resources transmitted in advance of the State meeting eligibility requirements are reported as unearned revenue. The State defers revenue recognition for reimbursement-type grant programs if the reimbursement is not received during the availability period.

Investment income includes the net increase (decrease) in the fair value of investments.

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.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, capital lease obligations, compensated absences, and claims and judgments. The governmental funds recognize expenditures for these liabilities to the extent they have matured or will be liquidated with expendable, available financial resources.

General capital asset acquisitions are reported as expenditures in the governmental funds. Proceeds from general long-term debt issuances, including refunding bond proceeds, bond premiums, and acquisitions under capital leases are reported as other financing sources while bond discounts and payments to bond escrow agents are reported as other financing uses.

**D. Budgetary Process**

As the Ohio Revised Code requires, the Governor submits biennial operating and capital budgets to the General Assembly.

The General Assembly approves operating appropriations in annual amounts and capital appropriations in two-year amounts.

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.

The State's Controlling Board can transfer or increase a line-item appropriation within the limitations set under Sections 127.14 and 131.35, Ohio Revised Code.

All governmental funds are budgeted except the following activities within the debt service fund type:

- Improvements General Obligations
- Highway Improvements General Obligations
- Development General Obligations
- Public Improvements General Obligations
- Vietnam Conflict Compensation  
General Obligations
- Economic Development Revenue Bonds
- Infrastructure Bank Revenue Bonds
- Revitalization Project Revenue Bonds
- Higher Education Facilities Special Obligations
- Mental Health Facilities Special Obligations
- Parks and Recreation Facilities Special Obligations
- School Building Program Special Obligations



**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Ohio Building Authority Special Obligations  
Transportation Certificates of Participation

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. The State uses the modified cash basis of accounting for budgetary purposes.

The *Detailed Appropriation Summary by Fund Report*, which is available for public inspection at the Ohio Office of Budget and Management and its web site, [www.obm.ohio.gov](http://www.obm.ohio.gov), provides a more comprehensive accounting of activity on the budgetary basis at the legal level of budgetary control.

In the *Statement of Revenues, Expenditures and Changes in Fund Balances — Budget and Actual (Non-GAAP Budgetary Basis) — General Fund and Major Special Revenue Funds*, the State reports estimated revenues and other financing sources and uses for the General Fund only; the State does not estimate revenue and other financing sources and uses for the major special revenue funds or its budgeted nonmajor governmental funds.

Additionally, in the non-GAAP budgetary basis financial statement, "actual" budgetary expenditures include cash disbursements and outstanding encumbrances, as of June 30.

The State Highway Patrol Retirement System Pension Trust Fund, the Variable College Savings Plan Private-Purpose Trust Fund, and the STAR Ohio Investment Trust Fund are not legally required to adopt budgets. For budgeted proprietary funds, the State is not legally required to report budgetary data and comparisons for these funds. Also, the State does not present budgetary data for its discretely presented component units.

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

**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 effec-

tively 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. The cash and cash equivalents account also includes investments with original maturities of three months or less from the date of acquisition for the Bureau of Workers' Compensation enterprise fund.

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.

Additional disclosures on the State's deposits can be found in NOTE 4.

**F. Investments**

Investments include long-term investments that may be restricted by law or other legal instruments. With the exception of certain money market investments, which have remaining maturities at the time of purchase of one year or less and are carried at amortized cost, and holdings in the State Treasury Asset Reserve of Ohio (STAR Ohio) investment pool, the State reports investments at fair value based on quoted market prices. STAR Ohio 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). The colleges and universities report investments received as gifts at their fair value on 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.

Additional disclosures on the State's investments can be found in NOTE 4.

**G. Taxes Receivable**

Taxes receivable represent amounts due to the State at June 30, which will be collected sometime in the future. In the government-wide financial statements, revenue has been recognized for the receivable. In the fund financial statements only the portion of the receivable collected during the 60-day availability period has been recognized as revenue while the remainder is recorded as deferred revenue. Additional disclosures on taxes receivable can be found in NOTE 5A.





**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. Intergovernmental Receivable**

The intergovernmental receivable balance is primarily comprised of amounts due from the federal government for reimbursement-type grant programs. Advances of resources to recipient local governments before eligibility requirements have been met under government-mandated and voluntary nonexchange programs and amounts due for exchanges of State goods and services with other governments are also reported as intergovernmental receivables. Additional details on the intergovernmental receivable balance can be found in NOTE 5B.

**I. Inventories**

Inventories are valued at cost. Principal inventory cost methods applied include first-in/first-out, average cost, moving-average, and retail.

In the governmental fund financial statements, the State recognizes the costs of material inventories as expenditures when purchased. Inventories do not reflect current appropriable resources in the governmental fund financial statements, and therefore, the State reserves an equivalent portion of fund balance.

**J. Restricted Assets**

The primary government reports assets restricted for payment of deferred prize awards (Ohio Lotto) and tuition benefits in the enterprise funds for the Lottery Commission and Tuition Trust Authority, respectively.

Generally, the component unit funds hold assets in trust under bond covenants or other financing arrangements that legally restrict the use of these assets.

**K. Capital Assets**

*Primary Government*

The State reports capital assets purchased with governmental fund resources in the government-wide financial statements at historical cost, or at estimated historical cost when no historical records exist. Donated capital assets are valued at their estimated fair value on the donation date. The State does not report capital assets purchased with governmental fund resources in the fund financial statements. Governmental capital assets are reported net of accumulated depreciation, except for land, construction-in-progress, transportation infrastructure assets, and individual works of art and historical treasures, including historical land improvements and buildings. Transportation infrastructure assets are reported using the "modified approach," as discussed below, and therefore are not depreciable. Individual works of art and historical treasures,

including historical land improvements and buildings, are considered to be inexhaustible, and therefore, are not depreciable.

The State reports capital assets purchased with enterprise fund resources and fiduciary fund resources in the government-wide and the fund financial statements at historical cost, or at estimated historical cost when no historical records exist. Donated capital assets are valued at their estimated fair value on the donation date. Capital assets are reported net of accumulated depreciation.

The State has elected to capitalize its transportation infrastructure assets, defined as bridges, general highways, and priority highways, using the modified approach. Under this approach, the infrastructure assets are not depreciated because the State has committed itself to maintaining the assets at a condition level that the Ohio Department of Transportation (ODOT) has determined to be adequate to meet the needs of the citizenry. Costs of maintaining the bridge and highway infrastructure are not capitalized. New construction that represents additional lane-miles of highway or additional square-footage of bridge deck area and improvements that add to the capacity or efficiency of an asset are capitalized.

ODOT maintains an inventory of its transportation infrastructure capital assets, and conducts annual condition assessments to establish that the condition level that the State has committed itself to maintaining is, in fact, being achieved. ODOT also estimates the amount that must be spent annually to maintain the assets at the desired condition level.

For its other types of capital assets, the State does not capitalize the costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life. Costs of major improvements are capitalized. Interest costs associated with the acquisition of capital assets purchased using governmental fund resources are not capitalized; while those associated with acquisitions purchased using enterprise and fiduciary fund resources are capitalized.

The State does not capitalize collections of works of art or historical treasures that can be found at the Governor's residence, Malabar Farm (i.e., Louis Bromfield estate), which the Ohio Department of Natural Resources operates, the Ohio Arts Council, the State Library of Ohio, and the Capitol Square Review and Advisory Board for the following reasons:



**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- € the collection is held for public exhibition, education, or research in furtherance of public service rather than for financial gain.
- € the collection is protected, kept unencumbered, cared for, and preserved.
- € the collection is subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

The State has established the following capitalization thresholds:

Buildings .....	\$ 15,000
Building Improvements .....	100,000
Land .....	All, regardless of cost
Land Improvements .....	15,000
Machinery and Equipment....	15,000
Vehicles .....	15,000
Infrastructure:	
Highway Network .....	500,000
Bridge Network.....	500,000
Park and Natural Resources Network .....	All, regardless of cost

For depreciable capital assets, the State applies the straight-line method over the following estimated useful lives:

Buildings .....	20-45 years
Land Improvements .....	10-25 years
Machinery and Equipment....	2-15 years
Vehicles .....	5-15 years
Park and Natural Resources Infrastructure Network.....	10-50 years

NOTE 8 contains additional disclosures about the primary government’s capital assets.

*Discretely Presented Component Unit Funds*

The discretely presented component unit funds value all capital assets at cost and donated fixed assets at estimated fair value on the donation date. Capital assets are depreciated using the straight-line method. Additional disclosures about the discretely presented component unit funds’ capital assets can be found in NOTE 8.

**L. Noncurrent Liabilities**

*Government-wide Financial Statements* — Liabilities whose average maturities are greater than one year are reported in two components — the amount due in one year and the amount due in more than one year. Additional disclosures as to the specific liabilities

included in noncurrent liabilities can be found in NOTES 10 through 15.

*Fund Financial Statements* — Governmental funds recognize noncurrent liabilities to the extent they have matured or will be liquidated with expendable, available financial resources.

The proprietary funds and component unit funds report noncurrent liabilities expected to be financed from their operations.

**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, the State pays employees, at their full rate, 100 percent of unused vacation leave, personal leave, and, in certain cases, compensatory time and 50 to 55 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 the governmental funds, the State reports the compensated absences liability as a fund liability (included in the “Accrued Liabilities” account as a component of wages payable) to the extent it will be liquidated with expendable, available financial resources. For the primary government’s proprietary funds and its discretely presented component unit funds, the State reports the compensated absences liability as a fund liability included in the “Refund and Other Liabilities” account.

The State’s primary government accrues vacation, compensatory time, and personal leaves 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.

Sick 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



**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

the conditions for compensation will be met in the future.

The State's primary government accrues sick leave using the vesting method. Under this method, 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 primary government's share of Medicare taxes.

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

**N. Fund Balance**

Fund balance reported in the governmental fund financial statements is classified as follows:

*Reserved*

Reservations represent balances that are not appropriate or are legally restricted for a specific purpose. Additional details on "Reserved for Other" balances are disclosed in NOTE 17.

*Unreserved/Designated*

Designations represent balances available for tentative management plans that are subject to change.

*Unreserved/Undesignated*

Unreserved/undesignated fund balances are available for appropriation for the general purpose of the fund.

**O. Risk Management**

The State's primary government is self-insured for claims under its traditional healthcare plans and for vehicle liability while it has placed public official fidelity bonding with a private insurer. The State self-funds tort liability and most property losses on a pay-as-you-go basis; however, selected state agencies have acquired private insurance for their property losses. While not the predominant participants, the State's primary government and its discretely presented component units participate in a public entity risk pool, which is accounted for in the Bureau of Workers' Compensation Enterprise Fund, for the financing of their respective workers' compensation liabilities. These liabilities are reported in the gov-

ernmental funds as an interfund payable. (See NOTE 7).

**P. Interfund Balances and Activities**

Interfund transactions and balances have been eliminated from the government-wide financial statements to the extent that they occur within either the governmental or business-type activities. Balances between governmental and business-type activities are presented as internal balances and are eliminated in the total column. Revenues and expenses associated with reciprocal transactions within governmental or within business-type activities have not been eliminated.

In the fund financial statements, interfund activity within and among the three fund categories (governmental, proprietary, and fiduciary) is classified and reported as follows:

*Reciprocal interfund activity* is the internal counterpart to exchange and exchange-like transactions. This activity includes:

*Interfund Loans* — Amounts provided with a requirement for repayment, which are reported as interfund receivables in lender funds and interfund payables in borrower funds. When interfund loan repayments are not expected within a reasonable time, the interfund balances are reduced and the amount that is not expected to be repaid is reported as a transfer from the fund that made the loan to the fund that received the loan.

*Interfund Services Provided and Used* — Sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and as expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets.

*Nonreciprocal interfund activity* is the internal counterpart to nonexchange transactions. This activity includes:

*Interfund Transfers* — Flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.



**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Interfund Reimbursements* — Repayments from funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are not displayed in the financial statements.

Details on interfund balances and transfers are disclosed in NOTE 7.

**Q. Intra-Entity Balances and Activities**

Balances due between the primary government and its discretely presented component units are re-

ported as receivables from component units or primary government and payables to component units or primary government. For each major component unit, the nature and amount of significant transactions with the primary government are disclosed in NOTE 7.

Resource flows between the primary government and its discretely presented component units are reported like external transactions (i.e., revenues and expenses).

**NOTE 2 RESTATEMENTS AND CHANGES IN ACCOUNTING PRINCIPLES AND STANDARDS**

**A. Implementation of Recently Issued Accounting Pronouncements**

For the fiscal year ended June 30, 2004, the State implemented the provisions of the following pronouncements of the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*
- GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*

GASB Statement No. 39 amends GASB Statement No. 14, *The Financial Reporting Entity*, and establishes additional guidance on the application of existing standards during the assessment of potential component units when determining a government's financial reporting entity. GASB Statement No. 39 requires the reporting of a legally separate, tax-exempt organization, as a component unit,

when it raises and holds economic resources for the direct benefit of a governmental unit, and the organization in question meets certain other criteria set forth in the standard.

GASB Technical Bulletin No. 2004-1 clarifies the guidance for revenue recognition of payments to settling governments pursuant to the Master Settlement Agreement with the major tobacco companies.

Restatements for the primary government and its component units resulting from corrections, implementation of GASB 39, and changes in reporting entity are detailed in the following tables.

**B. Restatements — Primary Government**

Restatements of fund balances/net assets, as of June 30, 2003, for the primary government are presented in the following table (dollars in thousands).

	Governmental Funds		
	Job, Family and Other Human Services	Other Governmental Funds	Total
Fund Balance, as of June 30, 2003, As Previously Reported.....	\$288,975	\$3,597,928	\$3,886,903
Corrections:			
Decrease in Assets:			
Intergovernmental Receivable (Federal Temporary Assistance to Needy Families (TANF) Program).....	(59,983)	—	(59,983)
Increase in Liabilities:			
Unearned Revenue (Federal TANF Program) .....	(210,973)	—	(210,973)
Fund Balance, July 1, 2003, As Restated .....	<u>\$ 18,019</u>	<u>\$3,597,928</u>	<u>\$3,615,947</u>
			Governmental Activities
Net Assets, as of June 30, 2003, As Previously Reported .....			<u>\$16,860,415</u>
Corrections:			
Increase/(Decrease) in Assets:			
Intergovernmental Receivable (Federal Programs — TANF-(\$59,983) & Child Care Development-\$30,127).....			(29,856)
Other Receivables (Tobacco Settlement Revenue Recognition under GASB Technical Bulletin 2004-1) .....			158,161
Increase in Liabilities:			
Unearned Revenue (Federal TANF Program) .....			(210,973)
Net Assets, July 1, 2003, As Restated .....			<u>\$16,777,747</u>



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

**C. Restatements — Nonmajor Component Units**

Restatements of net assets, as of June 30, 2003, are summarized for the discretely presented nonmajor component unit funds below (dollars in thousands).

	Nonmajor Component Units
Net Assets, as of June 30, 2003, As Previously Reported .....	\$3,875,671
Change in Accounting Principle: Implementation of GASB 39 .....	845,022
Change in Reporting Entity: Net Assets of the Air Quality Development Authority .....	3,972
Corrections to Net Assets, as previously reported .....	(1,624)
Net Increase .....	847,370
Net Assets, July 1, 2003, As Restated.....	\$4,723,041

**D. Recently Issued GASB Pronouncements**

In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*. This Statement establishes accounting and financial reporting standards for disclosure of common deposit and investment risks related to credit risk, custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2004.

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries. This Statement's provisions are effective for financial statements for periods beginning after December 15, 2004.

In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans and

supersedes guidance included in Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. The standards in this Statement apply for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties that administer them. The requirements of this Statement are effective *one year prior* to the effective date of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*, for the employer (single-employer plan) or for the largest participating employer in the plan (multiple-employer plan). The effective dates by which governments are to implement the provisions of GASB Statement No. 45 are discussed below.

In May 2004, the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section*. This Statement amends portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section. The provisions of this Statement are effective for statistical sections prepared for periods beginning after June 15, 2005.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This Statement is effective for periods beginning after December 15, 2006, for *phase 1 governments* (those with total annual revenues of \$100 million or more in the first fiscal year ending after June 15, 1999); after December 15, 2007, for *phase 2 governments* (those with total annual revenues of \$10 million or more but less than \$100 million in the first fiscal year ending after June 15, 1999); and after December 15, 2008, for *phase 3 governments* (those with total annual revenues of less than \$10 million in the first fiscal year ending after June 15, 1999).

Management has not yet determined the impact that the new GASB pronouncements will have on the State's financial statements.



**NOTE 3 GAAP versus NON-GAAP BUDGETARY BASIS**

In the accompanying *Statement of Revenues, Expenditures and Changes in Fund Balances — Budget and Actual (Non-GAAP Budgetary Basis) — General Fund and Major Special Revenue Funds*, actual revenues, transfers-in, expenditures, encumbrances, and transfers-out reported on the non-GAAP budgetary basis do not equal those reported on the GAAP basis in the *Statement of Revenues, Expenditures and Changes in Fund Balances — Major Governmental 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, the State recognizes encumbrances as expenditures in the year encumbered, while on the modified accrual basis, the State recognizes expenditures when goods or services are received regardless of the year encumbered.

*Original budget* amounts in the accompanying budgetary statements have been taken from the first complete appropriated budget for fiscal year 2004.

An appropriated budget is the expenditure authority created by appropriation bills that are signed into law and related estimated revenues. The original budget also includes actual appropriation amounts automatically carried over from prior years by law, including the automatic rolling forward of appropriations to cover prior-year encumbrances.

*Final budget* amounts represent original appropriations modified by authorized transfers, supplemental and amended appropriations, and other legally authorized legislative and executive changes applicable to fiscal year 2004, whenever signed into law or otherwise legally authorized.

For fiscal year 2004, no excess of expenditures over appropriations were reported in individual funds.

A reconciliation of the fund balances reported under the GAAP basis and budgetary basis for the General Fund and the major special revenue funds is presented on the following page.



**NOTE 3 GAAP versus NON-GAAP BUDGETARY BASIS (Continued)**

**Primary Government  
Reconciliation of GAAP Basis Fund Balances to Non-GAAP Budgetary Basis Fund Balances  
For the General Fund and Major Special Revenue Funds  
As of June 30, 2004**

*(dollars in thousands)*

	Major Special Revenue Funds				
	General	Job, Family, and Other Human Services	Education	Highway Operating	Revenue Distribution
Total Fund Balances - GAAP Basis .....	\$ 735,836	\$ (76,455)	\$ 48,306	\$ 600,221	\$ 118,804
Less: Reserved Fund Balances .....	638,088	1,270,539	50,498	1,427,459	126,517
Less: Designated Fund Balances .....	97,748	—	—	—	—
Unreserved/Undesignated Fund Balances —					
GAAP Basis .....	—	(1,346,994)	(2,192)	(827,238)	(7,713)
Revenue Accruals/Adjustments:					
Cash Equity with Treasurer .....	(74,863)	(5,936)	(557)	(15,108)	(2,515)
Taxes Receivable .....	(811,159)	—	—	(48,302)	(212,641)
Intergovernmental Receivable .....	(454,312)	(572,397)	(127,753)	(85,264)	—
Loans Receivable, Net .....	(41,757)	—	(9,438)	(55,311)	—
Interfund Receivable .....	(269,421)	(6)	—	—	—
Other Receivables .....	(297,374)	(41,059)	(560)	(986)	—
Inventories .....	(21,614)	—	—	(23,403)	—
Other Assets .....	(16,919)	(1,994)	(4,577)	(3,175)	—
Deferred Revenue .....	160,128	282,324	11,759	850	16,289
Unearned Revenue .....	—	330,740	58,335	34,629	8,162
Total Revenue Accruals/Adjustments .....	(1,827,291)	(8,328)	(72,791)	(196,070)	(190,705)
Expenditure Accruals/Adjustments:					
Accounts Payable .....	153,398	53,630	10,001	134,401	—
Accrued Liabilities .....	99,842	11,872	1,373	19,046	—
Medicaid Claims Payable .....	954,720	—	—	—	—
Intergovernmental Payable .....	286,132	231,759	70,017	1,386	356,021
Interfund Payable .....	580,085	15,251	2,696	100,045	56
Payable to Component Units .....	10,728	1,498	1,043	682	—
Refund and Other Liabilities .....	686,075	8,006	—	—	70,389
Liability for Escheat Property .....	7,149	—	—	—	—
Total Expenditure Accruals/Adjustments .....	2,778,129	322,016	85,130	255,560	426,466
Other Adjustments:					
Fund Balance Reclassifications:					
From Unreserved (Non-GAAP Budgetary Basis)					
to Reserved for:					
Noncurrent Portion of Loans Receivable .....	39,529	—	9,170	54,617	—
Noncurrent Portion of Interfund Receivable .....	265,875	—	—	—	—
Inventories .....	21,614	—	—	23,403	—
State and Local Highway Construction .....	—	—	—	—	126,517
Federal Programs .....	—	410	8,704	—	—
Other .....	20,696	1,994	203	3,175	—
From Undesignated (Non-GAAP Budgetary Basis) to Designated .....	97,748	—	—	—	—
Cash and Investments Held					
Outside of State Treasury .....	(256,173)	(23,544)	(3,801)	(365)	(6,818)
Total Other Adjustments .....	189,289	(21,140)	14,276	80,830	119,699
Total Basis Differences .....	1,140,127	292,548	26,615	140,320	355,460
<b>TIMING DIFFERENCES</b>					
Encumbrances .....	(205,837)	(387,700)	(28,427)	(134,660)	—
Budgetary Fund Balances (Deficits) —					
Non-GAAP Basis .....	\$ 934,290	\$(1,442,146)	\$ (4,004)	\$ (821,578)	\$ 347,747



**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;
- Certificates of deposit in the eligible institutions applying for interim moneys;
- Bonds and other direct obligations of the State of Ohio issued by the Treasurer of State and of the Ohio Public Facilities Commission, the Ohio Building Authority, and the Ohio Housing Finance Agency;
- The Treasurer of State's investment pool, as authorized under Section 135.45, Ohio Revised Code;

- 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 135.631, Ohio Revised Code;
- 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 issued by any corporation that is incorporated under the laws of the United States or a state, and rated in one of the two highest rating categories by two nationally recognized rating agencies and not exceeding five percent of the total average investment portfolio;
- Bankers' acceptances maturing in 270 days or less and not exceeding 10 percent of the total average investment portfolio;
- Debt of domestic corporations and direct obligations of foreign nations diplomatically recognized by the United States, rated investment grade by nationally recognized rating agencies and, in the aggregate, not exceeding 25 percent of the total average investment portfolio;
- Obligations of a board of education as authorized under Sections 133.10 or 133.301, Ohio Revised Code; and
- No-load money market funds consisting of U.S. government agency obligations or commercial paper, 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 Retirement





**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

System Pension Trust Fund, the Tuition Trust Authority Enterprise 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, direct mortgages, limited partnerships, venture capital, real estate, and other investments.

**B. State-Sponsored Investment Pool**

The Treasurer of State is the investment advisor and administrator of the State Treasury Asset Reserve of Ohio (STAR Ohio), a statewide external investment pool authorized under Section 135.45, Ohio Revised Code. STAR Ohio 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, 9<sup>th</sup> Floor, Columbus, Ohio 43215, by calling (614) 466-2160, or by accessing the Treasurer of State's website at [www.ohiotreasurer.org](http://www.ohiotreasurer.org).

**C. Deposits**

**1. Primary Government**

As of June 30, 2004, the carrying amount of deposits was (dollars in thousands) \$941,596 and the bank balance was \$1,067,570. Of the bank balance, \$774,483 was fully insured or collateralized with securities held by the primary government or its agent in the primary government's name (Category 1), \$11,276 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 \$281,811, although meeting legal collateralization requirements, was categorized as uninsured and uncollateralized (Category 3).

**2. Component Units**

As of June 30, 2004, the carrying amount of deposits was (dollars in thousands) \$618,492, and the bank balance was \$705,228. Of the bank balance, \$20,229 was fully insured or collateralized with securities

held by the respective component units or their agents in the component unit's name (Category 1), \$498,487 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 \$186,512, although meeting legal collateralization requirements, was categorized as uninsured and uncollateralized (Category 3).

**D. Investments**

The State categorizes investments to give an indication of the levels 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 mutual funds, real estate, venture capital and limited partnerships, direct mortgages, life insurance, investment contracts, charitable lead trusts, and the deposit with the federal government. 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 levels of credit risk assumed by the primary government and its discretely presented component units and the carrying amount and fair value of investments, as of June 30, 2004, are detailed in the tables on the following page.



**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

**Investment Credit Risk**  
**As of June 30, 2004**  
*(dollars in thousands)*

<b>Primary Government:</b>	Category 1	Category 2	Category 3	Total Fair Value
U.S. Government & Agency Obligations:				
Not on Securities Loan.....	\$ 15,497,572	\$ —	\$ 5,189,802	\$ 20,687,374
On Securities Loan.....	—	—	94,538	94,538
Repurchase Agreements.....	118,117	—	339	118,456
Common and Preferred Stock.....				
Not on Securities Loan.....	58,508,478	—	3,790,566	62,299,044
On Securities Loan.....	—	—	863,698	863,698
Corporate Bonds and Notes:				
Not on Securities Loan.....	10,371,209	—	1,527,885	11,899,094
On Securities Loan.....	—	—	58,264	58,264
Foreign Stocks and Bonds.....	24,737,854	—	1,597,211	26,335,065
Commercial Paper.....	3,152,408	—	1,607,815	4,760,223
High-Yield & Emerging Markets Fixed Income.....	898,909	—	—	898,909
Mortgage and Asset-Backed Securities.....	5,033,132	—	—	5,033,132
Securities Lending Collateral:				
U.S. Government & Agency Obligations.....	10,628	—	1,348,409	1,359,037
Repurchase Agreements.....	1,083,669	—	—	1,083,669
Common and Preferred Stock.....	134,350	—	269,858	404,208
Corporate Bonds and Notes.....	2,305,871	—	222,870	2,528,741
Foreign Stocks and Bonds.....	—	—	199,384	199,384
Commercial Paper.....	464,612	—	—	464,612
Mortgage and Asset-Backed Securities.....	13,142	—	—	13,142
	<u>\$122,329,951</u>	<u>\$ —</u>	<u>\$16,770,639</u>	<u>139,100,590</u>
Investments Held by Broker-dealers under Securities Loans with Cash Collateral:				
U.S. Government and Agency Obligations.....				6,389,037
Common and Preferred Stock.....				398,227
Corporate Bonds and Notes.....				227,900
Foreign Stocks and Bonds.....				965,887
Mortgage and Asset-Backed Securities.....				12,848
Mutual Funds.....				10,357,751
Real Estate.....				9,793,482
Venture Capital.....				1,780,588
Limited Partnerships.....				999,037
Investment Contracts.....				943
Securities Lending Collateral — Mutual Funds.....				207,323
Deposit with Federal Government.....				711,038
Component Units' Equity in State Treasurer's Cash and Investment Pool (including associated Collateral on Lent Securities).....				(542,200)
Component Units' Equity in the State Treasury Asset Reserve of Ohio (STAR Ohio).....				(485,075)
<b>Total Investments — Primary Government.....</b>				<u><b>\$169,917,376</b></u>

<b>Component Units:</b>	Category 1	Category 2	Category 3	Total Fair Value
U.S. Government & Agency Obligations.....	\$ 266,857	\$ 983,877	\$201,006	\$1,451,740
Common and Preferred Stock.....	801,816	1,432,507	128,637	2,362,960
Corporate Bonds and Notes.....	216,957	345,163	89,598	651,718
Commercial Paper.....	104	—	—	104
Repurchase Agreements.....	—	328,152	4,062	332,214
Negotiable Certificates of Deposit.....	—	—	4,000	4,000
Foreign Bonds.....	29	—	—	29
Other Investments.....	1,206	—	—	1,206
	<u>\$1,286,969</u>	<u>\$3,089,699</u>	<u>\$427,303</u>	<u>4,803,971</u>

Investment in State Treasurer's Cash and Investment Pool (including associated Collateral on Lent Securities).....				542,200
Investment in the State Treasury Asset Reserve of Ohio (STAR Ohio).....				485,075
Mutual Funds.....				1,172,255
Real Estate.....				84,060
Direct Mortgages.....				45,774
Life Insurance.....				2,761
Limited Partnerships.....				23,025
Investment Contracts.....				66,629
Charitable Lead Trusts.....				651
<b>Total Investments — Component Units.....</b>				<u><b>\$7,226,401</b></u>



**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

The total carrying amount of deposits and investments, as of June 30, 2004, reported for the primary government and its component units is (dollars in thousands) \$178,267,277. The total carrying amount of deposits and investments categorized and disclosed in this note is \$178,703,865. A reconciliation of the difference is presented in the table below.

**E. Securities Lending Transactions**

The Treasurer of State, Bureau of Workers' Compensation (BWC), and the State Highway Patrol Retirement System participate in securities lending programs for securities included in the "Cash Equity with Treasurer" and "Investments" accounts and the STAR Ohio 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 requires its custodial agents to ensure that the State's lent securities are collateralized at no less than 102 percent of fair value. Consequently, as of June 30, 2004, the State had no credit

exposure since the amount the State owed to borrowers exceeded the amount borrowers owed the State.

For loan contracts the Treasurer executes for the State's cash and investment pool, which is reported in the financial statements as "Cash Equity with Treasurer," and for the Ohio Lottery Commission's Structured Investment Portfolio, which is reported as "Restricted Investments," the lending agent may not lend more than 75 percent of the total average portfolio. For the STAR Ohio program, no more than 25 percent of the STAR Ohio total average investment portfolio may be lent up to seven days and no more than 10 percent of the total average portfolio for terms greater than seven days, but no more than to 30 days.

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.

**Reconciliation of Deposit and Investments Disclosures  
With Financial Statements  
As of June 30, 2004  
(dollars in thousands)**

	Government-Wide Statement of Net Assets			Fiduciary Funds Statement of Net Assets	Total
	Governmental Activities	Business-Type Activities	Component Units		
Cash Equity with Treasurer .....	\$5,107,379	\$ 50,295	\$ 388,266	\$ 170,767	\$ 5,716,707
Cash and Cash Equivalents .....	94,120	1,716,627	730,630	377,034	2,918,411
Investments .....	742,645	14,973,939	5,189,911	138,797,209	159,703,704
Collateral on Lent Securities .....	2,108,403	2,673,153	153,934	1,324,054	6,259,544
Deposit with Federal Government .....	—	711,038	—	—	711,038
Restricted Assets:					
Cash and Cash Equivalents .....	—	1,768	121,243	—	123,011
Investments .....	—	1,573,953	1,260,909	—	2,834,862
<b>Total Reporting Entity .....</b>	<b>\$8,052,547</b>	<b>\$21,700,773</b>	<b>\$7,844,893</b>	<b>\$140,669,064</b>	<b>\$178,267,277</b>
<b>Primary Government:</b>					
Deposits .....				\$ 941,596	
Investments .....				169,917,376	
					170,858,972
<b>Component Units:</b>					
Deposits .....				618,492	
Investments .....				7,226,401	
					7,844,893
Total Carrying Amount of Deposits and Investments .....					178,703,865
Outstanding Warrants and Other Reconciling Items .....					(188,708)
Differences Resulting from Component Units with December 31 Year-Ends .....					(247,880)
<b>Total Reporting Entity .....</b>					<b>\$178,267,277</b>



**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

The State cannot sell securities received as collateral unless the borrower defaults. Consequently, these amounts are not reflected in the financial statements.

According to the lending contracts the Treasurer of State executes for the State's cash and investment pool and for the Ohio Lottery Commission, the securities lending agent is to indemnify the Treasurer of State for any losses resulting from either the default of a borrower or any violations of the security lending policy.

The security lending agent for the STAR Ohio Program is to indemnify the Treasurer for losses resulting from the failure of the borrower to return the loaned securities in accordance with the terms of the loan agreement, provided, however, that the agent's obligation to indemnify the Treasurer under the agreement shall be limited to an indemnification amount equal to the difference between the market value of the loaned securities on the date that such loaned securities should have been returned to the agent (the "default date") and the greater of:

- the cash collateral received from the borrower, or
- the value of investments of collateral — the greater of (i) the value of the collateral on the default date or (ii) the value of the collateral when it was received from the borrower. In the case of collateral consisting of a letter of credit, the value of the collateral shall be the face amount of the letter of credit.

Loan contracts for the Bureau of Workers Compensation do not provide any loss indemnification by securities lending agents in cases of borrower default.

During fiscal year 2004, 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 STAR Ohio program lent U.S. government and agency obligations in exchange for collateral consisting of cash. The BWC lent fixed maturities and equity securities in exchange for cash, broker-provided, and letters of credit collateral while the State Highway Patrol Retirement System also lent a mix of fixed

maturities and equity securities in exchange for cash collateral.

**F. Derivatives**

Derivatives are generally defined as a contract whose value depends on, or derives from, the values of an underlying asset, reference rate, or index.

As of June 30, 2004, the Bureau of Workers' Compensation Enterprise Fund held approximately \$4.4 billion in certain mortgage and asset-backed securities (primarily classified under the "U.S. Government and Agency Obligations" investment type), which the fund classified as derivatives. The overall return or yield on mortgage and asset-backed securities depends on the interest amount collected over the life of the security and the change in the fair value. Although the Bureau will receive the full principal amount, if prepaid, the interest income that would have been collected during the remaining period to maturity is lost. Accordingly, the yields and maturities of mortgage and asset-backed securities generally depend on when the underlying loan principal and interest are repaid. If the market rates fall below a loan's contractual rate, it is generally to the borrower's advantage to repay the existing loan and obtain new, lower interest rate financing.

Through the use of international money managers, the Bureau of Workers' Compensation also enters into various foreign currency exchange contracts to manage exposure to changes in foreign currency exchange rates on its international securities holdings. A forward currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risk associated with such contracts includes movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. The fair value of the forward currency contracts payable for the Bureau was \$29 thousand, as of June 30, 2004.

Additionally, during the reporting period, the retirement systems reported in the Retirement Systems Agency Fund had investments in derivatives that were held in the Treasurer of State's custody. 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.



**NOTE 5 RECEIVABLES**

**A. Taxes Receivables — Primary Government**

Current taxes receivable are expected to be collected in the next fiscal year while noncurrent taxes receivable are not expected to be collected until more than one year from the balance sheet date. As of June 30, 2004, approximately \$155.1 million of the net taxes receivable balance is also reported as deferred revenue on the governmental funds' balance sheet, of which \$138.8 million is reported in the General Fund and \$16.3 million is reported in the Revenue Distribution Special Revenue Fund.

Refund liabilities for income, corporation franchise, and sales taxes, totaling approximately \$756.3 million, are reported for governmental activities as "Refunds and Other Liabilities" on the Statement of Net Assets, of which, \$685.9 million is reported in the General Fund and \$70.4 million is reported in the Revenue Distribution Special Revenue Fund on the governmental funds' balance sheet.

The following table summarizes taxes receivable for the primary government (dollars in thousands).

	Governmental Activities				
	Major Governmental Funds			Nonmajor Govern- mental Funds	Total Primary Government
	General	Highway Operating	Revenue Distribution		
Current-Due Within One Year:					
Income Taxes .....	\$279,129	\$ —	\$ 47,653	\$ 146	\$ 326,928
Sales Taxes .....	423,407	—	28,655	764	452,826
Motor Vehicle Fuel Taxes .....	—	48,302	100,365	2,035	150,702
Public Utility Taxes.....	64,484	—	30,790	—	95,274
Other Taxes .....	—	—	—	1,850	1,850
	767,020	48,302	207,463	4,795	1,027,580
Noncurrent-Due in More Than One Year:					
Income Taxes .....	44,139	—	5,178	—	49,317
Taxes Receivable, Net.....	\$811,159	\$48,302	\$212,641	\$4,795	\$1,076,897

**B. Intergovernmental Receivables — Primary Government**

The intergovernmental receivable balance reported for the primary government, all of which is expected to be collected within the next fiscal year, consists of the following, as of June 30, 2004 (dollars in thousands).

	From Nonexchange Programs		From Sales of Goods and Services		Total Primary Government
	Federal Government	Local Government	Other State Governments	Local Government	
	Governmental Activities:				
Major Governmental Funds:					
General.....	\$ 436,831	\$ 8,770	\$ —	\$ 8,711	\$ 454,312
Job, Family and Other Human Services .....	506,030	66,367	—	—	572,397
Education .....	57,306	70,447	—	—	127,753
Highway Operating .....	85,264	—	—	—	85,264
Nonmajor Governmental Funds .....	226,661	19,294	—	22,816	268,771
Total Governmental Activities .....	1,312,092	164,878	—	31,527	1,508,497
Business-Type Activities:					
Unemployment Compensation .....	—	—	4,800	—	4,800
Office of Auditor of State .....	28	—	—	—	28
Total Business-Type Activities .....	28	—	4,800	—	4,828
Intergovernmental Receivable .....	\$1,312,120	\$164,878	\$4,800	\$31,527	\$1,513,325



**NOTE 5 RECEIVABLES (Continued)**

**C. Loans Receivable**

Loans receivable for the primary government and its discretely presented major component units, as of June 30, 2004, are detailed in the following tables (dollars in thousands).

**Primary Government — Loans Receivable**

Loan Program	Governmental Activities				
	Major Governmental Funds			Nonmajor Govern- mental Funds	Total Primary Government
	General	Education	Highway Operating		
School District Solvency Assistance.....	\$27,233	\$ —	\$ —	\$ —	\$ 27,233
Vocational Education.....	104	29	—	—	133
Wayne Trace Local School District.....	4,677	—	—	—	4,677
Vocational School Assistance .....	—	9,148	—	—	9,148
Nurses Education Assistance.....	—	261	—	—	261
Office of Minority Financial Incentives .....	1,532	—	—	—	1,532
Rail Development.....	—	—	—	4,246	4,246
Economic Development					
Office of Credit and Finance.....	—	—	—	294,482	294,482
Ohio Housing Finance Agency.....	—	—	—	265,139	265,139
Small Government Fire Departments .....	238	—	—	—	238
Higher Education Research Investment Loans .....	—	—	—	751	751
Highway, Transit, & Aviation Infrastructure Bank ..	—	—	55,311	—	55,311
Natural Resources.....	—	—	—	155	155
Local Infrastructure Improvements .....	—	—	—	251,633	251,633
Columbiana County Economic Stabilization .....	1,499	—	—	—	1,499
State Workforce Development.....	6,201	—	—	—	6,201
Professional Development.....	901	—	—	—	901
Loans Receivable, Gross.....	42,385	9,438	55,311	816,406	923,540
Estimated Uncollectible .....	(628)	—	—	(15,473)	(16,101)
Loans Receivable, Net.....	<u>\$41,757</u>	<u>\$9,438</u>	<u>\$55,311</u>	<u>\$800,933</u>	<u>\$907,439</u>
Current-Due Within One Year.....	\$21,123	\$ 268	\$ 7,579	\$129,203	\$158,173
Noncurrent-Due in More Than One Year.....	20,634	9,170	47,732	671,730	749,266
Loans Receivable, Net .....	<u>\$41,757</u>	<u>\$9,438</u>	<u>\$55,311</u>	<u>\$800,933</u>	<u>\$907,439</u>

**Major Component Units — Loans Receivable**

Loan Program	Ohio Water Development Authority (12/31/03)	Ohio State University	University of Cincinnati
Water and Wastewater Treatment (including restricted portion).....	\$2,704,764	\$ —	\$ —
Student .....	—	81,985	36,093
Other.....	—	—	694
Loans Receivable, Gross.....	2,704,764	81,985	36,787
Estimated Uncollectible.....	—	(10,605)	(4,407)
Loans Receivable, Net.....	<u>\$2,704,764</u>	<u>\$71,380</u>	<u>\$32,380</u>
Current-Due Within One Year .....	\$ 2,295	\$12,056	\$ 3,201
Noncurrent-Due in More Than One Year .....	2,702,469	59,324	29,179
Loans Receivable, Net.....	<u>\$2,704,764</u>	<u>\$71,380</u>	<u>\$32,380</u>



**NOTE 5 RECEIVABLES (Continued)**

**D. Other Receivables**

The other receivables balances reported for the primary government and its major discretely presented major component units reporting significant balances, as of June 30, 2004, consist of the following (dollars in thousands).

**Primary Government — Other Receivables**

Type of Receivable	Governmental Activities						Total
	Major Governmental Funds						
	General	Job, Family & Other Human Services	Education	Highway Operating	Nonmajor Govern- mental Funds		
Accounts .....	\$ 5,790	\$ —	\$560	\$986	\$ 16,479	\$ 23,815	
Drug Manufacturers' Rebates .....	269,149	—	—	—	—	269,149	
Health Facility Bed Assessments .....	—	38,552	—	—	—	38,552	
Interest .....	3,670	—	—	—	1,616	5,286	
Leases .....	—	—	—	—	1,545	1,545	
Tobacco Settlement .....	—	—	—	—	158,638	158,638	
Miscellaneous .....	18,765	2,507	—	—	—	21,272	
Other Receivables, Net- Due Within One Year .....	<u>\$297,374</u>	<u>\$41,059</u>	<u>\$560</u>	<u>\$986</u>	<u>\$178,278</u>	<u>\$518,257</u>	
	Business-Type Activities						
Type of Receivable	Workers' Compen- sation	Lottery Commis- sion	Unemploy- ment Compen- sation	Ohio Building Authority	Tuition Trust Authority	Office of Auditor of State	Total
Accounts .....	\$850,169	\$ —	\$75,501	\$ 900	\$5,046	\$8,788	\$940,404
Interest and Dividends (including restricted portion) .....	73,472	2,910	—	290	—	—	76,672
Leases .....	—	—	—	13,817	—	—	13,817
Lottery Sales Agents .....	—	38,417	—	—	—	—	38,417
Other Receivables, Gross .....	923,641	41,327	75,501	15,007	5,046	8,788	1,069,310
Estimated Uncollectible .....	(685,773)	(384)	(65,054)	—	—	(54)	(751,265)
Other Receivables, Net .....	<u>\$237,868</u>	<u>\$40,943</u>	<u>\$10,447</u>	<u>\$15,007</u>	<u>\$5,046</u>	<u>\$8,734</u>	<u>\$318,045</u>
Current-Due Within One Year .....	\$237,868	\$40,943	\$10,447	\$ 2,881	\$5,046	\$8,734	\$305,919
Noncurrent-Due in More Than One Year .....	—	—	—	12,126	—	—	12,126
Other Receivables, Net .....	<u>\$237,868</u>	<u>\$40,943</u>	<u>\$10,447</u>	<u>\$15,007</u>	<u>\$5,046</u>	<u>\$8,734</u>	<u>\$318,045</u>
	Total Primary Government .....						<u>\$836,302</u>

**Major Component Units — Other Receivables**

Type of Receivable	Ohio State University	University of Cincinnati
Accounts .....	\$488,499	\$ 25,471
Interest .....	15,510	9,330
Pledges .....	48,844	59,495
Miscellaneous .....	—	19,354
Other Receivables, Gross .....	552,853	113,650
Estimated Uncollectible .....	(212,735)	(9,856)
Other Receivables, Net .....	<u>\$340,118</u>	<u>\$103,794</u>
Current-Due Within One Year .....	\$316,347	\$ 71,815
Noncurrent-Due in More Than One Year .....	23,771	31,979
Other Receivables, Net .....	<u>\$340,118</u>	<u>\$103,794</u>



**NOTE 5 RECEIVABLES (Continued)**

The "Other Receivables" balance reported in the fiduciary funds as of June 30, 2004, is comprised of interest due of \$1.4 million and miscellaneous receivables of \$3.4 million.

Nonmajor governmental funds report leases receivable for direct financing agreements with local government for land and buildings under the Chapter 166 Direct Loan Program, which is administered by Ohio Department of Development's Office of Credit and Finance.

Additionally, under long-term direct financing leases with local governments for office space, the Ohio Building Authority, a blended component unit reported in the proprietary funds, charges a pro-rata share of the buildings' debt service and operating costs based on square-footage occupied.

Future lease payments included under "Other Receivables" in governmental and business-type activities, net of executory costs, (dollars in thousands) are as follows:

Year Ending June 30,	Leases Receivable		
	Governmental Activities	Business- Type Activities	Total
2005 .....	\$ 169	\$ 2,099	\$ 2,268
2006 .....	169	2,345	2,514
2007 .....	169	4,802	4,971
2008 .....	169	2,716	2,885
2009 .....	169	—	169
Thereafter.....	990	—	990
Total Minimum Lease Payments .....	1,835	11,962	13,797
Amount for interest .....	(290)	(885)	(1,175)
Present Value of Net Minimum Lease Payments .....	1,545	11,077	12,622
Unearned Income.....	—	2,740	2,740
	<u>\$1,545</u>	<u>\$13,817</u>	<u>\$15,362</u>

**NOTE 6 PAYABLES**

**A. Accrued Liabilities**

Details on accrued liabilities for the primary government and its discretely presented major component units reporting significant balances, as of June 30, 2004, follow (dollars in thousands).

**Primary Government — Accrued Liabilities**

	Wages	Health Benefit Claims	Accrued Interest	Vehicle Liability Claims	Total Accrued Liabilities
Governmental Activities:					
Major Governmental Funds:					
General .....	\$ 96,710	\$3,132	\$ —	\$ —	\$ 99,842
Job, Family and Other Human Services .....	11,510	362	—	—	11,872
Education .....	1,318	55	—	—	1,373
Highway Operating .....	18,704	342	—	—	19,046
Nonmajor Governmental Funds .....	33,633	938	5	—	34,576
	161,875	4,829	5	—	166,709
Reconciliation of balances in fund financial statements to government-wide financial statements due to basis differences .....	—	—	104,591	3,552	108,143
Total Governmental Activities .....	161,875	4,829	104,596	3,552	274,852
Business-Type Activities:					
Ohio Building Authority .....	—	—	114	—	114
Tuition Trust Authority .....	191	—	—	—	191
Liquor Control .....	886	27	—	—	913
Underground Parking Garage .....	57	2	—	—	59
Office of Auditor of State .....	2,983	62	—	—	3,045
Total Business-Type Activities .....	4,117	91	114	—	4,322
Total Primary Government.....	<u>\$165,992</u>	<u>\$4,920</u>	<u>\$104,710</u>	<u>\$3,552</u>	<u>\$279,174</u>





**NOTE 6 PAYABLES (Continued)**

**Primary Government — Accrued Liabilities (Continued)**

	Wages	Health Benefit Claims	Management and Administrative Expenses	Total Accrued Liabilities
Fiduciary Activities:				
State Highway Patrol Retirement System Pension Trust (12/31/03).....	\$824	\$140	\$ —	\$ 964
Variable College Savings Plan Private-Purpose Trust.....	—	—	4,569	4,569
Total Fiduciary Activities.....	<u>\$824</u>	<u>\$140</u>	<u>\$4,569</u>	<u>\$5,533</u>

**Major Component Units — Accrued Liabilities**

	Wages & Employee Benefits	Accrued Interest	Other	Total Accrued Liabilities
Ohio State University.....	\$75,195	\$1,906	\$49,981	\$127,082
University of Cincinnati.....	52,585	3,144	12,205	67,934

**B. Intergovernmental Payable**

The intergovernmental payable balances for the primary government, as of June 30, 2004, are comprised of the following (dollars in thousands).

**Primary Government**

	Local Government				Total
	Shared Revenue and Local Permissive Taxes	Subsidies and Other	Federal Government	Other State Governments	
Governmental Activities:					
Major Governmental Funds:					
General.....	\$ —	\$ 286,132	\$ —	\$ —	\$ 286,132
Job, Family and Other Human Services .....	—	231,706	53	—	231,759
Education .....	—	69,574	443	—	70,017
Highway Operating .....	—	1,386	—	—	1,386
Revenue Distribution .....	13,620	339,342	—	3,059	356,021
Nonmajor Governmental Funds .....	—	203,080	—	—	203,080
Total Governmental Activities.....	<u>13,620</u>	<u>1,131,220</u>	<u>496</u>	<u>3,059</u>	<u>1,148,395</u>
Business-Type Activities:					
Unemployment Compensation .....	—	437	—	—	437
Liquor Control.....	—	400	—	—	400
Total Business-Type Activities.....	<u>—</u>	<u>837</u>	<u>—</u>	<u>—</u>	<u>837</u>
Total Primary Government.....	<u>\$13,620</u>	<u>\$1,132,057</u>	<u>\$ 496</u>	<u>\$3,059</u>	<u>\$1,149,232</u>
Fiduciary Activities:					
Holding and Distribution Agency Fund .....	\$ —	\$ —	\$2,028	\$ 75	\$ 2,103
Payroll Withholding and Fringe Benefits Agency Fund .....	—	357	—	—	357
Other Agency Fund .....	61,462	7,391	—	—	68,853
Total Fiduciary Activities.....	<u>\$61,462</u>	<u>\$ 7,748</u>	<u>\$2,028</u>	<u>\$ 75</u>	<u>\$ 71,313</u>

**Component Units-Intergovernmental Payable**

As of June 30, 2004, the School Facilities Commission Component Unit Fund reported an intergovernmental payable balance totaling approximately \$1.99 billion for long-term funding contracts the

Commission has with local school districts. The contracts commit the State to cover the costs of construction of facilities of the school districts once the districts have met certain eligibility requirements.





**NOTE 7 INTERFUND BALANCES AND TRANSFERS  
AND SIGNIFICANT TRANSACTIONS WITH COMPONENT UNITS**

**A. Interfund Balances**

Interfund balances, as of June 30, 2004, consist of the following (dollars in thousands):

Due from	Due to				Total
	Governmental Activities				
	Major Governmental Funds			Total	
General	Job, Family and Other Human Services	Nonmajor Governmental Funds			
Major Governmental Funds:					
General .....	\$ —	\$ 6	\$2,851	\$ 2,857	
Job, Family and Other Human Services .....	—	—	—	—	
Education .....	—	—	—	—	
Highway Operating .....	—	—	—	—	
Revenue Distribution .....	—	—	56	56	
Nonmajor Governmental Funds .....	266,798	—	350	267,148	
Total Governmental Activities .....	266,798	6	3,257	270,061	
Business-Type Activities:					
Lottery Commission .....	—	—	—	—	
Liquor Control .....	2,623	—	—	2,623	
Underground Parking Garage .....	—	—	—	—	
Total Business-Type Activities .....	2,623	—	—	2,623	
<b>Total Primary Government .....</b>	<b>\$269,421</b>	<b>\$ 6</b>	<b>\$3,257</b>	<b>\$272,684</b>	
	Business-Type Activities				
	Workers' Compensation	Liquor Control	Office of Auditor of State	Total	Total Primary Government
Major Governmental Funds:					
General .....	\$568,093	\$12	\$9,123	\$577,228	\$ 580,085
Job, Family and Other Human Services .....	15,251	—	—	15,251	15,251
Education .....	2,696	—	—	2,696	2,696
Highway Operating .....	100,045	—	—	100,045	100,045
Revenue Distribution .....	—	—	—	—	56
Nonmajor Governmental Funds .....	109,657	—	—	109,657	376,805
Total Governmental Activities .....	795,742	12	9,123	804,877	1,074,938
Business-Type Activities:					
Lottery Commission .....	4,450	—	—	4,450	4,450
Liquor Control .....	2,485	—	—	2,485	5,108
Underground Parking Garage .....	175	—	—	175	175
Total Business-Type Activities .....	7,110	—	—	7,110	9,733
<b>Total Primary Government .....</b>	<b>\$802,852</b>	<b>\$12</b>	<b>\$9,123</b>	<b>\$811,987</b>	<b>\$1,084,671</b>

Interfund balances result from the time lag between dates that 1.) interfund goods and services are provided or reimbursable expenditures/expenses occur, 2.) transactions are recorded in the accounting system, and 3.) payments between funds are made.

Included in the interfund balances above is \$266.8 million due to the General Fund from the nonmajor governmental funds for interfund loans made to support housing programs at the Ohio Housing Finance Agency, which is accounted for in the Community and Economic Development Special Revenue Fund. Of the total interfund loan balance, ap-

proximately \$265.9 million is not expected to be collected in the subsequent fiscal year.

Additionally, 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 \$802.9 million as an interfund receivable for the unbilled premium due for the primary government's share of the Bureau's actuarially determined liability for compensation. In the Statement of Net Assets, the State includes the liability totaling \$802.3 million in the internal balance reported for governmental activities.



**NOTE 7 INTERFUND BALANCES AND TRANSFERS  
AND SIGNIFICANT TRANSACTIONS WITH COMPONENT UNITS (Continued)**

**B. Interfund Transfers**

Interfund transfers, for the year ended of June 30, 2004, consist of the following (dollars in thousands):

Transferred from	Transferred to						
	Governmental Activities						
	Major Governmental Funds						
	General	Job, Family and Other Human Services	Education	Highway Operating	Revenue Distribution	Nonmajor Govern- mental Funds	Total
Major Governmental Funds:							
General .....	\$ —	\$12,948	\$ 10,246	\$ —	\$ 3,780	\$ 944,854	\$ 971,828
Job, Family and Other Human Services .....	6,857	—	1,500	—	—	—	8,357
Education .....	31,843	—	—	—	—	—	31,843
Highway Operating .....	718	—	—	—	47,314	229,793	277,825
Revenue Distribution .....	106,241	—	—	524,862	—	209,949	841,052
Nonmajor Governmental Funds .....	271,494	1,199	—	34	—	12,391	285,118
Total Governmental Activities .....	417,153	14,147	11,746	524,896	51,094	1,396,987	2,416,023
Business-Type Activities:							
Workers' Compensation .....	7,655	—	—	—	—	—	7,655
Lottery Commission .....	623	—	655,606	—	—	—	656,229
Unemployment Compensation .....	—	10,795	—	—	—	—	10,795
Ohio Building Authority .....	—	—	—	—	—	10,293	10,293
Liquor Control .....	118,012	—	—	—	—	26,566	144,578
Underground Parking Garage .....	—	—	—	—	—	756	756
Total Business-Type Activities .....	126,290	10,795	655,606	—	—	37,615	830,306
<b>Total Primary Government .....</b>	<b>\$543,443</b>	<b>\$24,942</b>	<b>\$667,352</b>	<b>\$524,896</b>	<b>\$51,094</b>	<b>\$1,434,602</b>	<b>\$3,246,329</b>
Business-Type Activities							
	Unemploy- ment Compen- sation	Ohio Building Authority	Office of Auditor of State	Total	Total Primary Govern- ment		
Major Governmental Funds:							
General .....	\$ —	\$15,190	\$32,548	\$47,738	\$1,019,566		
Job, Family and Other Human Services .....	1,419	—	—	1,419	9,776		
Education .....	—	—	—	—	31,843		
Highway Operating .....	—	—	—	—	277,825		
Revenue Distribution .....	—	—	—	—	841,052		
Nonmajor Governmental Funds .....	—	—	—	—	285,118		
Total Governmental Activities .....	1,419	15,190	32,548	49,157	2,465,180		
Business-Type Activities:							
Workers' Compensation .....	—	—	—	—	7,655		
Lottery Commission .....	—	—	—	—	656,229		
Unemployment Compensation .....	—	—	—	—	10,795		
Ohio Building Authority .....	—	—	—	—	10,293		
Liquor Control .....	—	—	—	—	144,578		
Underground Parking Garage .....	—	—	—	—	756		
Total Business-Type Activities .....	—	—	—	—	830,306		
<b>Total Primary Government .....</b>	<b>\$1,419</b>	<b>\$15,190</b>	<b>\$32,548</b>	<b>\$49,157</b>	<b>\$3,295,486</b>		

Transfers are used to 1.) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, 2.) move receipts restricted to debt service from the funds collecting the receipts to the debt

service fund as debt service payments become due, and 3.) utilize unrestricted revenues collected in one fund to finance various programs accounted for in other funds in accordance with budget authorizations.



**NOTE 7 INTERFUND BALANCES AND TRANSFERS  
AND SIGNIFICANT TRANSACTIONS WITH COMPONENT UNITS (Continued)**

**C. Component Units**

For fiscal year 2004, the component units reported \$2.55 billion in state assistance revenue from the primary government in the Statement of Activities.

Included in "Primary, Secondary and Other Education" expenses reported for governmental activities, is funding that the primary government provided to the School Facilities Commission for capital construction at local school districts and the SchoolNet Commission for the acquisition of computers to benefit local schools.

Additionally, the primary government provided financial support to the colleges and universities in the form of state appropriations for instructional and non-instructional purposes and capital appropriations for construction. This assistance is included in "Higher Education Support" expenses reported for governmental activities.

Details of balances and activity reported in the government-wide financial statements between the primary government and its discretely presented component units are summarized below.

	Program Expenses for State Assistance to the Component Units			
	Payable to the Component Units	Primary, Secondary and Other Education Function	Higher Education Support Function	Total State Assistance to the Component Units
<b>Primary Government</b>				
Major Governmental Funds:				
General.....	\$10,728	\$619,505	\$1,669,927	\$2,289,432
Job, Family and Other Human Services .....	1,498	—	—	—
Education .....	1,043	—	—	—
Highway Operating .....	682	—	—	—
Nonmajor Governmental Funds.....	33,928	35,577	224,326	259,903
	47,879	655,082	1,894,253	2,549,335
Reconciling items to balance with government-wide financial statements.....	—	(505)	—	(505)
<b>Total Primary Government.....</b>	<b>\$47,879</b>	<b>\$654,577</b>	<b>\$1,894,253</b>	<b>\$2,548,830</b>
	Receivable from the Primary Government	Total State Assistance from the Primary Government		
<b>Component Units</b>				
Major Component Units:				
School Facilities Commission.....	\$ —	\$ 620,562		
Ohio State University.....	19,926	536,693		
University of Cincinnati .....	671	194,145		
Nonmajor Component Units.....	27,282	1,197,935		
	47,879	2,549,335		
Reconciling items to balance with government-wide financial statements .....	—	(505)		
<b>Total Component Units .....</b>	<b>\$47,879</b>	<b>\$2,548,830</b>		



**NOTE 8 CAPITAL ASSETS**

**A. Primary Government**

Capital asset activity, for the year ended June 30, 2004, reported for the primary government is as follows (dollars in thousands):

	<b>Primary Government</b>			
	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
<b>Governmental Activities:</b>				
Capital Assets Not Being Depreciated:				
Buildings .....	\$ 54,602	\$ —	\$ —	\$ 54,602
Land .....	1,530,958	45,240	(2,337)	1,573,861
Land Improvements .....	930	—	—	930
Construction-in-Progress .....	1,661,545	648,179	(614,648)	1,695,076
Infrastructure:				
Highway Network:				
General Subsystem .....	8,059,076	173,672	—	8,232,748
Priority Subsystem .....	6,570,628	137,105	—	6,707,733
Bridge Network .....	2,255,567	31,608	—	2,287,175
Total Capital Assets Not Being Depreciated .....	20,133,306	1,035,804	(616,985)	20,552,125
Other Capital Assets:				
Buildings .....	2,966,416	217,328	(16,355)	3,167,389
Land Improvements .....	224,966	67,882	(23,592)	269,256
Machinery and Equipment .....	429,336	63,598	(50,634)	442,300
Vehicles .....	230,251	28,307	(24,793)	233,765
Infrastructure:				
Parks, Recreation and Natural Resources Network .....				
	18,563	6,068	(106)	24,525
Total Other Capital Assets at historical cost .....	3,869,532	383,183	(115,480)	4,137,235
Less Accumulated Depreciation for:				
Buildings .....	1,125,318	89,103	(8,435)	1,205,986
Land Improvements .....	115,784	11,626	(486)	126,924
Machinery and Equipment .....	287,570	51,417	(38,391)	300,596
Vehicles .....	104,930	13,117	(10,258)	107,789
Infrastructure:				
Parks, Recreation and Naturals Resources Network .....				
	727	644	(270)	1,101
Total Accumulated Depreciation .....	1,634,329	165,907	(57,840)	1,742,396
Other Capital Assets, Net .....	2,235,203	217,276	(57,640)	2,394,839
Governmental Activities- Capital Assets, Net .....	<u>\$22,368,509</u>	<u>\$1,253,080</u>	<u>\$(674,625)</u>	<u>\$22,946,964</u>

For fiscal year 2004, the State charged depreciation expense to the following governmental functions:

<b>Governmental Activities:</b>	
Primary, Secondary and Other Education .....	\$ 2,303
Higher Education Support .....	7
Public Assistance and Medicaid .....	8,798
Health and Human Services .....	22,965
Justice and Public Protection .....	75,008
Environmental Protection and Natural Resources .....	14,606
Transportation .....	22,575
General Government .....	30,285
Community and Economic Development .....	2,988
Total Depreciation Expense for Governmental Activities .....	\$179,535
Losses on Capital Asset Disposals Included in Depreciation ...	(13,628)
Fiscal Year 2004 Increases to Accumulated Depreciation .....	<u>\$165,907</u>



**NOTE 8 CAPITAL ASSETS (Continued)**

	<b>Primary Government (Continued)</b>			Balance June 30, 2004
	Balance July 1, 2003	Increases	Decreases	
<b>Business-Type Activities:</b>				
Capital Assets Not Being Depreciated:				
Land.....	\$ 12,631	\$ —	\$ —	\$ 12,631
Construction-in-Progress .....	956	—	(956)	—
<b>Total Capital Assets Not Being Depreciated.....</b>	<b>13,587</b>	<b>—</b>	<b>(956)</b>	<b>12,631</b>
Other Capital Assets:				
Buildings .....	256,728	1,163	(37)	257,854
Land Improvements .....	66	—	—	66
Machinery and Equipment .....	163,335	6,020	(17,251)	152,104
Vehicles .....	4,852	814	(1,128)	4,538
<b>Total Other Capital Assets at historical cost.....</b>	<b>424,981</b>	<b>7,997</b>	<b>(18,416)</b>	<b>414,562</b>
Less Accumulated Depreciation for:				
Buildings .....	115,617	8,474	—	124,091
Land Improvements .....	48	1	—	49
Machinery and Equipment .....	108,536	23,719	(15,079)	117,176
Vehicles .....	2,459	559	(942)	2,076
<b>Total Accumulated Depreciation .....</b>	<b>226,660</b>	<b>32,753</b>	<b>(16,021)</b>	<b>243,392</b>
<b>Other Capital Assets, Net .....</b>	<b>198,321</b>	<b>(24,756)</b>	<b>(2,395)</b>	<b>171,170</b>
<b>Business-Type Activities- Capital Assets, Net .....</b>	<b>\$211,908</b>	<b>\$(24,756)</b>	<b>\$(3,351)</b>	<b>\$183,801</b>

For fiscal year 2004, the State charged depreciation expense to the following business-type functions:

<b>Business-Type Activities:</b>	
Workers' Compensation .....	\$16,250
Lottery Commission .....	14,982
Tuition Trust Authority .....	98
Liquor Control.....	232
Underground Parking Garage .....	548
Office of Auditor of State .....	2,393
<b>Total Depreciation Expense for Business-Type Activities .....</b>	<b>34,503</b>
<b>Losses on Capital Asset Disposals Included in Depreciation ...</b>	<b>(1,750)</b>
<b>Fiscal Year 2004 Increases to Accumulated Depreciation .....</b>	<b>\$32,753</b>



**NOTE 8 CAPITAL ASSETS (Continued)**

**B. Major Component Units**

Capital asset activity, for the year ended June 30, 2004, reported for discretely presented major component unit funds with significant capital asset balances is as follows (dollars in thousands):

	<b>Major Component Units</b>			
	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
<b>Ohio State University:</b>				
Capital Assets Not Being Depreciated:				
Land.....	\$ 42,025	\$ 177	\$ —	\$ 42,202
Construction-in-Progress .....	237,643	292,417	(152,637)	377,423
<b>Total Capital Assets</b>				
Not Being Depreciated.....	279,668	292,594	(152,637)	419,625
Other Capital Assets:				
Buildings .....	2,141,374	141,031	(922)	2,281,483
Land Improvements .....	181,959	11,606	(2)	193,563
Machinery, Equipment and Vehicles.....	655,875	67,106	(37,066)	685,915
Library Books and Publications.....	158,472	3,673	(1,605)	160,540
<b>Total Other Capital Assets</b> at historical cost.....	3,137,680	223,416	(39,595)	3,321,501
Less Accumulated Depreciation for:				
Buildings .....	865,040	68,583	(2,717)	930,906
Land Improvements .....	104,415	8,069	(2)	112,482
Machinery, Equipment and Vehicles.....	451,239	57,886	(34,290)	474,835
Library Books and Publications.....	127,299	6,939	—	134,238
<b>Total Accumulated Depreciation</b> .....	1,547,993	141,477	(37,009)	1,652,461
<b>Other Capital Assets, Net</b> .....	1,589,687	81,939	(2,586)	1,669,040
<b>Total Capital Assets, Net</b> .....	<u>\$1,869,355</u>	<u>\$374,533</u>	<u>\$(155,223)</u>	<u>\$2,088,665</u>
<b>University of Cincinnati:</b>				
Capital Assets Not Being Depreciated:				
Land.....	\$ 17,962	\$ 2,014	\$ —	\$ 19,976
Construction-in-Progress .....	256,317	119,488	(176,007)	199,798
Collections of Works of Art and Historical Treasures .....	4,579	—	(171)	4,408
<b>Total Capital Assets</b> Not Being Depreciated.....	278,858	121,502	(176,178)	224,182
Other Capital Assets:				
Buildings .....	1,078,212	205,940	(7,324)	1,276,828
Land Improvements .....	21,806	7,160	(1,040)	27,926
Machinery, Equipment and Vehicles	141,455	13,981	(8,835)	146,601
Library Books and Publications.....	117,674	9,333	(1,419)	125,588
Infrastructure.....	54,840	21,961	—	76,801
<b>Total Other Capital Assets</b> at historical cost.....	1,413,987	258,375	(18,618)	1,653,744
Less Accumulated Depreciation for:				
Buildings .....	400,330	39,698	(2,871)	437,157
Land Improvements .....	5,548	1,183	(128)	6,603
Machinery, Equipment and Vehicles.....	94,654	11,653	(8,424)	97,883
Library Books and Publications.....	75,605	6,390	(1,419)	80,576
Infrastructure.....	35,262	3,077	—	38,339
<b>Total Accumulated Depreciation</b> .....	611,399	62,001	(12,842)	660,558
<b>Other Capital Assets, Net</b> .....	802,588	196,374	(5,776)	993,186
<b>Total Capital Assets, Net</b> .....	<u>\$1,081,446</u>	<u>\$317,876</u>	<u>\$(181,954)</u>	<u>\$1,217,368</u>

For fiscal year 2004, Ohio State University and the University of Cincinnati reported \$141.5 million and \$62 million in depreciation expense, respectively.





**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:

- Ohio Public Employees Retirement System
- State Teachers Retirement System of Ohio
- State Highway Patrol Retirement System
- Alternative Retirement Plan

**A. Ohio Public Employees Retirement System (OPERS)**

**Pension Benefits**

OPERS administers three separate pension plans — a cost-sharing, multiple-employer defined benefit plan, a defined contribution plan, and a cost-sharing, multiple-employer combined plan with features of both the defined benefit plan and the defined contribution plan.

OPERS benefits are established under Chapter 145, Ohio Revised Code. OPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries enrolled in the defined benefit and combined plans.

Most employees who are members of OPERS and who have fewer than five years of total service credit as of December 31, 2002, and new employees hired on or after January 1, 2003, are eligible to select one of the OPERS retirement plans, as listed above, in which they wish to participate. Members not eligible to select a plan include law enforcement officers (who must participate in the defined benefit plan), college and university employees who choose to participate in one of their university's alternative retirement plans (see NOTE 9D.), and re-employed OPERS retirees. Participants may change their selection once prior to attaining five years of service credit, once after attaining five years of service credit and prior to attaining ten years of service credit, and once after attaining ten years of service credit.

Regular employees who participate in the defined benefit plan or the combined plan 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. Regular employees retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts.

Law enforcement employees may retire at age 48 with 25 or more years of credited service. Employ-

ees who participate in the defined contribution plan may retire at age 55.

The retirement allowance for the defined benefit plan is based on years of credited service and the final average salary, which is the average of the member's three highest salary years. The annual allowance for regular employees is determined by multiplying the final average salary by 2.2 percent for each year of Ohio contributing service up to 30 years and by 2.5 percent for all other years in excess of 30 years of credited service. The annual allowance for law enforcement employees is determined by multiplying the final average salary by 2.5 percent for the first 25 years of Ohio contributing service, and by 2.1 percent for each year of service over 25 years. Retirement benefits increase three percent annually regardless of changes in the Consumer Price Index.

The retirement allowance for the defined benefit portion of the combined plan is based on years of credited service and the final average salary, which is the average of the member's three highest salary years. The annual allowance for regular employees is determined by multiplying the final average salary by 1.0 percent for each year of Ohio contributing service up to 30 years and by 1.25 percent for all other years in excess of 30 years of credited service. Retirement benefits increase three percent annually regardless of changes in the Consumer Price Index. Additionally, retirees receive the proceeds of their individual retirement plans in a manner similar to retirees in the defined contribution plan, as discussed below.

The retirement allowance for the defined contribution plan is based entirely on the proceeds of retirees' individual retirement plans. Retirees may choose to receive either a lump-sum distribution or a monthly annuity for life. Participants direct the investment of their accounts by selecting from nine professionally managed investment options.

Retirees covered under any one of the three OPERS plan options may also choose to take part of their retirement benefit in a Partial Lump-Sum Option Plan (PLOP). Under this option, the amount of the monthly pension benefit paid to the retiree is actuarially reduced to offset the amount received initially under the PLOP. The amount payable under the PLOP is limited to a minimum of six months and maximum of 36 months worth of the original unreduced monthly pension benefit, and is capped at no more than 50 percent of the retirement benefit amount.



**NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)**

Employer and employee required contributions to OPERS 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 fiscal year 2004, which are the same for the defined benefit, defined contribution, and combined plans, were as follows:

	Contribution Rates	
	Employee Share	Employer Share
Regular Employees.....	8.50%	13.31%
Law Enforcement Employees.....	10.10%	16.70%

In the combined plan, the employer's share finances the defined benefit portion of the plan, while the employee's share finances the defined contribution portion of the plan. In the defined contribution plan, both the employee and employer share of the costs are used to finance the plan.

Employer contributions required and made for the last three years for the defined benefit and combined plans follow (dollars in thousands):

	2004	2003	2002
<i>Primary Government:</i>			
Regular Employees ....	\$235,634	\$224,267	\$228,637
Law Enforcement Employees.....	3,763	3,596	3,646
Total .....	<u>\$239,397</u>	<u>\$227,863</u>	<u>\$232,283</u>
<i>Major Component Units:</i>			
School Facilities			
Commission .....	\$ 346	\$ 298	\$ 454
Ohio Water			
Development Authority	83	72	71
Ohio State University .....	54,280	51,968	48,550
University of Cincinnati...	12,596	11,339	10,057

Contribution amounts shown for fiscal year 2002 only apply to the defined benefit plan, since the combined plan was not in effect during fiscal year 2002.

Employer and employee contributions required and made for the last two fiscal years for the defined contribution plan and the defined contribution part of the combined plan follow (dollars in thousands):

	2004	2003
<i>Primary Government:</i>		
Employer Contributions .....	\$1,593	\$ 530
Employee Contributions.....	3,322	1,137
<i>Major Component Units:</i>		
Ohio State University:		
Employer Contributions .....	720	188
Employee Contributions.....	1,437	392
University of Cincinnati:		
Employer Contributions .....	150	39
Employee Contributions.....	291	83

Only contributions for the past two fiscal years are presented, since the defined contribution plan and the combined plan began during fiscal year 2003.

OPERS issues a stand-alone financial report, copies of which may be obtained by making a written request to: Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-6705 or 1-800-222-7377.

**Other Postemployment Benefits**

Members of the defined contribution plan may access a Retiree Medical Account upon retirement. During fiscal year 2004, employers paid 4.81 percent of their share into members' accounts. An employee's interest in the medical account for qualifying healthcare expenses vests on the basis of length of service, with 100.0 percent vesting attained after 10 years of service credit. Employers make no further contributions to a member's medical account after retirement, nor do employers have any further obligation to provide postemployment healthcare benefits.

Employer contributions, for the fiscal year ended June 30, 2004, are as follows (dollars in thousands):

	2004
<i>Primary Government</i> .....	\$902
<i>Major Component Units:</i>	
Ohio State University.....	407
University of Cincinnati.....	85

All age and service retirees who are members of the defined benefit or combined plans with 10 or more years of service credit qualify for healthcare coverage under OPERS. Members hired after January 1, 2003 with no prior service credit vest according to length of service. Members with 10 years of service credit have a 25-percent vested interest. Vested interest increases with service credit until members attain a 100.0 percent vested interest after reaching 30 years of service credit. Members hired after January 1, 2003 can also choose various coverage options.

Healthcare coverage for disability recipients and primary survivor recipients is also available to members of the defined benefit and combined plans. Chapter 145, Ohio Revised Code, provides the statutory authority for employer contributions. For law enforcement and regular employees, the portion of the employer rate used to fund healthcare was 5.0 percent of covered payroll for the period, July 1, 2003 through December 31, 2003 and 4.0 percent of covered payroll for the period, January 1, 2004 through June 30, 2004. Employees do not fund any portion of healthcare costs.



**NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)**

Benefits in the defined benefit and combined plans are advance-funded using the entry-age, normal cost method. Significant actuarial assumptions, based on the latest actuarial review performed as of December 31, 2002 (the latest information available), include a rate of return on investments of 8.0 percent, an annual increase in total payroll for active employees of 4.0 percent compounded annually for inflation (assuming no change in the number of active employees), and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Healthcare costs were assumed to increase 4.0 percent annually.

Net assets available for payment of benefits at December 31, 2002 were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively. All investments are carried at market value.

For the actuarial valuation of net assets available for future healthcare benefits, OPERS applies the smoothed market approach. Under this approach, assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investments.

For fiscal year 2004, the State's actuarially required and actual contributions for the defined benefit plan and the defined benefit portion of the combined plan are as follows (dollars in thousands):

	2004
<i>Primary Government:</i>	
Regular Employees .....	\$120,358
Law Enforcement Employees.....	1,388
Total.....	\$121,746
<i>Major Component Units:</i>	
School Facilities Commission .....	\$ 177
Ohio Water Development Authority.....	42
Ohio State University .....	27,726
University of Cincinnati.....	6,434

The number of active contributing participants for the primary government was 59,013, as of June 30, 2004.

**B. State Teachers Retirement System of Ohio (STRS)**

**Pension Benefits**

STRS administers three separate pension plans — a cost-sharing, multiple-employer defined benefit plan, a defined contribution plan, and a cost-sharing, multiple-employer combined plan with features of both

the defined benefit plan and the defined contribution plan.

Participants in the defined benefit plan 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" calculation, the "money-purchase benefit" calculation, or the "partial lump-sum option plan."

Under the "formula benefit" calculation, the retirement allowance is based on years of credited service and the final average salary, which is the average of the member's three highest salary years. The annual allowance is determined by multiplying the final average salary by 2.5 percent for each year of Ohio contributing service in excess of 30 years and by 2.2 percent for all other years of credited service up to a maximum annual allowance of 100 percent of final average salary. Each year over 30 years is increased incrementally by .1 percent starting at 2.5 percent for the 31<sup>st</sup> year of Ohio service. For teachers with 35 or more years of earned service, the annual allowance is determined by multiplying the final average salary by 2.5 percent for the first 31 years 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. Retirement benefits increase three percent annually regardless of changes in the Consumer Price Index.

Retirees can also choose a "partial lump-sum" option plan. Under this option, retirees may take a lump-sum payment that equals from six to 36 times their monthly service retirement benefit. Subsequent monthly benefits are reduced proportionally.

Employees hired after July 1, 2001, and those with less than five years of service credit at that date, may choose to participate in the combined plan or the defined contribution plan, in lieu of participation in the defined benefit plan. Participants in the defined contribution plan are eligible to retire at age 50.



**NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)**

Employee and employer contributions are placed into individual member accounts, and members direct the investment of their accounts by selecting from nine professionally managed investment options. Retirees may choose to receive either a lump-sum distribution or a monthly annuity for life.

Participants in the combined plan may start to collect the defined benefit portion of the plan at age 60. The annual allowance is determined by multiplying the final average salary by 1.0 percent for each year of Ohio contributing service credit. Participants in the combined plan may also participate in the partial lump-sum option plan, as described previously, for the portion of their retirement benefit that is provided through the defined benefit portion of the plan. The defined contribution portion of the plan may be taken as a lump sum or as a lifetime monthly annuity at age 50.

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-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 to members in the defined benefit and combined plans. STRS benefits are established under Chapter 3307, Ohio Revised Code.

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 14.0 percent and 10.0 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 2004 were 14 percent for employers and 10.0 percent for employees for the defined benefit, defined contribution, and combined plans. For the defined benefit and combined plans, 13.0 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. For the defined contribution plan, 10.5 percent of the employer's share is deposited into individual employee accounts, while 3.5 percent is paid to the defined benefit plan.

Employer contributions required and made for the last three years for the defined benefit and combined plans follow (dollars in thousands):

	2004	2003	2002
<i>Primary Government</i>	\$ 6,966	\$ 7,248	\$5,420
<i>Major Component Units:</i>			
Ohio State University	31,995	31,181	22,220
University of Cincinnati	13,043	12,536	8,579

Contribution amounts shown for fiscal years 2002 and 2003 only apply to the defined benefit plan, since the combined plan was not in effect until fiscal year 2004.

Employer and employee contributions required and made for the last two fiscal years for the defined contribution plan and the defined contribution part of the combined plan follow (dollars in thousands):

	2004	2003
<i>Primary Government:</i>		
Employer Contributions .....	\$111	\$ 96
Employee Contributions .....	161	138
<i>Major Component Units:</i>		
Ohio State University:		
Employer Contributions .....	634	418
Employee Contributions .....	819	517
University of Cincinnati:		
Employer Contributions .....	480	384
Employee Contributions .....	547	400

Only contributions for the past two fiscal years are presented, since the defined contribution plan and the combined plan began during fiscal year 2003.

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, or by calling 1-888-227-7877.

**Other Postemployment Benefits**

The STRS plan provides comprehensive healthcare benefits to retirees and their dependents that are enrolled in the defined benefit and combined plans. 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 1.0 percent of covered payroll are allocated to pay for healthcare benefits.



**NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)**

Retirees enrolled in the defined contribution plan receive no postemployment healthcare benefits.

The employer contribution is financed on a pay-as-you-go basis. As of June 30, 2003 (the most recent information available), net assets available for future healthcare benefits were \$2.8 billion. Net healthcare costs paid by the primary government and its discretely presented major component units, for the year ended June 30, 2004, are as follows (dollars in thousands):

	2004
Primary Government .....	\$ 536
Major Component Units:	
Ohio State University .....	2,461
University of Cincinnati .....	1,003

The number of eligible benefit recipients for STRS as a whole was 143,239, as of June 30, 2003; a breakout of the number of eligible recipients for the primary government and its component units, as of June 30, 2004, is unavailable.

**C. State Highway Patrol Retirement System (SHPRS)**

**Pension Benefits**

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) 431-0781 or 1-800-860-2268.

SHPRS is authorized under Chapter 5505, Ohio Revised Code, to provide retirement and disability benefits to retired members and survivor benefits to qualified dependents of deceased members of the Ohio State Highway Patrol. Chapter 5505, Ohio Revised Code, also requires contributions by active members and the Ohio State Highway Patrol. The employee contribution rate is established by the General Assembly, and any change in the rate requires legislative action. The SHPRS Retirement Board establishes and certifies the employer contribution rate to the State of Ohio every two years. By law, the employer rate may not exceed three times the employee contribution rate nor be less than the employee's contribution rate.

Contribution rates, as of December 31, 2003, were as follows:

Contribution Rates	
Employee Share	Employer Share
10.0%	24.50%

On March 24, 2003, the employee share increased from 9.5 percent to 10.0 percent, while the employer share increased to 24.50 percent from 23.50 percent on July 1, 2003.

During calendar year 2003, all of the employees' contributions funded pension benefits while 18.75 percent of the employer's contributions funded pension benefits from January 1 through June 30, 2003, and 21.0 percent of the employer's contributions funded pension benefits from July 1 through December 31, 2003. The difference in the total employer rates charged and the employer rates applicable to the funding of pension benefits is applied to the funding of postemployment healthcare benefits.

SHPRS' 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 and become measurable.

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 is based on independent appraisals. For actuarial purposes, 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 (dollars in thousands):

For the Year Ended December 31,	Primary Government	Percentage of Employer's Annual Pension Cost Contributed
2003	\$16,307	100%
2002	15,393	100%
2001	13,765	100%



**NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)**

**SHPRS Schedule of Funding Progress  
Last Three Calendar Years**  
*(dollars in thousands)*

(A)	(B)	(C)	(D)	(E)	(F)	(G)
Valuation Year	Actuarial Accrued Liability (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liability (UAAL) (B) – (C)	Ratio of Assets to AAL (C)/(B)	Active Member Payroll	UAAL as Percentage of Active Member Payroll (D)/(F)
2003	\$702,799	\$545,982	\$156,817	77.7%	\$81,738	191.9%
2002 (a)	663,070	527,604	135,466	79.6	78,997	171.5
2002	668,606	492,431	176,175	73.7	78,997	223.0
2001	636,715	551,279	85,436	86.6	76,344	111.9

(a) Change in assumption or method.

SHPRS used the entry-age, normal actuarial cost method for the Schedule of Funding Progress for the actuarial valuation, dated December 31, 2003. Assumptions used in preparing the Schedule of Funding Progress and in determining the annual required contribution include: an 8.0 percent rate of return on investments; projected salary increase of 4.0 percent attributable to inflation and additional projected salary increases ranging from .3 percent to 3.7 percent a year attributable to seniority and merit; price inflation was assumed to be at least 4.0 percent a year; and postretirement increases each year equal to 3.0 percent after the retiree reaches age 53.

The unfunded actuarial accrued liability is being amortized using the level-percentage of projected payroll method over a closed period of 40 years.

The Schedule of Funding Progress for the last three years is presented in the table above. Amounts reported 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, 2003, was 1,542. The cost of retiree healthcare benefits is recognized as claims are incurred and premiums are paid. The calendar year 2003 expense was \$7.2 million.

Healthcare benefits are established in Chapter 5505, Ohio Revised Code, and are advance funded by the employer on the same actuarially determined basis (using the same assumptions) as are the SHPRS pension benefits, as previously discussed. In addition,

the assumption that projected healthcare costs would increase at a rate of 4.0 percent, compounded annually, due to inflation, was also used in the valuation. Net assets available for benefits allocated to healthcare costs at December 31, 2003 were \$90.5 million, and included investments carried at fair value, as previously described.

As of December 31, 2003, the unfunded actuarial accrued liability for healthcare benefits, the portion of the present value of plan promises to pay benefits in the future that are not covered by future normal cost contributions, was \$58.6 million; the actuarial accrued liability for healthcare benefits at that date was \$149.1 million.

Employer contributions are made in accordance with actuarially determined requirements. The employer contribution requirement was approximately \$3.4 million or 4.75 percent of active member payroll for the period, January 1 through June 30, 2003, and 3.5 percent of active member payroll for the period, July 1 through December 31, 2003.

**D. Alternative Retirement Plan (ARP)**

**Pension Benefits**

The ARP is a defined contribution retirement plan that is authorized under Section 3305.02, Ohio Revised Code. The ARP provides at least three or more alternative retirement plans for academic and administrative employees of Ohio's institutions of higher education, who otherwise would be covered by STRS or OPERS. Classified civil service employees are not eligible to participate in the ARP.

The Board of Trustees of each public institution of higher education enters into contracts with each approved retirement plan provider. Once established, full-time faculty and unclassified employees who are



**NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)**

hired subsequent to the establishment of the ARP, or who had less than five years of service credit under the existing retirement plans, may choose to enroll in the ARP. The choice is irrevocable for as long as the employee remains continuously employed in a position for which the ARP is available. For those employees that choose to join the ARP, any prior employee contributions that had been made to STRS or OPERS would be transferred to the ARP. The Ohio Department of Insurance has designated eight companies as being eligible to serve as plan providers for the ARP.

Ohio law requires that employee contributions be made to the ARP in an amount equal to those that would otherwise have been required by the retirement system that applies to the employee's position. Therefore, employees who would have otherwise been enrolled in STRS or OPERS would contribute 10.0 percent or 8.5 percent of their gross salaries, respectively. Employees may also voluntarily make additional contributions to the ARP.

Ohio law also requires each public institution of higher education contribute 3.5 percent of a participating employee's gross salary for the year ended June 30, 2004 to STRS in cases when the employee would have otherwise been enrolled in STRS.

For the year ended June 30, 2004, employers were not required to contribute to the ARP on behalf of employees that would otherwise have been enrolled in OPERS.

The employer contribution amount is subject to actuarial review every third year to determine if the rate needs to be adjusted to mitigate any negative financial impact that the loss of contributions may have on STRS and OPERS. The Board of Trustees of each public institution of higher education may also make additional payments to the ARP based on the gross salaries of employees multiplied by a percentage the respective Board of Trustees approves.

The ARP provides full and immediate vesting of all contributions made on behalf of participants. The contributions are directed to one of the eight investment management companies as chosen by the participants. The ARP does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits, or death benefits. Benefits are entirely dependent on the sum of the contributions and related investment income generated by each participant's choice of investment options.

For the State's discretely presented major component units, employer and employee contributions required and made for the year ended June 30, 2004, for the ARP follow (dollars in thousands):

	Fiscal Year 2004	
	OPERS	STRS
<i>Major Component Units:</i>		
Ohio State University:		
Employer Contributions .....	\$14,543	\$8,794
Employee Contributions .....	9,287	8,375
University of Cincinnati:		
Employer Contributions .....	5,319	3,875
Employee Contributions .....	3,767	3,691



**NOTE 10 GENERAL OBLIGATION BONDS**

The State has pledged its full faith and credit for the payment of principal and interest on general obligation bonds.

At various times since 1921, Ohio voters, by 17 constitutional amendments (the last adopted in November 2000 for land conservation purposes), have authorized the incurrence of general obligation debt for the construction and improvement of common school and higher education facilities, highways, local infrastructure improvements, research and development of coal technology, and natural resources. In practice, general obligation bonds are retired over periods of 10 to 25 years.

A 1999 constitutional amendment provided for the issuance of Common Schools Capital Facilities Bonds and Higher Education Capital Facilities Bonds. As of June 30, 2004, the General Assembly had authorized the issuance of \$2.51 billion in Common Schools Capital Facilities Bonds, of which \$1.79 billion had been issued. As of June 30, 2004, the General Assembly had also authorized the issuance of \$1.85 billion in Higher Education Capital Facilities Bonds, of which \$1.25 billion had been issued.

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, 2004, the General Assembly had authorized the issuance of approximately \$1.77 billion in Highway Capital Improvements Bonds, of which \$1.30 billion had been issued.

Constitutional amendments in 1987 and 1995 allowed for the issuance of \$2.4 billion of general obligation bonds for infrastructure improvements (Infrastructure Bonds), of which no more than \$120 million may be issued in any fiscal year. As of June 30, 2004, the General Assembly had authorized \$2.16 billion of these bonds to be sold (excluding any amounts for unaccreted discount on capital appreciation bonds at issuance), of which \$1.92 billion had been issued (net of \$214 million in unaccreted discounts at issuance).

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, 2004, for Highway Obliga-

tions, was approximately \$1.75 billion, all of which had been issued.

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, 2004, the General Assembly had authorized the issuance of \$150 million in Coal Research and Development Bonds, all of which had been issued. Legislative authorizations for the issuance of Natural Resources Capital Facilities Bonds totaled \$287 million, as of June 30, 2004 of which \$240 million had been issued.

The State may issue Conservation Projects Bonds up to \$200 million. No more than \$50 million may be issued during a fiscal year. As of June 30, 2004, the General Assembly had authorized the issuance of approximately \$100 million in Conservation Projects Bonds, all of which had been issued.

General obligation bonds outstanding and future general obligation debt service requirements, as of June 30, 2004, are presented in the table on the following page.

For the year ended June 30, 2004, NOTE 15 summarizes changes in general obligation bonds.





**NOTE 10 GENERAL OBLIGATION BONDS (Continued)**

**Primary Government-Governmental Activities  
Summary of General Obligation Bonds  
and Future Funding Requirements  
As of June 30, 2004  
(dollars in thousands)**

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Common Schools Capital Facilities .....	2000-04	3.1%-5.4%	2024	\$1,745,057	\$ 715,000
Higher Education Capital Facilities .....	2000-04	3.8%-5.4%	2024	1,171,443	601,000
Highway Capital Improvements .....	1997-04	3.0%-5.0%	2014	807,222	475,000
Infrastructure Improvements .....	1990-04	2.0%-7.6%	2023	1,368,172	240,014
Highway Obligations .....	1996	4.5%	2005	10,000	—
Coal Research and Development .....	1996-04	2.4%-5.0%	2013	48,975	—
Natural Resources Capital Facilities .....	1995-03	3.0%-5.6%	2018	171,316	47,000
Conservation Projects .....	2002-04	3.5%-4.3%	2019	98,526	—
Total General Obligation Bonds .....				<u>\$5,420,711</u>	<u>\$2,078,014</u>

**Future Funding of Current Interest and Capital Appreciation Bonds:**

Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2005 .....	\$ 390,705	\$ 226,052	\$ (459)	\$ 616,298
2006 .....	375,905	206,725	(386)	582,244
2007 .....	376,555	191,817	(312)	568,060
2008 .....	371,965	175,994	(237)	547,722
2009 .....	360,795	160,358	(160)	520,993
2010-2014 .....	1,571,640	577,701	(81)	2,149,260
2015-2019 .....	943,830	283,612	—	1,227,442
2020-2024 .....	637,185	70,589	—	707,774
Total Current Interest and Capital Appreciation Bonds .....	<u>\$5,028,580</u>	<u>\$1,892,848</u>	<u>\$(1,635)</u>	<u>\$6,919,793</u>

**Future Funding of Variable-Rate Bonds:**

Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2005 .....	\$ 785	\$ 4,530	\$ 5,754	\$ 11,069
2006 .....	625	4,576	5,866	11,067
2007 .....	650	4,569	5,850	11,069
2008 .....	675	5,085	6,373	12,133
2009 .....	695	5,594	5,890	12,179
2010-2014 .....	26,680	27,590	19,641	73,911
2015-2019 .....	195,840	21,695	14,538	232,073
2020-2024 .....	126,075	9,478	3,554	139,107
Total Variable-Rate Bonds .....	<u>352,025</u>	<u>\$83,117</u>	<u>\$67,466</u>	<u>\$502,608</u>
Total General Obligation Bonds .....	5,380,605			
Unamortized Discount/ (Premium), Net .....	100,724			
Deferred Refunding Loss .....	(60,618)			
Total Carrying Amount .....	<u>\$5,420,711</u>			

For the variable-rate bonds, using the assumption that current interest rates remain the same over their term, the above interest and net swap payment amounts are based on rates, as of June 30, 2004. As rates vary, variable-rate bond interest payments and net swap payments vary.



**NOTE 10 GENERAL OBLIGATION BONDS (Continued)**

**Interest Rate Swaps**

As of June 30, 2004, approximately \$382.1 million of Infrastructure Improvement Bonds and Common Schools Bonds included associated interest-rate swaps. Terms of the swap agreements are provided below.

**Primary Government-Governmental Activities  
Interest Rate Swaps  
As of June 30, 2004  
(dollars in thousands)**

Issue	Type of Swap	Notional Amount	Underlying Index	Counter-party's Swap Rate at 06/30/2004	State's Swap Rate at 06/30/2004	Effective Date	Termination (Maturity) Date	Fair Value	Method to Estimate Fair Value	Credit Quality Ratings of Counterparties
Infrastructure Improvements, Series 2001B	Floating to fixed knock-out	\$63,900	BMA Index	1.02%*	4.63%	11/29/2001	08/01/2021	\$(5,404)	Quoted Market Value	50% Aaa/AAA Bear Stearns Financial Products  50% Aa3/A+ Morgan Stanley Capital Services
Infrastructure Improvements, Refunding Series 2003B	Floating to fixed	\$104,315	Actual Bond Rate	1.03%	2.96%	02/26/2003	08/01/2008	\$(111)	Quoted Market Value	Aa3/A+ Morgan Stanley Capital Services
Infrastructure Improvements, Refunding Series 2003D	Floating to fixed	\$58,085	Actual Bond Rate	1.03%	3.04%	03/20/2003	02/01/2010	\$544	Quoted Market Value	Aa3/A+ Morgan Stanley Capital Services
Infrastructure Improvements, Series 2003F	Fixed to floating	\$30,115	BMA Index	2.54%	1.02%*	12/04/2003	02/01/2010	\$(309)	Quoted Market Value	Aa3/AA- JP Morgan Chase
Infrastructure Improvements, Refunding Series 2004A	Floating to fixed enhanced LIBOR	\$58,725	68% of LIBOR (1-month LIBOR > 5.0%) or 63% of LIBOR + 25 basis points (1-month LIBOR < 5.0%)	.99%	3.51%	03/03/2004	02/01/2023	\$1,312	Quoted Market Value	Aa3/A+ Morgan Stanley Capital Services
Common Schools, Series 2003D	Fixed to floating	\$67,000	BMA Index	2.67%	1.05%*	12/15/2003	09/01/2007	\$(145)	Quoted Market Value	50% Aa3/A+ Morgan Stanley Capital Services  50% Aa3/AA- JP Morgan Chase

\*Weighted-average rate based on payment dates



**NOTE 10 GENERAL OBLIGATION BONDS (Continued)**

Each swap counterparty is required to post collateral to a third party when their respective credit rating, as determined by specified nationally recognized credit rating agencies, falls below the trigger level defined in the swap agreement. This arrangement protects the State by mitigating the credit risk, and therefore termination risk, inherent in the swap. Collateral on all swaps must be in the form of cash or U.S. government securities held by a third-party custodian. Net payments are made on the same date, as specified in the agreements.

The State retains the right to terminate any swap agreement at the market value prior to maturity. The State has termination risk under the contracts, particularly upon the occurrence of an additional termination event (ATE), as defined in the swap agreements. An ATE occurs if either the credit rating of the bonds associated with a specific swap or the credit rating of the swap counterparty falls below a threshold defined in each swap agreement. If the swap was terminated, the variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of the termination the swap has a negative fair value, the State would be liable to the counterparty for a payment at the swap's fair value. Other termination events include failure to pay, bankruptcy, merger without assumption, and illegality. No such credit events have occurred.

Interest rate risk, rollover risk, basis risk, and credit risk vary for each interest rate swap. Discussion of these risks is included below, when applicable to the swap.

*Infrastructure Improvements-Series 2001B*

The State entered into an interest rate swap to convert the Series 2001B variable-rate bonds into a synthetic fixed rate to minimize interest expense. The combination of the variable-rate bonds and a floating-to-fixed swap creates a low-cost, long-term synthetic fixed rate debt that protects the State from rising interest rates. This structure produced expected present value savings of approximately \$2 million versus a traditional fixed-rate bond structure.

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2004. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

In addition, the swap has a knock-out option. In the event the 180-day average of the BMA index rate exceeds seven percent, the counterparty can knock-

out (cancel) the swap. If the counterparty exercises its option to cancel, the State would be exposed to higher floating rates.

The swap exposes the State to basis risk or a mismatch (shortfall) between the floating rate received on the swap and the variable rate paid on the underlying variable-rate bonds. A mismatch (shortfall) would effectively raise the fixed rate that the State pays on the swap. BMA is a proxy for the State's variable-rate debt.

*Infrastructure Improvements-Refunding Series 2003B*

The State entered into an interest rate swap to convert the Series 2003B variable-rate refunding bonds into a synthetic fixed rate through the escrow period to protect the State from rising interest rates. The combination of variable-rate bonds and a floating-to-fixed swap creates a low-cost, synthetic fixed-rate debt during the escrow period without incurring negative arbitrage, increases the State's variable-rate exposure after the call date, and generates expected present value savings of \$8.4 million.

The swap matures on August 1, 2008, and the Series 2003 variable-rate bonds mature on August 1, 2017. This mismatch in terms allows the State to increase its variable rate exposure after August 1, 2008, which is consistent with its long-term asset/liability management policy objective.

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2004. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

*Infrastructure Improvements-Refunding Series 2003D*

The State entered into an interest rate swap to convert the Series 2003D variable-rate refunding bonds into a synthetic fixed rate through the escrow period that protects the State from rising interest rates. The combination of variable-rate bonds and a floating-to-fixed swap creates a low-cost, synthetic fixed-rate debt during the escrow period without incurring negative arbitrage, increases the State's variable-rate exposure after the call date, and generates expected present value savings of \$4.9 million.

The swap matures on February 1, 2010, and the Series 2003 variable-rate bonds mature on February 1, 2019. This mismatch in terms allows the State to increase its variable rate exposure after February 1,



**NOTE 10 GENERAL OBLIGATION BONDS (Continued)**

2010, which is consistent with its long-term asset/liability management policy objective. At June 30, 2004, the State has credit risk exposure equal to the swap's fair value of \$.5 million.

*Infrastructure Improvements-Series 2003F*

The State entered into an interest rate swap to convert a portion of the Series 2003F fixed-rate bonds into a synthetic variable rate. The combination of fixed-rate bonds and a fixed-to-floating swap creates a borrowing cost that is less than the traditional variable borrowing cost for an expected present value savings of \$.2 million.

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2004. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

*Infrastructure Improvements-Refunding Series 2004A*

The State entered into an interest rate swap to convert the Series 2004A variable-rate bonds into a synthetic fixed rate to minimize interest expense. The combination of the variable-rate bonds and a floating-to-fixed swap creates a low-cost, long-term synthetic fixed rate debt that protects the State from rising interest rates.

At June 30, 2004, the State has credit risk exposure equal to the swap's fair value of \$1.3 million.

The swap exposes the State to basis risk or a mismatch (shortfall) between the floating rate received on the swap and the variable rate paid on the underlying variable-rate bonds. A mismatch (shortfall) would effectively make the fixed rate the State pays on the swap higher. BMA is a proxy for the State's variable-rate debt.

The swap has an embedded floor. When the one-month LIBOR rate falls below five percent, the State will receive a pay off of the swap from the Counterparty. This floor reduces the basis risk when rates are below five percent.

*Common Schools-Series 2003D*

The State entered into an interest rate swap to convert its Common Schools, Series 2003D fixed-rate bonds into a synthetic variable rate. Through the swap, the State achieves variable rate exposure synthetically at a rate equal to the BMA index less 20.5 basis points.

The swap matures on September 1, 2007, and the Common Schools, Series 2003D bonds mature

March 15, 2024. Upon expiration of the swap, the bonds are expected to change from a synthetic variable rate to a natural variable rate.

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2004. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

**Advance Refundings**

During fiscal year 2004, there were two advance refundings of general obligation bonds as follows:

The State issued approximately \$59.0 million in Infrastructure Improvements refunding bonds (Series 2004A and 2004B) with a true interest cost rate of 3.6 percent to defease approximately \$60.6 million (in substance). Net refunding bond proceeds of \$64.8 million (after payment of underwriting fees and bond issue costs) were deposited with escrow agents to provide for all future principal and interest payments on the old bonds. As a result of the refunding, the State's debt service payments will be reduced by \$4.5 million over the next 19 years. The net economic gain from the refunding was \$3.3 million. At issuance, Series 2004A was comprised of \$58.7 million in term bonds, and Series 2004B was comprised of \$309 thousand in capital appreciation bonds, net of unaccreted discount of \$7.9 million and unamortized premium of \$6.2 million.

The State issued approximately \$58.2 million in Common Schools refunding bonds (Series 2003E) with an average interest cost rate of 5 percent to defease approximately \$57.6 million (in substance). Net refunding bond proceeds of \$65.1 million were deposited with escrow agents to provide for all future principal and interest payments on the old bonds. As a result of the refunding, the State's debt service payments will be reduced by \$5.2 million over the next 10 years. The net economic gain from the refunding was \$3.3 million.

In prior years, the Treasurer of State defeased certain Infrastructure Improvement Bonds, Natural Resources Bonds, and Higher Education Bonds 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, 2004, Infrastructure Improvement Bonds of \$502.8 million, Natural Resources Bonds of \$16.8 million, Common Schools Bonds of \$57.6 million, and Higher Education Bonds of \$56.2 million are considered defeased and no longer outstanding.



**NOTE 11 REVENUE BONDS AND NOTES**

The State Constitution permits state agencies and authorities to issue bonds that are not supported by the full 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 Credit and Finance, and the Ohio Department of Transportation. Major issuers for the State's component units include the Ohio Water Development Authority, the Ohio State University, and the University of Cincinnati.

**A. Primary Government**

Economic Development bonds, issued by the Treasurer of State for the Office of Credit and Finance's Direct Loan Program, provide financing for loans and loan guarantees to businesses within the State 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 Division of Liquor Control and pledged moneys and related investment earnings held in reserve under a trust agreement with a financial institution.

Revitalization Project revenue bonds provide financing to enable the remediation or clean up of contaminated publicly or privately owned lands to allow for their environmentally safe and productive development. During fiscal year 2004, the Treasurer of State issued \$100 million in Revitalization Project

bonds, which are also backed with profits derived from the sale of spirituous liquor by the Division of Liquor Control.

Since fiscal year 1998, the Treasurer of State has issued a total of \$439 million in State Infrastructure Bank Bonds for various highway construction projects sponsored by the Department of Transportation. 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 accounted for in business-type activities finance the costs of the William Green Building, which houses the main operations of the Ohio Bureau of Workers' Compensation in Columbus and other office buildings and related facilities constructed by the OBA for shared use by local governments. The principal and interest requirements on the OBA bonds are paid from rentals received under the long-term lease agreements discussed in NOTE 5D.

Revenue bonds outstanding for the primary government, as of June 30, 2004, are presented in the table below.

For the year ended June 30, 2004, NOTE 15 summarizes changes in revenue bonds.

Future bond service requirements for revenue bonds of the primary government, as of June 30, 2004, are presented in the table at the top of the following page.

**Primary Government  
Revenue Bonds  
As of June 30, 2004**  
*(dollars in thousands)*

	Fiscal Year Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
<b>Governmental Activities:</b>				
Treasurer of State:				
Economic Development .....	1997-04	3.8%-7.8%	2024	\$234,975
State Infrastructure Bank .....	1998-04	2.0%-5.0%	2011	321,485
Revitalization Project.....	2003	3.0%-5.0%	2018	51,498
Total Governmental Activities.....				<u>607,958</u>
<b>Business-Type Activities:</b>				
Bureau of Workers' Compensation .....	2003	1.6%-4.0%	2014	148,390
Ohio Building Authority.....	1986-04	2.0%-9.8%	2008	10,147
Total Business-Type Activities.....				<u>158,537</u>
Total Revenue Bonds .....				<u>\$766,495</u>



**NOTE 11 REVENUE BONDS AND NOTES (Continued)**

**Primary Government  
Future Funding Requirements for Revenue Bonds  
As of June 30, 2004  
(dollars in thousands)**

Year Ending June 30,	Governmental Activities			Business-Type Activities			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005 .....	\$ 62,175	\$ 31,664	\$ 93,839	\$ 6,991	\$ 6,986	\$ 13,977	\$ 69,166	\$ 38,650	\$ 107,816
2006 .....	63,185	28,770	91,955	15,237	6,770	22,007	78,422	35,540	113,962
2007 .....	64,280	25,689	89,969	18,803	6,050	24,853	83,083	31,739	114,822
2008 .....	65,450	22,488	87,938	17,741	5,337	23,078	83,191	27,825	111,016
2009 .....	57,875	19,355	77,230	16,005	4,606	20,611	73,880	23,961	97,841
2010-2014 .....	115,795	66,165	181,960	78,800	11,597	90,397	194,595	77,762	272,357
2015-2019 .....	91,095	38,059	129,154	—	—	—	91,095	38,059	129,154
2020-2024 .....	67,880	9,270	77,150	—	—	—	67,880	9,270	77,150
	587,735	241,460	829,195	153,577	41,346	194,923	741,312	282,806	1,024,118
Net Unamortized									
Premium/(Discount) .....	20,223	—	20,223	10,289	—	10,289	30,512	—	30,512
Deferred									
Refunding Loss .....	—	—	—	(5,329)	—	(5,329)	(5,329)	—	(5,329)
Total .....	\$607,958	\$241,460	\$849,418	\$158,537	\$41,346	\$199,883	\$766,495	\$282,806	\$1,049,301

In December 1998, the Treasurer of State entered into a forward purchase refunding agreement to advance refund approximately \$102 million in Series 1996 Taxable Development Assistance Bonds on October 1, 2006. Under the terms of the bond purchase agreement, the underwriter has agreed to purchase approximately \$102 million in Series 1998 Taxable Development Assistance Refunding Bonds and deliver to the escrow agent on or before August 25, 2006 cash and/or direct U.S. government obligations sufficient to provide for the redemption of the refunded bonds on October 1, 2006. Because the State has not taken delivery of the proceeds from the issuance of the Series 1998 Taxable Development Assistance Refunding Bonds, as of June 30, 2004, no obligation for the refunding bonds has been included in the financial statements.

During fiscal year 2004, there were two advance refundings of revenue bonds as follows:

The State issued approximately \$6.7 million in State Facilities refunding bonds (Series 2003A DiSalle Government Center) with a true interest cost rate of 1.9 percent to defease approximately \$10.2 million (in substance). Net refunding bond proceeds of \$7 million were deposited with escrow agents to provide for all future principal and interest payments on the old bonds. As a result of the refunding, the State's debt service payments will be reduced by \$5.6 million over the next five years. The net economic gain from the refunding was \$636 thousand.

The State issued approximately \$701 thousand in State Facilities refunding bonds (Series 2003A Ocasek Government Center) with a true interest cost

rate of 1.9 percent to defease approximately \$1 million (in substance). Net refunding bond proceeds of \$700 thousand were deposited with escrow agents to provide for all future principal and interest payments on the old bonds. As a result of the refunding, the State's debt service payments will be reduced by \$546 thousand over the next five years. The net economic gain from the refunding was \$61 thousand.

**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, 2003, approximately \$697.0 million in bonds were outstanding for this program.



**NOTE 11 REVENUE BONDS AND NOTES (Continued)**

Future bond service requirements for the Water Pollution Control Loan Program revenue bonds, as of December 31, 2003, are as follows (dollars in thousands):

Year Ending December 31,	Principal	Interest	Total
2004 .....	\$ 33,460	\$ 75,608	\$ 109,068
2005 .....	35,095	70,549	105,644
2006 .....	36,605	65,223	101,828
2007 .....	37,860	60,177	98,037
2008 .....	39,705	55,510	95,215
2009-2013 .....	214,705	215,817	430,522
2014-2018 .....	192,740	109,545	302,285
2019-2023 .....	102,050	31,672	133,722
2024-2028 .....	—	3,661	3,661
2029-2033 .....	—	231	231
	692,220	687,993	1,380,213
Net Unamortized Premium/(Discount) ..	24,516	—	24,516
Deferred Refunding Loss .....	(19,758)	—	(19,758)
Total .....	<u>\$96,978</u>	<u>\$687,993</u>	<u>\$1,384,971</u>

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 educational and student residence facilities and auxiliary facilities such as dining halls, 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.

Of the outstanding revenue bonds and notes reported for the OWDA component unit fund, approximately \$127.6 million in bonds had adjustable interest rates that are reset weekly at rates determined by the remarketing agency. As of December 31, 2003, the rates for \$100.9 million and \$26.7 million of the variable-rate bonds were 1.1 percent and 1.3 percent, respectively.

Future bond service requirements for revenue bonds and notes reported for the discretely presented major component units, as of June 30, 2004, are presented in the table below.

**Major Component Units  
Future Funding Requirements for Revenue Bonds  
As of June 30, 2004**  
*(dollars in thousands)*

Year Ending December 31 or June 30,	Ohio Water Development Authority (12/31/03)			Ohio State University			University of Cincinnati		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2004 .....	\$ 104,430	\$ 75,608	\$ 180,038						
2005 .....	105,265	70,549	175,814	\$405,480	\$ 23,529	\$ 429,009	\$ 59,868	\$ 30,391	\$ 90,259
2006 .....	130,580	65,223	195,803	18,206	23,630	41,836	20,630	28,774	49,404
2007 .....	104,935	60,177	165,112	16,689	22,864	39,553	25,650	27,881	53,531
2008 .....	67,030	55,510	122,540	17,274	22,008	39,282	31,215	26,818	58,033
2009 .....	—	—	—	18,184	21,121	39,305	26,040	25,664	51,704
2009-2013 .....	453,810	215,817	669,627	—	—	—	—	—	—
2010-2014 .....	—	—	—	89,354	90,973	180,327	138,650	111,927	250,577
2014-2018 .....	354,960	109,545	464,505	—	—	—	—	—	—
2015-2019 .....	—	—	—	79,565	65,004	144,569	161,145	79,473	240,618
2019-2023 .....	207,725	31,672	239,397	—	—	—	—	—	—
2020-2024 .....	—	—	—	67,945	38,715	106,660	144,740	44,560	189,300
2024-2028 .....	28,510	3,661	32,171	—	—	—	—	—	—
2025-2029 .....	—	—	—	47,025	19,522	66,547	116,640	17,402	134,042
2029-2033 .....	3,660	231	3,891	—	—	—	—	—	—
2030-2034 .....	—	—	—	32,974	4,294	37,268	34,900	1,614	36,514
	1,560,905	687,993	2,248,898	792,696	331,660	1,124,356	759,478	394,504	1,153,982
Net Unamortized Premium/(Discount) .....	30,785	—	30,785	—	—	—	1,592	—	1,592
Deferred Refunding Loss .....	(30,709)	—	(30,709)	—	—	—	—	—	—
Total .....	<u>\$1,560,981</u>	<u>\$687,993</u>	<u>\$2,248,974</u>	<u>\$792,696</u>	<u>\$331,660</u>	<u>\$1,124,356</u>	<u>\$761,070</u>	<u>\$394,504</u>	<u>\$1,155,574</u>



**NOTE 12 SPECIAL OBLIGATION BONDS**

The Ohio Building Authority (OBA) and the Treasurer of State issue special obligation bonds reported in governmental activities.

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.

Under the authority of Chapter 154, Ohio Revised Code, the Treasurer of State is the issuer of special obligation bonds that finance the cost of capital facilities for state-supported institutions of higher education, mental health and retardation institutions, and parks and recreation. Prior to September 14, 2000, when House Bill 640 became effective and reassigned the issuing authority for these obligations to the Treasurer of State, the Ohio Public Facilities Commission issued the Chapter 154 bonds.

Elementary and Secondary Education Bonds, which the Treasurer of State issued for the Department of Education, finance the construction costs of capital facilities for local school districts.

The State reports OBA bonds issued for capital projects that benefit state agencies as special obligation bonds, while OBA bonds issued to finance the costs of local government facilities are reported as revenue bonds (See NOTE 11).

Pledges of lease rental payments from appropriations made to the General Fund, Highway Safety and Highway Operating Special Revenue funds, and Underground Parking Garage Enterprise Fund, moneys held by trustees pursuant to related trust agreements, and other receipts, as required by the respective bond documents, secure the special obligation bonds. The lease rental payments are re-

ported in the fund financial statements as interfund transfers.

Special obligation bonds outstanding and bonds authorized but unissued, as of June 30, 2004, are presented in the table below.

Future special obligation debt service requirements, as of June 30, 2004, are as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2005 .....	\$ 455,429	\$ 189,956	\$ 645,385
2006 .....	443,938	167,942	611,880
2007 .....	445,632	141,029	586,661
2008 .....	430,559	120,244	550,803
2009 .....	321,200	100,585	421,785
2010-2014 .....	1,191,475	291,623	1,483,098
2015-2019 .....	463,925	88,111	552,036
2020-2024 .....	123,165	14,301	137,466
	<u>3,875,323</u>	<u>1,113,791</u>	<u>4,989,114</u>
Net Unamor- tized Premium/ (Discount).....	88,328	—	88,328
Deferred Refunding Loss .....	(59,171)	—	(59,171)
Total .....	<u>\$3,904,480</u>	<u>\$1,113,791</u>	<u>\$5,018,271</u>

For the year ended June 30, 2004, NOTE 15 summarizes changes in special obligation bonds.

During fiscal year 2004, the OBA defeased a number of special obligation bond issues *in substance* when the net proceeds of refunding bonds (after payment of underwriting fees and bond issue costs) were deposited with escrow agents to provide for all future principal and interest payments on the old bonds. A resulting economic gain/(loss) from an

**Primary Government-Governmental Activities  
Special Obligation Bonds  
As of June 30, 2004  
(dollars in thousands)**

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
<b>Ohio Building Authority .....</b>	1986-04	2.0%-9.8%	2024	\$2,278,308	\$361,910
<b>Treasurer of State:</b>					
Chapter 154 Bonds:					
Higher Education Facilities .....	1994-03	3.2%-6.0%	2013	1,133,059	—
Mental Health Facilities .....	1995-03	3.1%-6.0%	2018	263,773	77,915
Parks and Recreation Facilities .....	1996-04	2.5%-5.5%	2019	122,725	23,100
Elementary and Secondary Education....	1997-99	4.0%-5.6%	2008	106,615	—
Total Special Obligation Bonds .....				<u>\$3,904,480</u>	<u>\$462,925</u>





**NOTE 12 SPECIAL OBLIGATION BONDS (Continued)**

advance refunding represents the difference between the present values of the debt service payments on the old and new debt. Details on the advance refundings for fiscal year 2004 are presented in the table below.

In prior years, the OBA and the Treasurer of State 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, 2004, \$299.8 million and \$476.9 million of OBA and Chapter 154 special obligation bonds, respectively, are considered defeased and no longer outstanding.

**Governmental Activities  
Special Obligation Bonds  
Details of Advance Refundings  
For the Year Ended June 30, 2004**  
*(dollars in thousands)*

Refunding Bond Issue	Date of Refunding	Amount of Refunding Bonds Issued	True Interest Cost Rates of Refunding Bonds	Carrying Amount of Bonds Refunded <i>(in substance)</i>	Refunding Bond Proceeds Placed in Escrow	Reduction in Debt Service Payments	Economic Gain Resulting from Refunding
Ohio Building Authority:							
State Facilities (DiSalle Government Center), Series 2003A	7/22/03	\$ 4,263	1.9%	\$ 6,498	\$ 4,450	\$3,593 over next 5 years	\$ 407
State Facilities (Lausche State Office Building), Series 2003A	7/22/03	4,915	1.9%	7,183	4,935	\$3,948 over next 5 years	449
State Facilities (Ocasek Government Office Building), Series 2003A	7/22/03	1,994	1.9%	2,876	1,998	\$1,553 over next 5 years	175
State Facilities (Highway Safety Building), Series 2004B	3/23/04	41,695	2.4%	42,685	46,879	\$2,446 over next 8 years	2,148
State Facilities (DNR Fountain Square), Series 2004A	5/11/04	3,910	2.5%	3,473	4,022	\$153 over next 5 years	149
State Facilities (Vern Riffe Center), Series 2004A	5/11/04	22,705	2.3%	22,236	23,550	\$678 over next 5 years	663
State Facilities (Adult Correctional Building), Series 2004B	5/11/04	42,665	2.1%	41,819	44,365	\$1,215 over next 5 years	1,190
Total.....		<u>\$122,147</u>		<u>\$126,770</u>	<u>\$130,199</u>		<u>\$5,181</u>

**NOTE 13 CERTIFICATES OF PARTICIPATION**

As of June 30, 2004, approximately \$6.5 million in certificate of participation (COP) obligations were reported in governmental activities.

In fiscal year 1992, the Ohio Department of Transportation participated in the issuance of \$8.7 million of COP obligations to finance the acquisition of the Panhandle Rail Line Project. During fiscal year 1996, the Department also participated in the issuance of \$10.2 million in COP obligations to provide assistance to the Rickenbacker Port Authority for facility improvements at the Rickenbacker International Airport in Franklin and Pickaway counties.

Under the COP financing arrangements, the State is required to make rental payments from the Transportation Certificates of Participation 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 COP financing arrangements, as of June 30, 2004, are presented in the table at the top of the following page.



**NOTE 13 CERTIFICATES OF PARTICIPATION (Continued)**

**Primary Government — Governmental Activities  
Certificate of Participation Obligations  
As of June 30, 2004  
(dollars in thousands)**

	Fiscal Year Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Department of Transportation:				
Panhandle Rail Line Project.....	1992	6.5%	2012	\$5,105
Rickenbacker Port Authority Improvements.....	1996	6.1%	2007	1,375
Total Certificates of Participation .....				<u>\$6,480</u>

As of June 30, 2004, the primary government's future commitments under the COP financing arrangements are as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2005 .....	\$ 945	\$ 408	\$1,353
2006 .....	1,005	348	1,353
2007 .....	800	285	1,085
2008 .....	520	242	762
2009 .....	555	209	764
2010-2012 ..	2,655	400	3,055
Total .....	<u>\$6,480</u>	<u>\$1,892</u>	<u>\$8,372</u>

For the year ended June 30, 2004, NOTE 15 summarizes changes in COP obligations.

For the State's component units, approximately \$29.7 million in COP obligations are reported in the component unit funds. The obligations finance building construction costs at the Ohio State University, University of Cincinnati, and the University of Akron.

As of June 30, 2004, future commitments under the COP financing arrangements for the State's component units are detailed in the table below.

**Component Units  
Future Funding Requirements for Certificate of Participation Obligations  
As of June 30, 2004  
(dollars in thousands)**

Year Ending June 30,	Ohio State University			University of Cincinnati		
	Principal	Interest	Total	Principal	Interest	Total
2005 .....	\$ 720	\$ 321	\$1,041	\$ 90	\$ 46	\$ 136
2006 .....	355	293	648	90	41	131
2007 .....	360	277	637	90	36	126
2008 .....	390	260	650	95	31	126
2009 .....	405	242	647	95	26	121
2010-2014 .....	2,340	890	3,230	380	52	432
2015-2019 .....	2,330	242	2,572	—	—	—
2020-2024 .....	—	—	—	—	—	—
2025-2029 .....	—	—	—	—	—	—
2030-2034 .....	—	—	—	—	—	—
Total .....	<u>\$6,900</u>	<u>\$2,525</u>	<u>\$9,425</u>	<u>\$840</u>	<u>\$232</u>	<u>\$1,072</u>

  

Year Ending June 30,	University of Akron			Total Component Units		
	Principal	Interest	Total	Principal	Interest	Total
2005 .....	\$ —	\$ 1,725	\$ 1,725	\$ 810	\$ 2,092	\$ 2,902
2006 .....	140	1,585	1,725	585	1,919	2,504
2007 .....	275	1,450	1,725	725	1,763	2,488
2008 .....	295	1,430	1,725	780	1,721	2,501
2009 .....	315	1,410	1,725	815	1,678	2,493
2010-2014 .....	1,955	6,670	8,625	4,675	7,612	12,287
2015-2019 .....	2,765	5,860	8,625	5,095	6,102	11,197
2020-2024 .....	3,845	4,780	8,625	3,845	4,780	8,625
2025-2029 .....	5,240	3,385	8,625	5,240	3,385	8,625
2030-2034 .....	7,170	1,455	8,625	7,170	1,455	8,625
Total .....	<u>\$22,000</u>	<u>\$29,750</u>	<u>\$51,750</u>	<u>\$29,740</u>	<u>\$32,507</u>	<u>\$62,247</u>



**NOTE 14 OTHER NONCURRENT LIABILITIES**

As of June 30, 2004, in addition to bonds and certificates of participation obligations discussed in NOTES 10 through 13, the State reports the following noncurrent liabilities in its financial statements (dollars in thousands):

<b>Governmental Activities:</b>	
Compensated Absences .....	\$ 382,208
Capital Leases Payable .....	3,460
Liability for Escheat Property .....	173,935
Total Governmental Activities .....	<u>559,603</u>
<b>Business-Type Activities:</b>	
Compensated Absences .....	34,563
Capital Leases Payable .....	30,368
Workers' Compensation:	
Unearned Revenue .....	394,319
Benefits Payable .....	14,619,873
Other .....	1,750,020
Deferred Prize Awards Payable .....	856,903
Tuition Benefits Payable .....	1,141,700
Workers Compensation Claims- Auditor of State's Office.....	<u>7,828</u>
Total Business-Type Activities .....	<u>18,835,574</u>
Total Primary Government.....	<u>\$19,395,177</u>

For the year ended June 30, 2004, NOTE 15 summarizes the changes in other noncurrent liabilities. Explanations of certain significant noncurrent liability balances reported in the financial statements follow.

**A. Compensated Absences**

For the primary government, the compensated absences liability, as of June 30, 2004, was \$416.8 million, of which \$382.2 million is allocable to governmental activities and \$34.6 million is allocable to business-type activities.

As of June 30, 2004, discretely presented major component units reported a total of \$133.7 million in compensated absences liabilities, as detailed by major component unit in NOTE 15.

**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 as a liability for capital leases.

Assets acquired through capital leasing are valued at the lower of fair value or the present value of the future minimum lease payments at the lease's inception.

Operating leases (leases on assets not recorded in the Statement of Net Assets) contain various renewal options as well as some purchase options.

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

The primary government's total operating lease expenditures/expenses for fiscal year 2004 were approximately \$85.4 million.

Future minimum lease commitments for operating leases and capital leases judged to be noncancelable, as of June 30, 2004, are as follows (dollars in thousands):

<u>Primary Government</u>			
Year Ending June 30,	Operating Leases		
2005 .....	\$4,628		
2006 .....	361		
2007 .....	39		
2008 .....	28		
2009 .....	<u>3</u>		
Total minimum lease payments.....	<u>\$5,059</u>		
<u>Capital Leases</u>			
Year Ending June 30,	Govern- mental Activities	Business- Type Activities	Total
2005 .....	\$1,435	\$16,135	\$17,570
2006 .....	1,285	16,134	17,419
2007 .....	821	27	848
2008 .....	441	15	456
2009 .....	<u>11</u>	<u>—</u>	<u>11</u>
Total Mini- mum Lease Payments .....	3,993	32,311	36,304
Amount for interest .....	<u>(533)</u>	<u>(1,943)</u>	<u>(2,476)</u>
Present Value of Net Mini- mum Lease Payments .....	<u>\$3,460</u>	<u>\$30,368</u>	<u>\$33,828</u>



**NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)**

As of June 30, 2004, the primary government had the following capital assets under capital leases (dollars in thousands):

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Equipment ....	\$5,998	\$69,469	\$75,467
Vehicles.....	33	—	33
Total .....	<u>\$6,031</u>	<u>\$69,469</u>	<u>\$75,500</u>

Amortization expense for the proprietary funds within the Statement of Activities is included with depreciation expense.

Capital leases are reported under the "Refund and Other Liabilities" account in the proprietary funds. For the component units, capital lease obligations are included under the "Other Liabilities" account.

Future minimum lease commitments for capital leases judged to be noncancelable and capital assets under capital leases for the discretely presented major component unit funds, as of June 30, 2004, are presented in the table below.

Major Component Units		
Capital Leases		
Year Ending June 30,	Ohio State University	University of Cincinnati
2005 .....	\$ 5,576	\$ 11,047
2006 .....	5,431	11,198
2007 .....	3,413	11,647
2008 .....	828	11,852
2009 .....	183	12,882
2010-2014 .....	637	55,964
2015-2019 .....	—	44,299
2020-2024 .....	—	51,631
Total Minimum Lease Payments ...	16,068	210,520
Amount for interest .....	(1,058)	(79,369)
Present Value of Net Minimum Lease Payments ...	<u>\$15,010</u>	<u>\$131,151</u>
Equipment & Vehicles.....	\$30,240	\$ —
Buildings.....	—	140,635
Total .....	<u>\$30,240</u>	<u>\$140,635</u>

**C. Liability for Escheat Property**

The State records a liability for escheat property to the extent that it is probable that the escheat property will be reclaimed and paid to claimants. As of June 30, 2004, this liability totaled approximately \$173.9 million.

**D. Workers' Compensation**

**Unearned Revenue**

Unearned revenue in the amount of \$394.3 million is reported as a noncurrent liability in the Workers' Compensation Enterprise Fund. This balance represents employer assessments for disabled workers benefits and for self-insuring employers guaranty deposits received or in the course of collection, but not yet recognized.

**Benefits Payable**

As discussed in NOTE 20A, 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, 2004, in the amount of approximately \$14.62 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.

**E. Deferred Prize Awards Payable**

Deferred prize awards payable in installments over future years totaling approximately \$856.9 million, as of June 30, 2004, are reported at present value based upon interest rates the Treasurer of State provides the 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 NONCURRENT LIABILITIES (Continued)**

The present value of future payments of unpaid prize awards, as of June 30, 2004, is as follows (dollars in thousands):

Year Ending June 30,	
2005 .....	\$ 142,721
2006 .....	127,253
2007 .....	116,166
2008 .....	100,696
2009 .....	85,302
2010-2014 .....	329,871
2015-2019 .....	280,757
2020-2024 .....	134,551
	1,317,317
Unamortized Discount .....	(460,414)
Net Prize Liability .....	\$ 856,903

The State reduces prize liabilities by an estimate of the amount of prizes that will ultimately be unclaimed.

**F. Tuition Benefits Payable**

The actuarial present value of future tuition benefits payable from the Tuition Trust Authority Enterprise Fund were \$1.14 billion, as of June 30, 2004. 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 participant contracts under the plan.

The following assumptions were used in the actuarial determination of tuition benefits payable: 7.0 percent rate of return, compounded annually, on the investment of current and future assets; a projected annual tuition increase of 10.0 percent for calendar year 2005 and thereafter; and a 2.5 percent Consumer Price Index inflation rate. The effect of changes due to experience and actuarial assumption changes follow (dollars in millions):

Actuarial Deficit, as of June 30, 2003 .....	\$(321.1)
Interest on the Deficit at 7.0 Percent .....	(22.5)
Recognition of Gain in Investment Returns ...	54.2
Additional Deficit from New Unit Purchases ..	(3.2)
Lower-Than-Assumed Tuition Increase .....	43.4
Budget Savings .....	1.1
Lower-Than-Expected	
Units/Credits Redeemed .....	(2.8)
Lower-Than-Expected Credit Payouts .....	0.3
Interest Gain on Late Tuition Payouts .....	0.5
Change in Assumptions .....	(43.8)
Other .....	(0.7)
Actuarial Deficit, as of June 30, 2004, Before Adjustment for Value of Future Contingent Payments for Variable Investment Options .....	(294.6)
Value of Future Contingent Payments for Variable Investment Options .....	42.2
Actuarial Deficit, as of June 30, 2004 .....	\$(252.4)

As of June 30, 2004, the market value of net assets available for payment of the tuition benefits payable was \$847.1 million.

**G. Other Liabilities**

The Workers' Compensation Enterprise Fund reports approximately \$1.75 billion in other noncurrent liabilities, as of June 30, 2004, of which 1.) \$1.65 billion is comprised of the compensation adjustment expenses liability for estimated future expenses to be incurred in the settlement of claims, as discussed further in NOTE 20A., 2.) \$85.7 million represents premium payment security deposits collected in advance from private employers to reduce credit risk for premiums collected in subsequent periods, and 3.) \$17.1 million consists of other miscellaneous liabilities.

Additionally, the Office of the Auditor of State Enterprise Fund reports \$7.8 million in other liabilities for estimated workers' compensation claims payable. For the payment of the claims, the General Fund transfers resources to the Office of the Auditor of State Enterprise Fund. As claims expenses are incurred, transfers from the General Fund are accrued.

Accordingly, the General Fund reported an interfund payable to the Bureau of Workers' Compensation Enterprise Fund in an amount equal to the workers' compensation claims payable reported in the Office of Auditor of State Enterprise Fund, as of June 30, 2004 (See NOTE 7A.).



**NOTE 15 CHANGES IN NONCURRENT LIABILITIES**

**Primary Government**

Changes in noncurrent liabilities, for the year ended June 30, 2004, are presented for the primary government in the following table.

<b>Primary Government Changes in Noncurrent Liabilities For the Fiscal Year Ended June 30, 2004</b> <i>(dollars in thousands)</i>					
	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Amount Due Within One Year
<b>Governmental Activities:</b>					
Bonds and Notes Payable:					
General Obligation Bonds (NOTE 10) .....	\$ 4,603,842	\$1,307,987	\$ (491,118)	\$ 5,420,711	\$ 391,970
Revenue Bonds (NOTE 11).....	450,598	222,359	(64,999)	607,958	62,799
Special Obligations (NOTE 12) .....	4,093,614	429,696	(618,830)	3,904,480	452,614
Total Bonds and Notes Payable .....	<u>9,148,054</u>	<u>1,960,042</u>	<u>(1,174,947)</u>	<u>9,933,149</u>	<u>907,383</u>
Certificates of Participation (NOTE 13) .....	7,370	—	(890)	6,480	945
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences.....	383,637	331,908	(333,337)	382,208	49,669
Capital Leases Payable .....	4,888	400	(1,828)	3,460	1,184
Litigation Liabilities.....	10,000	—	(10,000)	—	—
Liability for Escheat Property .....	141,328	78,829	(46,222)	173,935	54,989
Total Other Noncurrent Liabilities .....	<u>539,853</u>	<u>411,137</u>	<u>(391,387)</u>	<u>559,603</u>	<u>105,842</u>
Governmental Activities-Noncurrent Liabilities	<u>9,695,277</u>	<u>2,371,179</u>	<u>(1,567,224)</u>	<u>10,499,232</u>	<u>1,014,170</u>
<b>Business-Type Activities:</b>					
Bonds and Notes Payable:					
Revenue Bonds (NOTE 11).....	167,310	8,868	(17,641)	158,537	6,991
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences.....	34,580	30,609	(30,626)	34,563	1,406
Capital Leases Payable .....	44,151	66	(13,849)	30,368	14,711
Workers' Compensation:					
Unearned Revenue .....	402,436	35,076	(43,193)	394,319	16,930
Benefits Payable.....	14,307,371	2,548,502	(2,236,000)	14,619,873	1,764,828
Other:					
Adjustment Expenses Liability .....	1,673,704	—	(26,505)	1,647,199	441,865
Premium Payment Security Deposits.....	82,991	5,370	(2,682)	85,679	—
Miscellaneous .....	75,576	72,205	(130,639)	17,142	10,761
Deferred Prize Awards Payable.....	929,225	29,365	(101,687)	856,903	88,200
Tuition Benefits Payable.....	1,080,500	110,993	(49,793)	1,141,700	54,800
Workers' Compensation Claims- Auditor of State's Office .....	7,828	—	—	7,828	443
Total Other Noncurrent Liabilities .....	<u>18,638,362</u>	<u>2,832,186</u>	<u>(2,634,974)</u>	<u>18,835,574</u>	<u>2,393,944</u>
Business-Type Activities-Noncurrent Liabilities	<u>18,805,672</u>	<u>2,841,054</u>	<u>(2,652,615)</u>	<u>18,994,111</u>	<u>2,400,935</u>
Total Primary Government .....	<u>\$28,500,949</u>	<u>\$5,212,233</u>	<u>\$(4,219,839)</u>	<u>\$29,493,343</u>	<u>\$3,415,105</u>



**NOTE 15 CHANGES IN NONCURRENT LIABILITIES (Continued)**

The State makes payments on bonds and notes payable and certificate of participation obligations that pertain to its governmental activities from the debt service funds. The General Fund and the major special revenue funds will primarily liquidate the other noncurrent liabilities balance attributable to governmental activities.

For fiscal year 2004, the State's primary government included interest expense on its debt issues in the following governmental functions rather than reporting it separately as interest expense. The related borrowings are essential to the creation or continuing existence of the programs they finance. The various state subsidy programs supported by the borrowings provide direct state assistance to local governments for their respective capital construction or research projects. None of the financing provided under these programs benefits the general operations of the primary government, and accordingly, such expense is not reported separately on

the Statement of Activities under the expense category for interest on long-term debt.

	<i>(dollars in thousands)</i>
<b>Governmental Activities:</b>	
Primary, Secondary and Other Education	\$ 83,228
Higher Education Support .....	121,238
Environmental Protection and Natural Resources.....	416
Transportation.....	4
Community and Economic Development	21,841
Intergovernmental .....	<u>85,066</u>
Total Interest Expense Charged to Governmental Functions..	<u>\$311,793</u>

**Component Units**

Changes in noncurrent liabilities, for the year ended June 30, 2004 (December 31, 2003 for the Ohio Water Development Authority), are presented in the following table for the State's discretely presented major component units.

**Major Component Units  
Changes in Noncurrent Liabilities  
For the Fiscal Year Ended June 30, 2004**  
*(dollars in thousands)*

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Amount Due Within One Year
School Facilities Commission:					
Intergovernmental Payable.....	\$2,133,542	\$ 394,439	\$ (537,072)	\$1,990,909	\$638,909
Compensated Absences* .....	411	174	(62)	523	81
Total.....	<u>\$2,133,953</u>	<u>\$ 394,613</u>	<u>\$ (537,134)</u>	<u>\$1,991,432</u>	<u>\$638,990</u>
Ohio Water Development Authority:					
Bonds and Notes Payable .....	\$1,614,964	\$ 246,373	\$ (300,356)	\$1,560,981	\$104,241
Compensated Absences* .....	177	8	(43)	142	—
Total.....	<u>\$1,615,141</u>	<u>\$ 246,381</u>	<u>\$ (300,399)</u>	<u>\$1,561,123</u>	<u>\$104,241</u>
Ohio State University:					
Unearned Revenue .....	\$ 97,674	\$1,546,534	\$(1,550,254)	\$ 93,954	\$ 87,954
Compensated Absences* .....	64,541	11,982	(6,005)	70,518	6,005
Capital Leases Payable* .....	17,723	2,590	(5,303)	15,010	5,070
Other Liabilities* .....	108,736	12,744	(5,511)	115,969	4,804
Bonds and Notes Payable .....	560,631	384,525	(152,460)	792,696	405,480
Certificates of Participation .....	7,880	—	(980)	6,900	720
Total.....	<u>\$ 857,185</u>	<u>\$1,958,375</u>	<u>\$ (1,720,513)</u>	<u>\$1,095,047</u>	<u>\$510,033</u>
University of Cincinnati:					
Compensated Absences* .....	\$ 58,465	\$ 4,177	\$ (171)	\$ 62,471	\$ 33,790
Capital Leases Payable* .....	135,262	—	(4,111)	131,151	4,306
Other Liabilities* .....	32,347	91,653	(90,950)	33,050	396
Bonds and Notes Payable .....	509,776	304,960	(53,666)	761,070	60,387
Certificates of Participation .....	930	—	(90)	840	90
Total.....	<u>\$ 736,780</u>	<u>\$ 400,790</u>	<u>\$ (148,988)</u>	<u>\$ 988,582</u>	<u>\$ 98,969</u>

\*Liability is reported under the "Refund and Other Liabilities" account.



**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 a pledge of the faith and credit of the State. Accordingly, these bonds are not reflected in the accompanying financial statements.

As of June 30, 2004 (December 31, 2003 for component units), revenue bonds and notes outstanding that represent "no commitment" debt for the State are as follows (dollars in thousands):

	<u>Outstanding Amount</u>
<b>Primary Government:</b>	
Ohio Department of Development:	
Ohio Housing Finance Agency .....	\$1,708,174
Ohio Enterprise Bond Program .....	168,890
Hospital Facilities Bonds .....	24,905
Total Primary Government.....	<u>\$1,901,969</u>
<b>Component Units:</b>	
Ohio Water Development Authority .....	\$2,114,745
Ohio Air Quality Development Authority .....	1,616,281
Total Component Units .....	<u>\$3,731,026</u>

**NOTE 17 FUND DEFICITS, "OTHER" RESERVES, AND DESIGNATIONS**

**A. Fund Deficits**

The following individual funds reported deficits that are reflected in the State's basic financial statements, as of June 30, 2004 (dollars in thousands):

<u>Primary Government:</u>	
Major Governmental Funds:	
Job, Family and Other Human Services..	\$ (76,455)
Nonmajor Governmental Funds:	
Mental Health and Retardation Special Revenue Fund .....	(67,004)
Total Governmental Funds .....	<u>\$ (143,459)</u>

<u>Primary Government (Continued):</u>	
Proprietary Funds:	
Tuition Trust Authority Enterprise Fund...	<u>\$ (289,354)</u>

<u>Component Units:</u>	
School Facilities Commission Fund .....	<u>\$ (1,625,009)</u>

**B. "Other" Fund Balance Reserves and Designations**

Details on the "Reserved for Other" account reported for the governmental funds, as of June 30, 2004, are presented below.

**Primary Government  
Governmental Funds — Reserved for Other  
As of June 30, 2004  
(dollars in thousands)**

	General Fund	Job, Family and Other Human Services	Education	Highway Operating	Nonmajor Govern- mental Funds	Total Govern- mental Funds
Prepays (included in "Other Assets").....	\$16,919	\$1,994	\$203	\$3,175	\$ 5,847	\$28,138
Advances to Local Governments.....	3,651	—	—	—	—	3,651
Ohio Enterprise Bond Program .....	—	—	—	—	10,000	10,000
Loan Guarantee Programs .....	126	—	—	—	2,514	2,640
Long-Term Leases Receivable.....	—	—	—	—	1,525	1,525
Special Purpose Restrictions:						
Environmental Protection and Natural Resources .....	—	—	—	—	6,499	6,499
Assets in Excess of Debt Service Requirements.....	—	—	—	—	3	3
Total Reserved for Other.....	<u>\$20,696</u>	<u>\$1,994</u>	<u>\$203</u>	<u>\$3,175</u>	<u>\$26,388</u>	<u>\$52,456</u>





**NOTE 17 FUND DEFICITS, "OTHER" RESERVES, AND DESIGNATIONS (Continued)**

The unreserved fund balance for governmental funds, as of June 30, 2004, has been designated as follows, (dollars in thousands):

Major Governmental Funds:	
General Fund:	
Budget Stabilization .....	\$ 74,598
Compensated Absences.....	23,150
Total General Fund .....	<u>97,748</u>
Nonmajor Governmental Funds:	
Compensated Absences.....	6,584
Total Governmental Funds.....	<u>\$104,332</u>

**NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS**

**A. Joint Ventures**

**Great Lakes Protection Fund (GLPF)**

The Great Lakes Protection Fund is an Illinois non-profit 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 Water Quality Agreement.

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

Annually, one-third of the GLPF's net earnings is allocated and paid to member states in proportion to their respective cash contributions to the GLPF. The allocation is based on the amount and period of time the states' contributions were invested. GLPF earnings distributions are to be used by the states to finance projects that are compatible with the GLPF's objectives. Ohio has applied its distribution (approximately \$285 thousand for the year ended December 31, 2003) 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, 2003 (the GLPF's year-end), are as follows (dollars in thousands):

	Contribution Required	Contribution Received	Contribution Percentage
Michigan.....	\$25,000	\$25,000	30.9%
Indiana* .....	16,000	—	—
Illinois .....	15,000	15,000	18.4
Ohio.....	14,000	14,000	17.3
New York.....	12,000	12,000	14.8
Wisconsin .....	12,000	12,000	14.8
Minnesota.....	1,500	1,500	1.9
Pennsylvania...	1,500	1,500	1.9
Total .....	<u>\$97,000</u>	<u>\$81,000</u>	<u>100.0%</u>

\*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, 2003, is as follows (dollars in thousands):

Cash and Investments .....	\$112,577
Other Assets .....	361
Total Assets .....	<u>\$112,938</u>
Total Liabilities .....	\$ 2,059
Total Net Assets.....	110,879
Total Liabilities and Net Assets.....	<u>\$112,938</u>
Total Revenues and Other Additions .....	\$ 22,477
Total Expenditures .....	(6,593)
Net Increase in Net Assets .....	<u>\$ 15,884</u>

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

**Local Community and Technical Colleges**

The State's primary government has an ongoing financial responsibility for the funding of six local community colleges and eight technical colleges. With respect to the local community colleges, State of Ohio officials appoint three members of each college's respective nine-member board of trustees; county officials appoint the remaining six members.



**NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)**

The governing boards of the technical colleges consist of either seven or nine trustees, of which state officials appoint two and three members, respectively; the remaining members are appointed by the local school boards located in the respective technical college district.

The Ohio General Assembly appropriates moneys to these institutions from the General Fund to subsidize operations so that higher education can become more financially accessible to Ohio residents. The primary government also provides financing for the construction of these institutions' capital facilities by meeting the debt service requirements for the Higher Education Capital Facilities general obligation bonds issued by the Ohio Public Facilities Commission (OPFC) and Higher Education Facilities special obligation bonds, previously issued by the OPFC, for these purposes. The bonds provide funding for capital appropriations in the Special Revenue Fund, which are available to the local community and technical colleges for spending on capital construction.

Fiscal year 2004 expenses that were included in the "Higher Education Support" function under governmental activities in the Statement of Activities for state assistance to the local community and technical colleges are presented below (dollars in thousands).

	Operating Subsidies	Capital Subsidies	Total
<b>Local Community Colleges:</b>			
Cuyahoga Community College	\$ 46,191	\$ 2,270	\$ 48,461
Jefferson Community College	4,041	731	4,772
Lakeland Community College	15,162	451	15,613
Lorain County Community College.....	22,330	1,275	23,605
Rio Grande Community College.....	4,305	17	4,322
Sinclair Community College ...	43,820	1,498	45,318
Total Local Community Colleges.....	135,849	6,242	142,091
<b>Technical Colleges:</b>			
Belmont Technical College.....	4,957	246	5,203
Central Ohio Technical College .....	4,880	12	4,892
Hocking Technical College.....	16,535	255	16,790
James A. Rhodes State College (formerly Lima Technical College) .....	7,329	3,640	10,969
Marion Technical College.....	4,044	257	4,301
Zane State College (formerly Muskingum Area Technical College) .....	5,157	361	5,518
North Central State College....	7,368	997	8,365
Stark State College of Technology .....	11,547	3,742	15,289
Total Technical Colleges.....	61,817	9,510	71,327
Total .....	\$197,666	\$15,752	\$213,418

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 Higher Education Facility Commission, and the Ohio Legal Assistance Foundation. However, the primary government's accountability for these organizations does not extend beyond making the appointments.

During fiscal year 2004, the State had the following related-party transactions with its related organizations:

- The primary government distributed \$2.8 million in motor vehicle fuel excise tax collections from the Revenue Distribution Fund to the Ohio Turnpike Commission.
- Separate funds, established for the Petroleum Underground Storage Tank Release Compensation Board 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 and other administrative disbursement processing for these organizations. The financial activities of the funds, which do not receive any funding support from the primary government, have been included in the agency funds.
- From the Job, Family and Other Human Services Fund, the Public Defender's Office paid approximately \$647 thousand in compensation to the Ohio Legal Assistance Foundation for administrative services performed under contract for the distribution of state funding to nonprofit legal aid societies. Also, during fiscal year 2004, the Ohio Legal Assistance Foundation received approximately \$1.6 million in state assistance paid from the Job, Family and Other Human Services Fund.



**NOTE 19 CONTINGENCIES AND COMMITMENTS**

**A. Litigation**

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

Litigation pending in the Ohio Court of Claims contests the Ohio Department of Human Services (ODHS, now Ohio Department of Job and Family Services (ODJFS)) former Medicaid financial eligibility rules for married couples when one spouse is living in a nursing facility and the other resides in the community. ODHS promulgated new eligibility rules effective January 1, 1996. ODHS appealed an order of the federal court directing it to provide notice to persons potentially affected by the former rules from 1990 through 1995, and the Court of Appeals ruled in favor of ODHS. The U.S. Supreme Court did not grant plaintiff's petition for certiorari. As to the Court of Claims case, it is not possible to state the period (beyond the current fiscal year) during which necessary additional Medicaid expenditures would have to be made. Plaintiffs have estimated total additional Medicaid expenditures at \$600 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 Appeals has certified the class action and notice has been sent to the members of the class. Trial for liability only was completed in the Court of Claims in January 2003, and all post-trial briefs have been filed with that Court. In March 2004, the trial court issued a decision finding no liability with respect to ODJFS. The plaintiff class has filed an appeal from that decision to the Franklin County Court of Appeals. That appeal is currently pending. No liability has been reported in the financial statements for this matter.

Litigation is also currently pending in the Cuyahoga County Court of Appeals relating to the transfer to the GRF and use in fiscal year 2002 for general State purposes of \$60 million in earned federal reimbursement on Title XX (Social Services Block Grant) expenditures. Plaintiff Cuyahoga County filed an action contesting this transfer and use of those monies for general State purposes, and the trial court ordered the State to return the monies to its Department of Job and Family Services. The State has appealed the trial court's decision and order. No liability has been reported in the financial statements for this matter.

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 State's financial position.

**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 basic 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 to the State.

As a result of the fiscal year 2003 State of Ohio Single Audit (completed in 2004), \$20.6 million of federal expenditures are 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, 2004.

**C. Tax Refund Claims**

As of June 30, 2004, tax refund claims estimated in the amount of \$21.7 million were pending an official determination of the Tax Commissioner at the Ohio Department of Taxation. The claims arose from refund claims taxpayers filed for tax periods occurring in fiscal year 2004 and in prior years. No liability has been reported in the financial statements for this matter.

**D. Construction Commitments**

As of June 30, 2004, the Ohio Department of Transportation had total contractual commitments of approximately \$1.73 billion for highway construction projects. Funding for future projects is expected to be provided from federal, primary government, general obligation and revenue bonds, and local government sources in amounts of \$937 million, \$325.9 million, \$382 million, and \$83.7 million, respectively.



**NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)**

As of June 30, 2004, other major non-highway construction commitments for the primary government's budgeted capital projects funds are as follows (dollars in thousands):

<b>Primary Government</b>	
Mental Health/Mental Retardation	
Facilities Improvements.....	\$ 48,834
Parks and Recreation Improvements .....	17,249
Administrative Services	
Building Improvements .....	89,168
Youth Services Building Improvements.....	4,039
Transportation Building Improvements.....	63
Adult Correctional Building Improvements ..	42,179
Highway Safety Building Improvements .....	2,643
Ohio Parks and Natural Resources .....	22,064
Total.....	<u>\$226,239</u>

As of June 30, 2004, construction commitments for the State's discretely presented major component units are as follows (dollars in thousands):

<b>Major Component Units</b>	
Ohio State University.....	\$328,534
University of Cincinnati.....	382,042

**E. Tobacco Settlement**

In November 1998, the Attorneys General of 46 states, five U.S. territories, and the District of Columbia signed the Master Settlement Agreement (MSA) with the nation's largest tobacco manufacturers. This signaled the end of litigation brought by the Attorneys General against the manufacturers in 1996 for state health care expenses attributed to smoking-related claims. The remaining four states (Florida, Minnesota, Mississippi, and Texas) settled separately.

According to the MSA, participating tobacco manufacturers are required to adhere to a variety of new marketing and lobbying restrictions and provide payments to the states in perpetuity.

While Ohio's share of the total base payments to the states through 2025 will not change over time, the amount of the annual payment is subject to a number of adjustments, including an inflation adjustment and a volume adjustment. Some of these adjustments (for example, inflation) should contribute to an increase in the payments and others (for example, domestic cigarette sales volume) may decrease the payments. But the net effect of these adjustment factors on future payments is very uncertain, which makes it difficult to speculate on how different Ohio's

real payments will be from the pre-adjusted base payment amounts.

In addition to the base payments, Ohio will receive payments from the Strategic Contribution Fund. The Strategic Contribution Fund was established to reward states that played leadership roles in the tobacco litigation and settlement negotiations. Allocations from the fund are based on a state's contribution to the litigation and settlement with the tobacco companies. These payments are also subject to the adjustment factors outlined in the MSA.

A schedule of pre-adjusted base payments and payments from the Strategic Contribution Fund for the State of Ohio in future years follows (dollars in thousands):

Year Ending June 30,	Pre-adjusted MSA Base Payments	Pre-adjusted Payments From the Strategic Contribution Fund	Total
2005.....	\$ 352,827	\$ —	\$ 352,827
2006.....	352,827	—	352,827
2007.....	352,827	—	352,827
2008.....	359,829	23,950	383,779
2009.....	359,829	23,950	383,779
2010-2014 ..	1,799,147	119,750	1,918,897
2015-2019 ..	1,885,893	71,850	1,957,743
2020-2024 ..	2,016,011	—	2,016,011
2025.....	403,202	—	403,202
Total.....	<u>\$7,882,392</u>	<u>\$239,500</u>	<u>\$8,121,892</u>

During fiscal year 2004, Ohio received \$320.5 million, which was approximately \$32.3 million or 9.2 percent less than the pre-adjusted base payment for the year. For the last five fiscal years, with fiscal year 2000 being the first year when base payments were made to the states under the settlement, the State has received a total of about \$1.79 billion, which is approximately \$200 million or 10.1 percent less than the total of the pre-adjusted base payments established for the last three fiscal years.

The moneys provide funding for the construction of elementary and secondary school capital facilities, new programs for smoking cessation and other health-related purposes, biomedical research and technology, and assistance to the tobacco-growing areas in Ohio. During fiscal year 2004, the State transferred \$234.7 million in tobacco settlement revenues from the Special Revenue Fund to the General Fund to help make up for a shortfall in estimated tax revenues for fiscal year 2004.



**NOTE 20 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 job-related injury, disease, or death.

The "Benefits Payable" account balance reported in the Workers' Compensation Enterprise Fund, as of June 30, 2004, in the amount of approximately \$14.62 billion includes reserves for indemnity and medical claims resulting from work-related injuries or illnesses, including actuarial estimates for both reported claims and claims incurred but not reported. The liability is based on the estimated ultimate cost of settling claims, including the effects of inflation and other societal and economic factors and projections as to future events, including claims frequency, severity, persistency, and inflationary trends for medical claims reserves. The compensation adjustment expenses liability, which is included in "Other Liabilities" in the amount of approximately \$1.65 billion, is an estimate of future expenses to be incurred in the settlement of claims. The estimate for this liability is based on projected claim-related expenses, estimated costs of the managed care 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 recorded reserves for compensation and compensation adjustment expenses make for a reasonable and appropriate provision for expected future losses. While management uses available information to estimate the reserves for compensation and compensation adjustment ex-

penses, future changes to the reserves for compensation and compensation adjustment expenses may be necessary based on claims experience and changing claims frequency and severity conditions. The methods of making such estimates and for establishing the resulting liabilities are reviewed quarterly and updated based on current circumstances. Any adjustments resulting from changes in estimates are recognized in the current period.

Benefits payable and the compensation adjustment expenses liability have been discounted at 5.5 percent to reflect the present value of future benefit payments. The selected discount rate approximates an average yield on United States government securities with durations similar to the expected claims underlying the Fund's reserves. The undiscounted reserves for the benefits and compensation adjustment expenses totaled \$33.1 billion, as of June 30, 2004, and \$32.3 billion, as of June 30, 2003. For additional information, refer to the Fund's separate audited financial report, for the fiscal year ended June 30, 2004.

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 presented in the table below.

**B. State Employee Healthcare Plans**

Employees of the primary government have the option of participating in the Ohio Med Health Plan or the United Healthcare Plan, which are fully self-insured health benefit plans. Ohio Med, a preferred provider organization, was established July 1, 1989, while United Healthcare, a health maintenance organization, became a self-insured healthcare plan of the State on July 1, 2002. Medical Mutual of Ohio administers the Ohio Med plan under a claims administration contract with the primary government.

**Primary Government  
Changes in Workers' Compensation Benefits Payable  
and Compensation Adjustment Expenses Liability  
Last Two Fiscal Years**  
*(dollars in millions)*

	Fiscal Year 2004	Fiscal Year 2003
Benefits Payable and Compensation Adjustment Expenses Liability, as of July 1.....	\$15,981	\$14,888
Incurred Compensation and Compensation Adjustment Benefits.....	2,549	2,916
Incurred Compensation and Compensation Adjustment Benefit Payments .....	(2,263)	(2,267)
Change in Liability Due to Decrease in Discount Rate .....	—	444
Benefits Payable and Compensation Adjustment Expenses Liability, as of June 30 .....	<u>\$16,267</u>	<u>\$15,981</u>



**NOTE 20 RISK FINANCING (Continued)**

The United Healthcare Plan has a similar contract with the primary government to serve as claims administrator. Benefits offered under the United Healthcare Plan under the State's administration are essentially the same as the benefits offered before the plan became a self-insured arrangement for the State.

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 plans' actuaries calculate 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 or United Healthcare 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. For governmental and business-type activities, claims are recognized in the Statement of Activities as expenses when incurred.

As of June 30, 2004, approximately \$82 million in total assets was available in the Agency Fund and on deposit with Medical Mutual to cover claims. Changes in the balance of Ohio Med health claims liabilities during the past two fiscal years are as follows (dollars in thousands):

**Ohio Med Plan**

	Fiscal Year 2004	Fiscal Year 2003
Claims Liabilities, as of July 1 .....	\$ 39,449	\$ 22,744
Incurred Claims .....	275,399	265,890
Claims Payments .....	(273,931)	(249,185)
Claims Liabilities, as of June 30 .....	<u>\$ 40,917</u>	<u>\$ 39,449</u>

As of June 30, 2004, the resources on deposit in the Payroll Withholding and Fringe Benefits Agency Fund and on deposit with Medical Mutual of Ohio for the payment of claims under the Ohio Med Plan exceeded the estimated claims liability by approximately \$41.1 million, thereby resulting in a funding surplus. The surplus was reallocated back to the governmental and proprietary funds, with a resulting reduction in expenditures/expenses.

As of June 30, 2004, approximately \$2.3 million in total assets was available in the Agency Fund and on deposit with United Healthcare to cover claims incurred by June 30. Changes in the balance of United Healthcare claims liabilities during the past fiscal year are as follows (dollars in thousands):

**United Healthcare Plan**

	Fiscal Year 2004	Fiscal Year 2003
Claims Liabilities, as of July 1 .....	\$ 13,637	\$ —
Incurred Claims .....	46,921	76,077
Claims Payments .....	(53,014)	(62,440)
Claims Liabilities, as of June 30 .....	<u>\$ 7,544</u>	<u>\$13,637</u>

As of June 30, 2004, the estimated claims liability of the United Healthcare Plan exceeded the resources on deposit in the Payroll Withholding and Fringe Benefits Agency Fund for the payment of claims by approximately \$5.2 million, thereby, resulting in a funding deficit. The net claims liability, which was payable from expendable financial resources in the governmental funds, as of June 30, 2004, was reported as a fund liability in the governmental and proprietary 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 21 SUBSEQUENT EVENTS**

**A. Bond Issuances and Authorizations**

Subsequent to June 30, 2004 (December 31, 2003 for the Ohio Water Development Authority), the State issued major debt as detailed in the table below.

**Debt Issuances  
Subsequent to June 30, 2004**  
*(dollars in thousands)*

	Date	Interest Coupon Rates	Amount
<b>Primary Government:</b>			
<i>Ohio Public Facilities Commission-General Obligation Bonds:</i>			
Higher Education Facilities, Series 2004B	Sept. 9, 2004	4.2%*	\$ 150,000
Common Schools Capital Facilities, Series 2004B	Sept. 14, 2004	4.2%*	200,000
Common Schools Capital Facilities Refunding, Series 2004C	Sept. 14, 2004	3.5%*	18,880
Natural Resources Refunding-Series J	Sept. 14, 2004	3.3%*	47,425
<i>Treasurer of State-General Obligation Bonds:</i>			
Infrastructure Improvements Refunding, Series 2004C	Aug. 26, 2004	3.4%*	39,530
Infrastructure Improvements, Series 2004D	Nov. 9, 2004	4.6%*	<u>120,000</u>
Total General Obligation Bonds .....			<u>575,835</u>
<i>Treasurer of State-Revenue Bonds:</i>			
Ohio 166 Loan Program (Taxable), Series 2004A	Aug. 25, 2004	5.5%*	50,000
Higher Education Capital Facilities Refunding, Series II-2004A	Aug. 26, 2004	3.4%*	173,975
Mental Health Capital Facilities Refunding, Series II-2004A	Aug. 26, 2004	3.4%*	30,035
Parks and Recreation Capital Facilities Refunding, Series II-2004B	Aug. 26, 2004	3.6%*	<u>11,740</u>
Total Revenue Bonds .....			<u>265,750</u>
<i>Ohio Building Authority Special Obligation Bonds:</i>			
State Facilities Refunding (Arts and Sports Facilities), Series 2004A	Sept. 30, 2004	3.4%*	20,000
State Facilities Refunding (Administrative Building), Series 2004B	Sept. 30, 2004	3.6%*	130,750
State Facilities Refunding (Adult Correctional Building, Series 2004C	Sept. 30, 2004	3.7%*	<u>225,350</u>
Total Special Obligation Bonds .....			<u>376,100</u>
Total Primary Government .....			<u>\$1,217,685</u>
<b>Major Component Units:</b>			
<i>Ohio Water Development Authority Revenue Bonds and Notes:</i>			
Water Pollution Control Loan-Water Quality, Series 2004	Jan. 29, 2004	2.0%-5.00%	\$509,700
Drinking Water Assistance, Series 2004	Feb. 26, 2004	2.0%-5.00%	99,490
Fresh Water, Series 2004	May 27, 2004	2.0%-5.25%	149,000
Road Loan Advance, Series 2004A	Sept. 23, 2004	Variable Rate	16,000
Water Quality Refunding, Series 2004	Nov. 17, 2004	2.5%-5.0%	<u>65,005</u>
Total Ohio Water Development Authority.....			<u>\$839,195</u>

\*True Interest Cost

**B. Tuition Trust Authority**

The Authority's Board passed a resolution, on August 26, 2004, to continue the temporary suspension of contributions to Guaranteed Savings fund plan accounts from January 1, 2005 through December 31, 2005.