Ohio Office of Budget and Management

State of Ohio

Bob Taft

Governor

OHIO

COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2005

BASIC FINANCIAL STATEMENTS

STATE OF OHIO

STATEMENT OF NET ASSETS
JUNE 30, 2005
(dollars in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS:				
Cash Equity with Treasurer	$ 5,902,053	$ 80,271	$ 5,982,324	$ 415,057
Cash and Cash Equivalents	94,269	1,297,468	1,391,737	690,134
Investments	934,536	15,561,651	16,496,187	5,428,701
Collateral on Lent Securities	3,514,417	1,767,597	5,282,014	237,116
Deposit with Federal Government	—	612,728	612,728	—
Taxes Receivable	1,156,822	—	1,156,822	—
Intergovernmental Receivable	1,589,274	3,345	1,592,619	41,454
Premiums and Assessments Receivable	—	1,573,029	1,573,029	—
Investment Trade Receivable	—	770,993	770,993	—
Loans Receivable, Net	933,143	—	933,143	250,344
Receivable from Primary Government	—	—	—	47,204
Other Receivables	649,453	311,997	961,450	876,229
Inventories	42,251	35,071	77,322	52,520
Other Assets	74,021	13,953	87,974	429,651
Restricted Assets:				
Cash Equity with Treasurer	—	62,752	62,752	—
Cash and Cash Equivalents	—	1,675	1,675	549,786
Investments	—	1,695,507	1,695,507	1,621,779
Collateral on Lent Securities	—	439,250	439,250	—
Loans Receivable, Net	—	—	—	2,909,515
Other Receivables	—	2,775	2,775	—
Capital Assets Being Depreciated, Net	2,431,777	143,110	2,574,887	6,489,574
Capital Assets Not Being Depreciated	21,040,080	12,065	21,052,145	1,366,636
TOTAL ASSETS	**38,362,096**	**24,385,237**	**62,747,333**	**21,405,700**
LIABILITIES:				
Accounts Payable	703,215	50,836	754,051	367,833
Accrued Liabilities	294,720	4,577	299,297	473,201
Medicaid Claims Payable	953,273	—	953,273	—
Obligations Under Securities Lending	3,514,417	2,206,847	5,721,264	237,116
Investment Trade Payable	—	1,933,453	1,933,453	—
Intergovernmental Payable	1,262,910	461	1,263,371	540
Internal Balances	792,474	(792,474)	—	—
Payable to Component Units	47,204	—	47,204	—
Unearned Revenue	429,935	1,720	431,655	190,330
Benefits Payable	—	755	755	—
Refund and Other Liabilities	861,106	104,566	965,672	105,740
Noncurrent Liabilities:				
Bonds and Notes Payable:				
Due in One Year	944,405	15,237	959,642	699,178
Due in More Than One Year	9,386,622	135,826	9,522,448	4,689,841
Certificates of Participation:				
Due in One Year	1,005	—	1,005	525
Due in More Than One Year	91,137	—	91,137	27,925
Other Noncurrent Liabilities:				
Due in One Year	112,656	2,459,736	2,572,392	1,005,199
Due in More Than One Year	497,556	16,903,548	17,401,104	2,142,484
TOTAL LIABILITIES	**19,892,635**	**23,025,088**	**42,917,723**	**9,939,912**

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

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET ASSETS:				
Invested in Capital Assets,				
Net of Related Debt..................................	20,454,447	(1,839)	20,452,608	4,998,649
Restricted for:				
Primary, Secondary and Other Education	8,200	—	8,200	—
Transportation and Highway Safety..........	744,913	—	744,913	—
State and Local				
Highway Construction............................	129,299	—	129,299	—
Federal Programs.....................................	38,656	—	38,656	19
Coal Research				
and Development Program....................	—	—	—	13,079
Clean Ohio Program.................................	41,673	—	41,673	—
Debt Service...	—	—	—	2,124,820
Community and Economic Development				
and Capital Purposes............................	935,842	—	935,842	—
Enterprise Bond Program..........................	10,000	—	10,000	—
Workers' Compensation............................	—	734,845	734,845	—
Deferred Lottery Prizes............................	—	102,614	102,614	—
Unemployment Compensation..................	—	663,921	663,921	—
Ohio Building Authority.............................	—	26,996	26,996	—
Nonexpendable for				
Colleges and Universities.....................	—	—	—	2,754,932
Expendable for				
Colleges and Universities.....................	—	—	—	1,647,530
Unrestricted (Deficits)...................................	(3,893,569)	(166,388)	(4,059,957)	(73,241)
TOTAL NET ASSETS...............................	**$ 18,469,461**	**$ 1,360,149**	**$ 19,829,610**	**$ 11,465,788**

STATE OF OHIO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(dollars in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES, FEES, FINES AND FORFEITURES	PROGRAM REVENUES: OPERATING GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)	PROGRAM REVENUES: CAPITAL GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)	NET (EXPENSE) REVENUE
PRIMARY GOVERNMENT:					
GOVERNMENTAL ACTIVITIES:					
Primary, Secondary and Other Education	$ 10,500,951	$ 35,475	$ 1,597,393	$ —	$ (8,868,083)
Higher Education Support	2,477,856	4,174	12,716	—	(2,460,966)
Public Assistance and Medicaid	14,245,026	613,227	9,261,947	—	(4,369,852)
Health and Human Services	3,336,010	144,589	1,967,928	440	(1,223,053)
Justice and Public Protection	2,973,118	850,032	309,988	854	(1,812,244)
Environmental Protection and Natural Resources	397,924	178,226	80,127	604	(138,967)
Transportation	1,900,507	9,779	66,405	1,084,981	(739,342)
General Government	670,317	405,805	115,740	1,267	(147,505)
Community and Economic Development	3,444,746	313,724	362,358	—	(2,768,664)
Interest on Long-Term Debt (excludes interest charged as program expense)	175,700	—	—	—	(175,700)
TOTAL GOVERNMENTAL ACTIVITIES	**40,122,155**	**2,555,031**	**13,774,602**	**1,088,146**	**(22,704,376)**
BUSINESS-TYPE ACTIVITIES:					
Workers' Compensation	3,263,118	2,138,490	988,440	—	(136,188)
Lottery Commission	1,581,100	2,164,857	90,493	—	674,250
Unemployment Compensation	1,194,040	49,942	1,028,500	—	(115,598)
Ohio Building Authority	27,327	26,853	404	—	(70)
Tuition Trust Authority	30,214	7,311	—	—	(22,903)
Liquor Control	401,187	556,213	—	—	155,026
Underground Parking Garage	2,692	2,638	37	—	(17)
Office of Auditor of State	73,501	40,612	79	—	(32,810)
TOTAL BUSINESS-TYPE ACTIVITIES	**6,573,179**	**4,986,916**	**2,107,953**	**—**	**521,690**
TOTAL PRIMARY GOVERNMENT	**$ 46,695,334**	**$ 7,541,947**	**$ 15,882,555**	**$ 1,088,146**	**$ (22,182,686)**
COMPONENT UNITS:					
School Facilities Commission	$ 875,526	$ 1,167	$ 6,150	$ —	$ (868,209)
Ohio Water Development Authority	118,157	129,865	141,288	—	152,996
Ohio State University	3,049,675	2,049,465	600,152	16,638	(383,420)
University of Cincinnati	901,203	352,666	360,632	12,026	(175,879)
Other Component Units	3,980,487	2,407,238	562,991	44,239	(966,019)
TOTAL COMPONENT UNITS	**$ 8,925,048**	**$ 4,940,401**	**$ 1,671,213**	**$ 72,903**	**$ (2,240,531)**

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

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
CHANGES IN NET ASSETS:				
Net (Expense) Revenue	$ (22,704,376)	$ 521,690	$ (22,182,686)	$ (2,240,531)
General Revenues:				
Taxes:				
Income	9,450,119	—	9,450,119	—
Sales	8,135,552	—	8,135,552	—
Corporate and Public Utility	1,838,882	—	1,838,882	—
Cigarette	577,699	—	577,699	—
Other	651,646	—	651,646	—
Restricted for Transportation Purposes:				
Motor Vehicle Fuel Taxes	1,753,390	—	1,753,390	—
Total Taxes	22,407,288	—	22,407,288	—
Tobacco Settlement	321,335	—	321,335	—
Escheat Property	91,867	—	91,867	—
Unrestricted Investment Income	46,797	70,609	117,406	270,108
State Assistance	—	—	—	2,462,824
Other	287	5,837	6,124	41,664
Contributions	—	—	—	91,620
Special Items	—	—	—	(1,357)
Transfers-Internal Activities	807,653	(807,653)	—	—
TOTAL GENERAL REVENUES, CONTRIBUTIONS, AND TRANSFERS	**23,675,227**	**(731,207)**	**22,944,020**	**2,864,859**
CHANGE IN NET ASSETS	**970,851**	**(209,517)**	**761,334**	**624,328**
NET ASSETS, JULY 1 (as restated)	17,498,610	1,569,666	19,068,276	10,841,460
NET ASSETS, JUNE 30	**$ 18,469,461**	**$ 1,360,149**	**$ 19,829,610**	**$ 11,465,788**

STATE OF OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005
(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	EDUCATION
ASSETS:			
Cash Equity with Treasurer	$ 2,033,345	$ 223,436	$ 84,025
Cash and Cash Equivalents	12,139	1,906	555
Investments	346,784	8,898	2,359
Collateral on Lent Securities	1,215,908	132,810	49,919
Taxes Receivable	868,701	—	—
Intergovernmental Receivable	579,220	503,846	106,542
Loans Receivable, Net	39,233	—	8,653
Interfund Receivable	256,651	3	—
Other Receivables	417,180	38,417	302
Inventories	18,617	—	—
Other Assets	10,726	1,357	5,530
TOTAL ASSETS	**$ 5,798,504**	**$ 910,673**	**$ 257,885**
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts Payable	$ 181,783	$ 53,878	$ 9,238
Accrued Liabilities	106,619	13,560	1,492
Medicaid Claims Payable	953,273	—	—
Obligations Under Securities Lending	1,215,908	132,810	49,919
Intergovernmental Payable	333,207	264,685	70,371
Interfund Payable	571,330	16,435	2,121
Payable to Component Units	15,160	431	268
Deferred Revenue	292,131	298,536	8,448
Unearned Revenue	153	234,472	49,191
Refund and Other Liabilities	773,305	10,374	—
Liability for Escheat Property	9,863	—	—
TOTAL LIABILITIES	4,452,732	1,025,181	191,048
FUND BALANCES:			
Reserved for:			
Debt Service	—	—	—
Encumbrances	277,521	2,011,363	21,396
Noncurrent Portion of Loans Receivable	36,200	—	8,369
Noncurrent Portion of Interfund Receivable	251,653	—	—
Loan Commitments	—	—	—
Inventories	18,617	—	—
State and Local Highway Construction	—	—	—
Federal Programs	—	303	8,040
Other	43,404	4,982	450
Unreserved/Designated	718,377	—	—
Unreserved/Undesignated (Deficits):			
Special Revenue Funds	—	(2,131,156)	28,582
Capital Projects Funds	—	—	—
TOTAL FUND BALANCES (DEFICITS)	1,345,772	(114,508)	66,837
TOTAL LIABILITIES AND FUND BALANCES	**$ 5,798,504**	**$ 910,673**	**$ 257,885**

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

HIGHWAY OPERATING	REVENUE DISTRIBUTION	NONMAJOR GOVERNMENTAL FUNDS	TOTAL
$ 617,663	$ 354,800	$ 2,588,784	$ 5,902,053
1,236	13,179	65,254	94,269
—	—	576,495	934,536
366,484	210,524	1,538,772	3,514,417
59,765	223,396	4,960	1,156,822
112,084	—	287,582	1,589,274
71,369	—	813,888	933,143
1	—	3,364	260,019
1,600	—	191,954	649,453
23,634	—	—	42,251
2,294	—	6,341	26,248
$ 1,256,130	**$ 801,899**	**$ 6,077,394**	**$ 15,102,485**
$ 166,723	$ —	$ 291,593	$ 703,215
20,550	—	39,370	181,591
—	—	—	953,273
366,484	210,524	1,538,772	3,514,417
795	376,430	217,422	1,262,910
95,309	396	366,902	1,052,493
406	—	30,939	47,204
10,574	21,658	227,671	859,018
3,129	7,939	135,051	429,935
—	70,389	3,898	857,966
—	—	—	9,863
663,970	687,336	2,851,618	9,871,885
—	—	61,298	61,298
1,542,872	—	1,359,136	5,212,288
70,462	—	797,448	912,479
—	—	—	251,653
—	—	105,069	105,069
23,634	—	—	42,251
—	129,299	—	129,299
—	—	15,245	23,588
7,419	—	27,739	83,994
—	—	—	718,377
(1,052,227)	(14,736)	826,702	(2,342,835)
—	—	33,139	33,139
592,160	114,563	3,225,776	5,230,600
$ 1,256,130	**$ 801,899**	**$ 6,077,394**	**$ 15,102,485**

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STATE OF OHIO
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005
(dollars in thousands)

Total Fund Balances for Governmental Funds	***$ 5,230,600***
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:	
Infrastructure, net of $2,003 accumulated depreciation	*17,536,820*
Land	*1,635,516*
Buildings and Improvements, net of $1,299,226 accumulated depreciation	*1,988,843*
Land Improvements, net of $137,080 accumulated depreciation	*170,386*
Machinery and Equipment, net of $352,199 accumulated depreciation	*171,234*
Vehicles, net of $113,613 accumulated depreciation	*130,050*
Construction-in-Progress	*1,839,008*
	23,471,857
Some of the State's revenues are collected after year-end but are not available soon enough to pay for the current period's (within 60 days of year-end) expenditures, and therefore, are deferred in the funds.	
Taxes Receivable	*206,270*
Intergovernmental Receivable	*462,162*
Other Receivables	*182,704*
Other Assets	*7,882*
	859,018
Unamortized bond issue costs are not financial resources, and therefore, are not reported in the funds.	*47,773*
The following liabilities are not due and payable in the current period, and therefore, are not reported in the funds.	
Accrued Liabilities:	
Interest Payable	*(113,129)*
Refund and Other Liabilities	*(3,140)*
Bonds and Notes Payable:	
General Obligation Bonds	*(6,039,203)*
Revenue Bonds	*(591,888)*
Special Obligation Bonds	*(3,699,936)*
Certificates of Participation	*(92,142)*
Other Noncurrent Liabilities:	
Compensated Absences	*(397,617)*
Capital Leases Payable	*(2,471)*
Estimated Claims Payable	*(6,623)*
Liability for Escheat Property	*(193,638)*
	(11,139,787)
Total Net Assets of Governmental Activities	***$ 18,469,461***

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, 2005
(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	EDUCATION
REVENUES:			
Income Taxes	$ 8,563,376	$ —	$ —
Sales Taxes	7,816,395	—	—
Corporate and Public Utility Taxes	1,468,576	—	—
Motor Vehicle Fuel Taxes	—	—	—
Cigarette Taxes	577,671	—	—
Other Taxes	591,998	4,029	—
Licenses, Permits and Fees	148,877	415,273	901
Sales, Services and Charges	41,911	—	274
Federal Government	5,724,597	4,091,566	1,547,006
Tobacco Settlement	—	—	—
Escheat Property	118,719	—	—
Investment Income	140,891	10,739	2,385
Other	259,617	116,070	20,903
TOTAL REVENUES	25,452,628	4,637,677	1,571,469
EXPENDITURES:			
CURRENT OPERATING:			
Primary, Secondary and Other Education	7,946,313	43,396	2,138,117
Higher Education Support	2,101,582	451	19,107
Public Assistance and Medicaid	10,164,502	4,073,566	—
Health and Human Services	1,154,597	507,000	938
Justice and Public Protection	1,878,139	27,634	19,604
Environmental Protection and Natural Resources	110,631	—	—
Transportation	30,702	—	—
General Government	417,719	2,711	—
Community and Economic Development	637,389	593	—
CAPITAL OUTLAY	—	569	—
DEBT SERVICE	543	—	—
TOTAL EXPENDITURES	24,442,117	4,655,920	2,177,766
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,010,511	(18,243)	(606,297)
OTHER FINANCING SOURCES (USES):			
Bonds and Certificates of Participation Issued	419,349	—	—
Refunding Bonds Issued	—	—	—
Payment to Refunded Bond Escrow Agents	—	—	—
Premiums	26	—	—
Discounts	—	—	—
Capital Leases	122	—	—
Transfers-in	366,376	135,479	656,714
Transfers-out	(1,216,051)	(103,450)	(31,886)
TOTAL OTHER FINANCING SOURCES (USES)	(430,178)	32,029	624,828
NET CHANGE IN FUND BALANCES	580,333	13,786	18,531
FUND BALANCES (DEFICITS), JULY 1 (as restated)	766,571	(128,294)	48,306
Increase (Decrease) for Changes in Inventories	(1,132)	—	—
FUND BALANCES (DEFICITS), JUNE 30	$ 1,345,772	$ (114,508)	$ 66,837

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

HIGHWAY OPERATING	REVENUE DISTRIBUTION	NONMAJOR GOVERNMENTAL FUNDS	TOTAL
$ —	$ 829,300	$ 6,303	$ 9,398,979
—	301,264	17,893	8,135,552
—	357,765	12,542	1,838,883
594,817	1,135,887	22,685	1,753,389
—	—	27	577,698
—	13,623	41,997	651,647
70,303	332,900	883,485	1,851,739
2,634	—	39,027	83,846
1,122,072	—	2,155,476	14,640,717
—	—	321,050	321,050
—	—	—	118,719
12,358	975	60,838	228,186
2,948	89	241,047	640,674
1,805,132	**2,971,803**	**3,802,370**	**40,241,079**
—	116,063	134,003	10,377,892
—	—	250,714	2,371,854
—	—	299	14,238,367
—	3,666	1,612,401	3,278,602
—	294,100	684,036	2,903,513
—	—	268,714	379,345
2,047,852	—	364	2,078,918
—	—	164,902	585,332
—	1,830,890	893,707	3,362,579
—	—	466,344	466,913
—	—	1,415,687	1,416,230
2,047,852	**2,244,719**	**5,891,171**	**41,459,545**
(242,720)	**727,084**	**(2,088,801)**	**(1,218,466)**
—	—	927,936	1,347,285
—	—	706,835	706,835
—	—	(768,952)	(768,952)
—	—	142,900	142,926
—	—	(94)	(94)
213	—	—	335
519,319	100,318	1,545,044	3,323,250
(285,104)	(831,643)	(47,463)	(2,515,597)
234,428	**(731,325)**	**2,506,206**	**2,235,988**
(8,292)	**(4,241)**	**417,405**	**1,017,522**
600,221	118,804	2,808,572	4,214,180
231	—	(201)	(1,102)
$ 592,160	**$ 114,563**	**$ 3,225,776**	**$ 5,230,600**

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, 2005

(dollars in thousands)

Net Change in Fund Balances -- Total Governmental Funds...........................		***$ 1,017,522***
Change in Inventories..		*(1,102)*
		1,016,420
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...	*664,374*	
Depreciation Expense...	*(212,662)*	
Excess of Capital Outlay Over Depreciation Expense..................................		*451,712*
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..	*(985,000)*	
Revenue Bonds..	*(50,000)*	
Special Obligation Bonds...	*(233,100)*	
Refunding Bonds, including Bond Premium/Discount, Net...............................	*(775,318)*	
Certificates of Participation...	*(79,185)*	
Premiums and Discounts, Net:		
General Obligation Bonds...	*(51,651)*	
Revenue Bonds..	*(784)*	
Special Obligation Bonds..	*(14,493)*	
Certificates of Participation...	*(7,422)*	
Deferred Refunding Loss..	*55,024*	
Capital Leases..	*(334)*	
Total Debt Proceeds..		*(2,142,263)*
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:		
Debt Principal Retirement and Defeasements:		
General Obligation Bonds...	*523,016*	
Revenue Bonds..	*62,175*	
Special Obligation Bonds..	*1,069,239*	
Certificates of Participation...	*945*	
Capital Lease Payments..	*1,323*	
Total Long-Term Debt Repayment..		*1,656,698*
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.		*11,740*

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:

Increase in Bond Issue Costs Included in Other Assets....................................	*12,282*	
Increase in Accrued Interest and Other Accrued Liabilities...............................	*(8,538)*	
Amortization of Bond Premiums/Accretion of Bond Discount, Net.....................	*35,988*	
Amortization of Deferred Refunding Loss..	*(23,286)*	
Increase in Compensated Absences..	*(15,409)*	
Decrease in Refund and Other Liabilities...	*2,430*	
Increase in Estimated Claims Payable...	*(71)*	
Increase in Liability for Escheat Property...	*(26,852)*	
Total additional expenditures...		*(23,456)*
Change in Net Assets of Governmental Activities..		***$ 970,851***

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, 2005

(dollars in thousands)

	GENERAL			
	BUDGET			VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES:				
Income Taxes	$ 8,103,200	$ 8,103,200	$ 8,598,865	$ 495,665
Sales Taxes	7,865,700	7,865,700	7,827,130	(38,570)
Corporate and Public Utility Taxes	1,347,700	1,347,700	1,495,539	147,839
Motor Vehicle Fuel Taxes	—	—	—	—
Cigarette Taxes	551,000	551,000	577,671	26,671
Other Taxes	597,053	597,053	590,849	(6,204)
Licenses, Permits and Fees	157,335	157,335	165,541	8,206
Sales, Services and Charges	47,984	47,984	48,512	528
Federal Government	5,843,287	5,843,287	5,716,295	(126,992)
Investment Income	25,942	25,942	36,928	10,986
Other	1,443,752	1,443,752	1,454,702	10,950
TOTAL REVENUES	**25,982,953**	**25,982,953**	**26,512,032**	**529,079**
BUDGETARY EXPENDITURES:				
CURRENT OPERATING:				
Primary, Secondary and Other Education	7,518,627	7,669,530	7,648,388	21,142
Higher Education Support	2,148,977	2,154,333	2,151,290	3,043
Public Assistance and Medicaid	10,966,263	11,201,710	11,111,586	90,124
Health and Human Services	1,359,215	1,343,822	1,321,884	21,938
Justice and Public Protection	2,088,364	2,081,112	2,044,268	36,844
Environmental Protection and Natural Resources	155,327	152,842	146,048	6,794
Transportation	51,898	50,434	50,282	152
General Government	690,007	737,165	642,603	94,562
Community and Economic Development	709,881	743,912	729,599	14,313
CAPITAL OUTLAY	—	—	—	—
DEBT SERVICE	1,131,635	1,131,587	1,033,059	98,528
TOTAL BUDGETARY EXPENDITURES	**26,820,194**	**27,266,447**	**26,879,007**	**387,440**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES	**(837,241)**	**(1,283,494)**	**(366,975)**	**916,519**
OTHER FINANCING SOURCES (USES):				
Transfers-in	592,321	742,321	751,315	8,994
Transfers-out	(564,301)	(564,301)	(583,936)	(19,635)
TOTAL OTHER FINANCING SOURCES (USES)	**28,020**	**178,020**	**167,379**	**(10,641)**
NET CHANGE IN FUND BALANCES	**$ (809,221)**	**$ (1,105,474)**	**(199,596)**	**$ 905,878**
BUDGETARY FUND BALANCES (DEFICITS), JULY 1			934,290	
Outstanding Encumbrances at Beginning of Fiscal Year			496,211	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30			**$ 1,230,905**	

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

JOB, FAMILY AND OTHER HUMAN SERVICES				EDUCATION			
BUDGET			VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)	BUDGET			VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
ORIGINAL	FINAL	ACTUAL		ORIGINAL	FINAL	ACTUAL	
		$ —				$ —	
		—				—	
		—				—	
		—				—	
		—				—	
		4,029				—	
		450,549				901	
		—				274	
		3,189,332				1,565,394	
		10,495				2,249	
		177,228				32,005	
		3,831,633				**1,600,823**	
$ 118,092	$ 118,262	116,558	$ 1,704	$ 2,190,615	$ 2,364,766	2,210,971	$ 153,795
1,791	5,137	4,388	749	25,852	32,177	15,204	16,973
5,520,340	5,857,393	5,490,262	367,131	—	—	—	—
599,696	606,965	578,965	28,000	383	1,743	972	771
60,870	60,870	31,466	29,404	28,346	31,673	22,684	8,989
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
2,245	2,350	2,181	169	—	—	—	—
1,339	1,339	1,120	219	—	—	—	—
17,199	21,268	1,077	20,191	—	—	—	—
—	—	—	—	—	—	—	—
$ 6,321,572	**$ 6,673,584**	**6,226,017**	**$ 447,567**	**$ 2,245,196**	**$ 2,430,359**	**2,249,831**	**$ 180,528**
		(2,394,384)				**(649,008)**	
		136,293				662,086	
		(129,012)				(16,801)	
		7,281				**645,285**	
		(2,387,103)				**(3,723)**	
		(1,442,146)				(4,004)	
		1,655,834				60,849	
		$ (2,173,415)				**$ 53,122**	

(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, 2005

(dollars in thousands)

(continued)

	HIGHWAY OPERATING			
	BUDGET			VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES:				
Income Taxes			$ —	
Sales Taxes			—	
Corporate and Public Utility Taxes			—	
Motor Vehicle Fuel Taxes			589,076	
Cigarette Taxes			—	
Other Taxes			—	
Licenses, Permits and Fees			69,198	
Sales, Services and Charges			2,634	
Federal Government			1,073,936	
Investment Income			11,125	
Other			75,924	
TOTAL REVENUES			**1,821,893**	
BUDGETARY EXPENDITURES:				
CURRENT OPERATING:				
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	3,604,512	4,708,622	3,811,919	896,703
General Government	—	—	—	—
Community and Economic Development	—	—	—	—
CAPITAL OUTLAY	—	—	—	—
DEBT SERVICE	92,092	80,674	79,986	688
TOTAL BUDGETARY EXPENDITURES	**$ 3,696,604**	**$ 4,789,296**	**3,891,905**	**$ 897,391**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES			**(2,070,012)**	
OTHER FINANCING SOURCES (USES):				
Transfers-in			518,557	
Transfers-out			(203,680)	
TOTAL OTHER FINANCING SOURCES (USES)			**314,877**	
NET CHANGE IN FUND BALANCES			**(1,755,135)**	
BUDGETARY FUND BALANCES (DEFICITS), JULY 1			(821,578)	
Outstanding Encumbrances at Beginning of Fiscal Year			1,480,923	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30			**$ (1,095,790)**	

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

REVENUE DISTRIBUTION			
BUDGET			VARIANCE WITH FINAL BUDGET
ORIGINAL	FINAL	ACTUAL	POSITIVE/ (NEGATIVE)
		$ 829,300	
		301,264	
		357,417	
		1,130,850	
		—	
		13,623	
		489,917	
		—	
		—	
		975	
		87	
		3,123,433	
$ 115,912	$ 116,648	116,521	$ 127
—	—	—	—
—	—	—	—
1,850	1,850	1,545	305
546,875	546,875	477,102	69,773
—	—	—	—
—	—	—	—
—	—	—	—
1,718,051	1,884,314	1,817,659	66,655
—	—	—	—
—	—	—	—
$ 2,382,688	**$ 2,549,687**	**2,412,827**	**$ 136,860**
		710,606	
		100,318	
		(807,833)	
		(707,515)	
		3,091	
		347,747	
		—	
		$ 350,838	

STATE OF OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS -- ENTERPRISE
JUNE 30, 2005
(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION (Unaudited)	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer	$ 6,804	$ 48,807	$ —
Cash and Cash Equivalents	1,275,837	11,921	1,912
Investments	—	—	15,500
Collateral on Lent Securities	1,727,955	28,960	404
Restricted Assets:			
Cash Equity with Treasurer	—	62,752	—
Investments	—	82,875	—
Collateral on Lent Securities	—	439,250	—
Other Receivables	—	2,775	—
Deposit with Federal Government	—	—	612,728
Intergovernmental Receivable	—	—	3,315
Premiums and Assessments Receivable	1,049,059	—	12,575
Investment Trade Receivable	770,993	—	—
Interfund Receivable	67,170	—	—
Other Receivables	244,015	34,958	9,791
Inventories	—	—	—
Other Assets	2,142	3,619	7,202
TOTAL CURRENT ASSETS	**5,143,975**	**715,917**	**663,427**
NONCURRENT ASSETS:			
Restricted Assets:			
Cash and Cash Equivalents	1,675	—	—
Investments	—	797,630	—
Investments	15,471,879	—	—
Premiums and Assessments Receivable	501,139	—	10,256
Interfund Receivable	722,380	—	—
Other Receivables	—	—	—
Other Assets	—	—	—
Capital Assets Being Depreciated, Net	116,075	16,335	—
Capital Assets Not Being Depreciated	11,994	—	—
TOTAL NONCURRENT ASSETS	**16,825,142**	**813,965**	**10,256**
TOTAL ASSETS	**21,969,117**	**1,529,882**	**673,683**
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable	10,688	8,388	—
Accrued Liabilities	—	—	—
Obligations Under Securities Lending	1,727,955	468,210	404
Investment Trade Payable	1,933,453	—	—
Intergovermental Payable	—	—	47
Deferred Prize Awards Payable	—	148,402	—
Interfund Payable	—	495	—
Unearned Revenue	17,181	1,710	—
Benefits Payable	1,746,891	—	755
Refund and Other Liabilities	520,727	50,159	8,556
Bonds and Notes Payable	13,190	—	—
TOTAL CURRENT LIABILITIES	**5,970,085**	**677,364**	**9,762**
NONCURRENT LIABILITIES:			
Deferred Prize Awards Payable	—	695,016	—
Interfund Payable	—	2,979	—
Unearned Revenue	372,151	—	—
Benefits Payable	13,369,123	—	—
Refund and Other Liabilities	1,407,044	2,471	—
Bonds and Notes Payable	129,012	—	—
TOTAL NONCURRENT LIABILITIES	**15,277,330**	**700,466**	**—**
TOTAL LIABILITIES	**21,247,415**	**1,377,830**	**9,762**
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	(13,143)	739	—
Restricted for Deferred Lottery Prizes	—	102,614	—
Unrestricted (Deficits)	734,845	48,699	663,921
TOTAL NET ASSETS (DEFICITS)	**$ 721,702**	**$ 152,052**	**$ 663,921**

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 24,660	$ 80,271
7,798	1,297,468
—	15,500
10,278	1,767,597
—	62,752
93,418	176,293
—	439,250
—	2,775
—	612,728
30	3,345
—	1,061,634
—	770,993
2,996	70,166
14,238	303,002
35,071	35,071
968	13,931
189,457	**6,712,776**
—	1,675
721,584	1,519,214
74,272	15,546,151
—	511,395
8,989	731,369
8,995	8,995
22	22
10,700	143,110
71	12,065
824,633	**18,473,996**
1,014,090	**25,186,772**
31,760	50,836
4,577	4,577
10,278	2,206,847
—	1,933,453
414	461
—	148,402
2,950	3,445
10	18,901
67,300	1,814,946
5,087	584,529
2,047	15,237
124,423	**6,781,634**
—	695,016
2,637	5,616
—	372,151
1,039,500	14,408,623
18,242	1,427,757
6,814	135,826
1,067,193	**17,044,989**
1,191,616	**23,826,623**
10,565	(1,839)
—	102,614
(188,091)	1,259,374
$ (177,526)	**$ 1,360,149**

STATE OF OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION (Unaudited)	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
OPERATING REVENUES:			
Charges for Sales and Services	$ —	$ 2,159,129	$ 13,552
Premium and Assessment Income	2,126,503	—	994,558
Federal Government	—	—	21,349
Investment Income	—	—	33,613
Other	11,987	5,728	15,370
TOTAL OPERATING REVENUES	**2,138,490**	**2,164,857**	**1,078,442**
OPERATING EXPENSES:			
Costs of Sales and Services	—	—	—
Administration	67,759	82,502	—
Premium Dividend Reductions and Refunds	232,836	—	—
Bonuses and Commissions	—	133,841	—
Prizes	—	1,280,787	—
Benefits and Claims	2,947,286	—	1,185,295
Depreciation	3,472	14,646	—
Other	11,765	26	8,745
TOTAL OPERATING EXPENSES	**3,263,118**	**1,511,802**	**1,194,040**
OPERATING INCOME (LOSS)	**(1,124,628)**	**653,055**	**(115,598)**
NONOPERATING REVENUES (EXPENSES):			
Investment Income (Loss)	988,440	90,493	493
Interest Expense	—	(13,834)	—
Federal Grants	—	—	—
Other	4,688	(55,464)	1,140
TOTAL NONOPERATING REVENUES (EXPENSES)	**993,128**	**21,195**	**1,633**
INCOME (LOSS) BEFORE TRANSFERS	**(131,500)**	**674,250**	**(113,965)**
TRANSFERS:			
Transfers-in	—	—	4,639
Transfers-out	(7,568)	(645,673)	(35,790)
TOTAL TRANSFERS	**(7,568)**	**(645,673)**	**(31,151)**
NET INCOME (LOSS)	**(139,068)**	**28,577**	**(145,116)**
NET ASSETS (DEFICITS), JULY 1	860,770	123,475	809,037
NET ASSETS (DEFICITS), JUNE 30	**$ 721,702**	**$ 152,052**	**$ 663,921**

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 630,019	$ 2,802,700
—	3,121,061
—	21,349
70,116	103,729
3,608	36,693
703,743	**6,085,532**
431,076	431,076
76,591	226,852
—	232,836
—	133,841
—	1,280,787
21,634	4,154,215
2,554	20,672
2,287	22,823
534,142	**6,503,102**
169,601	**(417,570)**
441	1,079,867
(779)	(14,613)
79	79
9	(49,627)
(250)	**1,015,706**
169,351	**598,136**
55,247	59,886
(178,508)	(867,539)
(123,261)	**(807,653)**
46,090	**(209,517)**
(223,616)	1,569,666
$ (177,526)	**$ 1,360,149**

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION (Unaudited)	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	$ —	$ 2,161,101	$ 36,057
Cash Received from Premiums and Assessments	1,827,086	—	992,331
Cash Received from Multi-State Lottery for Grand Prize Winner	—	87,897	—
Cash Received from Interfund Services Provided	52,848	506	—
Cash Received from the Federal Government for Extended Benefits	—	—	329
Other Operating Cash Receipts	20,219	5,221	7,640
Cash Payments to Suppliers for Goods and Services	(61,984)	(56,413)	—
Cash Payments to Employees for Services	(236,290)	(22,571)	—
Cash Payments for Benefits and Claims	(2,149,666)	—	(1,186,815)
Cash Payments for Lottery Prizes	—	(1,436,009)	—
Cash Payments for Bonuses and Commissions	—	(133,934)	—
Cash Payments for Premium Reductions and Refunds	(84,847)	—	—
Cash Payments for Interfund Services Used	(13,944)	(2,634)	—
Other Operating Cash Payments	—	(26)	(10,566)
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	**(646,578)**	**603,138**	**(161,024)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers-in	—	—	4,639
Transfers-out	(7,568)	(645,673)	(35,790)
Federal Grants	—	—	—
NET CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	**(7,568)**	**(645,673)**	**(31,151)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal Payments on Bonds and Capital Leases	(5,300)	(14,690)	—
Interest Paid	(6,578)	(1,418)	—
Acquisition and Construction of Capital Assets	(3,955)	(497)	—
Principal Receipts on Capital Leases Receivable	—	—	—
Proceeds from Sales of Capital Assets	19,144	59	1,140
NET CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	**3,311**	**(16,546)**	**1,140**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Investments	(34,843,384)	(2,874,007)	(9,181,729)
Proceeds from the Sales and Maturities of Investments	34,657,155	2,995,973	9,299,644
Investment Income Received	590,785	25,128	—
Borrower Rebates and Agent Fees	(89,080)	(12,530)	—
NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES	**315,476**	**134,564**	**117,915**
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	**(335,359)**	**75,483**	**(73,120)**
CASH AND CASH EQUIVALENTS, JULY 1	1,619,675	47,997	75,032
CASH AND CASH EQUIVALENTS, JUNE 30	**$ 1,284,316**	**$ 123,480**	**$ 1,912**

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 615,788	$ 2,812,946
—	2,819,417
—	87,897
9,528	62,882
—	329
20,506	53,586
(412,061)	(530,458)
(88,428)	(347,289)
—	(3,336,481)
—	(1,436,009)
—	(133,934)
—	(84,847)
(2,057)	(18,635)
(67,669)	(78,261)
75,607	**(128,857)**
52,394	57,033
(178,508)	(867,539)
49	49
(126,065)	**(810,457)**
(1,736)	(21,726)
(421)	(8,417)
(1,017)	(5,469)
1,691	1,691
66	20,409
(1,417)	**(13,512)**
(329,324)	(47,228,444)
362,570	47,315,342
25,101	641,014
—	(101,610)
58,347	**626,302**
6,472	**(326,524)**
25,986	1,768,690
$ 32,458	**$ 1,442,166**

(continued)

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(dollars in thousands)
(continued)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION (Unaudited)	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	$ (1,124,628)	$ 653,055	$ (115,598)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Investment Income	—	—	(33,613)
Depreciation	3,472	14,646	—
Provision for Uncollectible Accounts	68,070	—	—
Amortization of Premiums and Discounts	(888)	—	—
Interest on Bonds, Notes and Capital Leases	6,578	—	—
Decrease (Increase) in Assets:			
Intergovernmental Receivable	—	—	1,485
Premiums and Assessments Receivable	(151,066)	—	(11,304)
Interfund Receivable	13,302	—	—
Other Receivables	(75,595)	3,075	656
Inventories	—	—	—
Other Assets	517	363	(475)
Increase (Decrease) in Liabilities:			
Accounts Payable	2,874	1,666	—
Accrued Liabilities	—	—	—
Intergovernmental Payable	—	—	(390)
Deferred Prize Awards Payable	—	(68,836)	—
Interfund Payable	—	(976)	—
Unearned Revenue	(4,987)	(1,103)	—
Benefits Payable	496,141	—	(1,535)
Refund and Other Liabilities	119,632	1,248	(250)
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	**$ (646,578)**	**$ 603,138**	**$ (161,024)**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Change in Fair Value of Investments	$ 501,672	$ 22,798	$ —
Contributions of Capital Assets from Other Funds	—	—	—
Capital Assets Acquired under Capital Leases	—	—	—

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

	NONMAJOR PROPRIETARY FUNDS	TOTAL
	$ 169,601	$ (417,570)
	(70,116)	(103,729)
	2,554	20,672
	26	68,096
	1,084	196
	—	6,578
	—	1,485
	—	(162,370)
	2	13,304
	2,825	(69,039)
	(1,767)	(1,767)
	266	671
	6,178	10,718
	278	278
	14	(376)
	—	(68,836)
	301	(675)
	—	(6,090)
	(34,900)	459,706
	(739)	119,891
	$ 75,607	**$ (128,857)**
	$ 7,861	$ 532,331
	1,039	1,039
	168	168

STATE OF OHIO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005
(dollars in thousands)

	PENSION TRUST	PRIVATE-PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (as of 12/31/04)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ASSETS:			
Cash Equity with Treasurer	$ —	$ —	$ —
Cash and Cash Equivalents	10,837	295,867	—
Investments (at fair value):			
U.S. Government and Agency Obligations	57,553	—	2,506,495
Common and Preferred Stock	373,351	—	—
Corporate Bonds and Notes	28,945	—	—
Foreign Stocks and Bonds	101,343	—	—
Commercial Paper	—	—	572,090
Repurchase Agreements	—	—	11,892
Mutual Funds	35,219	3,435,568	—
Real Estate	53,090	—	—
Venture Capital	—	—	—
Direct Mortgage Loans	21,673	—	—
Investment Contracts	—	—	—
State Treasury Asset Reserve of Ohio (STAR Ohio)	—	—	—
Collateral on Lent Securities	207,010	—	80,448
Employer Contributions Receivable	776	—	—
Employee Contributions Receivable	936	—	—
Investment Trade Receivable	—	3,581	—
Other Receivables	2,865	—	330
Other Assets	6	—	—
Capital Assets, Net	31	—	—
TOTAL ASSETS	**893,635**	**3,735,016**	**3,171,255**
LIABILITIES:			
Accounts Payable	1,168	—	—
Accrued Liabilities	841	5,509	—
Obligations Under Securities Lending	207,010	—	80,448
Investment Trade Payable	—	4,975	—
Intergovernmental Payable	—	—	—
Refund and Other Liabilities	47	—	2,990
TOTAL LIABILITIES	**209,066**	**10,484**	**83,438**
NET ASSETS:			
Held in Trust for:			
Employees' Pension Benefits	587,932	—	—
Employees' Postemployment Healthcare Benefits	96,637	—	—
Individuals, Organizations and Other Governments	—	3,724,532	—
Pool Participants	—	—	3,087,817
TOTAL NET ASSETS	**$ 684,569**	**$ 3,724,532**	**$ 3,087,817**

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

AGENCY
$ 221,427
105,088
9,042,537
62,296,101
10,546,280
30,920,809
3,082,560
98,790
5,805,202
10,042,297
2,270,024
9,884,955
6,018
28,720
142,489
—
—
—
9,187
434,194
—
144,936,678
—
—
142,489
—
86,670
144,707,519
144,936,678
—
—
—
—
$ —

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STATE OF OHIO
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(dollars in thousands)

	PENSION TRUST	PRIVATE-PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (for the fiscal year ended 12/31/04)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ADDITIONS:			
Contributions from:			
Employer	$ 20,073	$ —	$ —
Employees	8,193	—	—
Plan Participants	—	857,839	—
Other	856	—	—
Total Contributions	29,122	857,839	—
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	61,335	203,393	—
Interest, Dividends and Other	19,323	62,516	75,875
Total Investment Income	80,658	265,909	75,875
Less: Investment Expense	5,699	26,561	3,756
Net Investment Income	74,959	239,348	72,119
Capital Share and Individual Account Transactions:			
Shares Sold	—	—	13,837,751
Reinvested Distributions	—	—	72,119
Shares Redeemed	—	—	(14,812,225)
Net Capital Share and Individual Account Transactions	—	—	(902,355)
TOTAL ADDITIONS	**104,081**	**1,097,187**	**(830,236)**
DEDUCTIONS:			
Pension Benefits Paid to Participants or Beneficiaries	35,187	—	—
Healthcare Benefits Paid to Participants or Beneficiaries	6,949	—	—
Refunds of Employee Contributions	156	—	—
Administrative Expense	605	—	—
Transfers to Other Retirement Systems	602	—	—
Distributions to Shareholders and Plan Participants	—	429,493	72,119
TOTAL DEDUCTIONS	**43,499**	**429,493**	**72,119**
CHANGE IN NET ASSETS HELD FOR:			
Employees' Pension Benefits	52,697	—	—
Employees' Postemployment Healthcare Benefits	7,885	—	—
Individuals, Organizations and Other Governments	—	667,694	—
Pool Participants	—	—	(902,355)
TOTAL CHANGE IN NET ASSETS	60,582	667,694	(902,355)
NET ASSETS, JULY 1	623,987	3,056,838	3,990,172
NET ASSETS, JUNE 30	**$ 684,569**	**$ 3,724,532**	**$ 3,087,817**

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, 2005
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (as of 12/31/04)	OHIO STATE UNIVERSITY
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer	$ 384,443	$ —	$ —
Cash and Cash Equivalents	—	22,860	74,872
Investments	—	78,215	508,933
Collateral on Lent Securities	228,112	—	—
Intergovernmental Receivable	621	683	2,540
Loans Receivable, Net	54	1,452	9,108
Receivable from Primary Government	—	—	19,272
Other Receivables	—	13	387,451
Inventories	—	—	20,898
Other Assets	16	—	31,501
TOTAL CURRENT ASSETS	**613,246**	**103,223**	**1,054,575**
NONCURRENT ASSETS:			
Restricted Assets:			
Cash and Cash Equivalents	—	442,439	50,203
Investments	—	1,036,644	—
Loans Receivable, Net	—	2,909,515	—
Investments	—	14,434	1,721,226
Loans Receivable, Net	262	17,402	62,946
Other Receivables	—	4,449	22,482
Other Assets	—	31,710	—
Capital Assets Being Depreciated, Net	49	1,683	2,054,007
Capital Assets Not Being Depreciated	—	539	414,769
TOTAL NONCURRENT ASSETS	**311**	**4,458,815**	**4,325,633**
TOTAL ASSETS	**613,557**	**4,562,038**	**5,380,208**
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable	8,853	37,756	137,049
Accrued Liabilities	210	8,867	231,078
Obligations Under Securities Lending	228,112	—	—
Intergovernmental Payable	784,640	533	—
Unearned Revenue	—	—	96,670
Refund and Other Liabilities	245	20	74,380
Bonds and Notes Payable	—	111,554	473,739
Certificates of Participation	—	—	355
TOTAL CURRENT LIABILITIES	**1,022,060**	**158,730**	**1,013,271**
NONCURRENT LIABILITIES:			
Intergovernmental Payable	1,556,787	—	—
Unearned Revenue	—	—	4,000
Refund and Other Liabilities	462	141	195,868
Bonds and Notes Payable	—	2,132,395	382,163
Certificates of Participation	—	—	5,825
TOTAL NONCURRENT LIABILITIES	**1,557,249**	**2,132,536**	**587,856**
TOTAL LIABILITIES	**2,579,309**	**2,291,266**	**1,601,127**
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	49	2,222	1,590,235
Restricted for:			
Federal Programs	—	—	—
Coal Research and Development Program	—	—	—
Debt Service	—	2,124,820	—
Nonexpendable:			
Scholarships and Fellowships	—	—	—
Research	—	—	—
Endowments and Quasi-Endowments	—	—	1,050,685
Loans, Grants and Other College and University Purposes	—	—	—
Expendable:			
Scholarships and Fellowships	—	—	—
Research	—	—	—
Instructional Department Uses	—	—	—
Student and Public Services	—	—	41,033
Academic Support	—	—	—
Debt Service	—	—	—
Capital Purposes	—	—	16,708
Endowments and Quasi-Endowments	—	—	139,399
Current Operations	—	—	265,434
Loans, Grants and Other College and University Purposes	—	—	—
Unrestricted (Deficits)	(1,965,801)	143,730	675,587
TOTAL NET ASSETS (DEFICITS)	**$ (1,965,752)**	**$ 2,270,772**	**$ 3,779,081**

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
$ —	$ 30,614	$ 415,057
80,446	511,956	690,134
43,586	919,406	1,550,140
—	9,004	237,116
—	37,610	41,454
3,224	27,637	41,475
889	27,043	47,204
81,549	251,469	720,482
4,294	27,328	52,520
15,788	46,110	93,415
229,776	**1,888,177**	**3,888,997**
—	57,144	549,786
—	585,135	1,621,779
—	—	2,909,515
1,106,320	1,036,581	3,878,561
30,295	97,964	208,869
33,740	95,076	155,747
274,629	29,897	336,236
1,009,438	3,424,397	6,489,574
321,399	629,929	1,366,636
2,775,821	**5,956,123**	**17,516,703**
3,005,597	**7,844,300**	**21,405,700**
42,649	141,526	367,833
72,034	161,012	473,201
—	9,004	237,116
—	7	785,180
19,644	188,272	304,586
41,286	96,112	212,043
44,951	68,934	699,178
30	140	525
220,594	**665,007**	**3,079,662**
—	9,051	1,565,838
—	5,709	9,709
186,607	183,859	566,937
705,054	1,470,229	4,689,841
240	21,860	27,925
891,901	**1,690,708**	**6,860,250**
1,112,495	**2,355,715**	**9,939,912**
541,870	2,864,273	4,998,649
—	19	19
—	13,079	13,079
—	—	2,124,820
119,456	98,022	217,478
78,434	4,563	82,997
570,776	495,999	2,117,460
257,050	79,947	336,997
39,139	115,228	154,367
106,700	16,498	123,198
33,308	101,784	135,092
23,967	8,506	73,506
32,378	85,157	117,535
65	4,341	4,406
62,293	70,041	149,042
133,567	48,187	321,153
7,498	110,923	383,855
662	184,714	185,376
(114,061)	1,187,304	(73,241)
$ 1,893,102	**$ 5,488,585**	**$ 11,465,788**

STATE OF OHIO
COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (for the year ended 12/31/04)	OHIO STATE UNIVERSITY
EXPENSES:			
Primary, Secondary and Other Education	$ 875,502	$ —	$ —
Community and Economic Development	—	—	—
Cost of Services	—	103,066	—
Administration	—	10,288	—
Education and General:			
Instruction and Departmental Research	—	—	617,890
Separately Budgeted Research	—	—	333,554
Public Service	—	—	95,737
Academic Support	—	—	108,489
Student Services	—	—	70,020
Institutional Support	—	—	93,472
Operation and Maintenance of Plant	—	—	84,288
Scholarships and Fellowships	—	—	54,448
Auxiliary Enterprises	—	—	174,206
Hospitals	—	—	1,240,767
Interest on Long-Term Debt	—	—	29,168
Depreciation	24	234	145,976
Other	—	4,569	1,660
TOTAL EXPENSES	**875,526**	**118,157**	**3,049,675**
PROGRAM REVENUES:			
Charges for Services, Fees, Fines and Forfeitures	1,167	129,865	2,049,465
Operating Grants, Contributions and Restricted Investment Income	6,150	141,288	600,152
Capital Grants, Contributions and Restricted Investment Income	—	—	16,638
TOTAL PROGRAM REVENUES	**7,317**	**271,153**	**2,666,255**
NET PROGRAM (EXPENSE) REVENUE	**(868,209)**	**152,996**	**(383,420)**
GENERAL REVENUES:			
Unrestricted Investment Income	—	1,406	154,289
State Assistance	525,738	—	525,804
Other	—	—	933
TOTAL GENERAL REVENUES	**525,738**	**1,406**	**681,026**
CONTRIBUTIONS TO ENDOWMENTS AND PERMANENT FUND PRINCIPAL	**—**	**—**	**54,723**
SPECIAL ITEMS	**—**	**—**	**—**
CHANGE IN NET ASSETS	**(342,471)**	**154,402**	**352,329**
NET ASSETS (DEFICITS), JULY 1 (as restated)	(1,623,281)	2,116,370	3,426,752
NET ASSETS (DEFICITS), JUNE 30	**$ (1,965,752)**	**$ 2,270,772**	**$ 3,779,081**

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
$ —	$ 31,161	$ 906,663
—	24,659	24,659
—	—	103,066
—	—	10,288
264,736	1,311,681	2,194,307
143,848	160,634	638,036
52,656	127,793	276,186
63,165	343,667	515,321
36,577	198,963	305,560
66,759	370,250	530,481
56,156	244,163	384,607
20,114	151,012	225,574
83,167	534,509	791,882
—	180,746	1,421,513
25,115	52,212	106,495
72,003	224,721	442,958
16,907	24,316	47,452
901,203	**3,980,487**	**8,925,048**
352,666	2,407,238	4,940,401
360,632	562,991	1,671,213
12,026	44,239	72,903
725,324	**3,014,468**	**6,684,517**
(175,879)	**(966,019)**	**(2,240,531)**
—	114,413	270,108
223,031	1,188,251	2,462,824
3,639	37,092	41,664
226,670	**1,339,756**	**2,774,596**
15,203	**21,694**	**91,620**
—	**(1,357)**	**(1,357)**
65,994	**394,074**	**624,328**
1,827,108	5,094,511	10,841,460
$ 1,893,102	**$ 5,488,585**	**$ 11,465,788**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Ohio, as of June 30, 2005, 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 (GASB 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 another 28 organizations. 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
Cultural 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 University of Ohio
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, Cultural 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 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, escheat property revenues, unrestricted investment income, 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 and proprietary 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.

Operating revenues for the State's proprietary funds mainly consist of charges for sales and services and

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The financial statements presented for this enterprise fund are unaudited. The Bureau's audit was commenced but not completed by the Bureau's independent auditing firm.

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.

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, 2004.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2004. The Ohio State University Fund accounts for the university's operations, including its health system, supercomputer 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 to be available when the revenues are collectible within 60 days after year-end or soon enough thereafter to be used 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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, premiums, and acquisitions under capital leases are reported as other financing sources while discounts and payments to refunded 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 and capital projects fund types:

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
Ohio Building Authority Special Obligations
Transportation Certificates of Participation
OAKS Certificates of Participation
OAKS Project

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, 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 effectively withdrawn at any time, within certain budgetary limitations, without prior notice or penalty.

Cash and cash equivalents include amounts on deposit with financial institutions and cash on hand. 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.

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 the payment of deferred lottery prize awards, revenue bonds, and tuition benefits in the enterprise funds.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, except for land and construction-in-progress, 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:

- 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 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Medicaid Claims Payable
The Medicaid claims liability, which has an average maturity of one year or less, includes an estimate for incurred, but not reported claims.

M. 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.

N. Compensated Absences
Employees of the State's primary government earn vacation leave, sick leave, and personal leave at various rates within limits specified under collective bargaining agreements or under law. Generally, employees accrue vacation leave at a rate of 3.1 hours every two weeks for the first five years of employment, up to a maximum rate of 9.2 hours every two weeks after 25 years of employment. Employees may accrue a maximum of three years vacation leave credit. At termination or retirement, 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 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.

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

Reserved
Reservations represent balances that are not appropriable 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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

P. 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 Workers' Compensation Enterprise Fund, for the financing of their respective workers' compensation liabilities. These liabilities are reported in the governmental funds under the "Interfund Payable" account. (See NOTE 7).

Q. 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.

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.

R. Intra-Entity Balances and Activities
Balances due between the primary government and its discretely presented component units are reported 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).

S. Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

NOTE 2 RESTATEMENTS AND CHANGES IN ACCOUNTING PRINCIPLES AND STANDARDS

A. Restatements

Restatements of net assets/fund balances, as of June 30, 2004, for the primary government and component units that resulted from prior period adjustments for corrections of errors, from changes in accounting principle, and from changes in the reporting entity are presented in the following table (dollars in thousands).

Government-wide Financial Statements:

	Governmental Activities
Net Assets, as of June 30, 2004, As Previously Reported	$17,323,935
Prior Period Adjustments that Increased/(Decreased) Net Assets:	
Intergovernmental Receivable	152,953
Loans Receivable	380
Capital Assets Being Depreciated, Net	36,665
Capital Assets Not Being Depreciated	36,516
Intergovernmental Payable	(51,839)
Net Assets, July 1, 2004, As Restated	$17,498,610

Governmental Fund Financial Statements:

	General	Job, Family and Other Human Services	Other Major Governmental Funds	Nonmajor Governmental Funds	Total
Fund Balance, as of June 30, 2004, As Previously Reported	$ 735,836	$ (76,455)	$767,331	$2,805,192	$4,231,904
Prior Period Adjustments that Increased/(Decreased) Fund Balance:					
Intergovernmental Receivable	152,953	—	—	—	152,953
Loans Receivable	—	—	—	3,380	3,380
Intergovernmental Payable	—	(51,839)	—	—	(51,839)
Deferred Revenue	(122,218)	—	—	—	(122,218)
Fund Balance, July 1, 2004, As Restated	$ 766,571	$(128,294)	$767,331	$2,808,572	$4,214,180

Discretely Presented Component Unit Funds:

	Major Component Unit Funds	Nonmajor Component Unit Funds	Total
Net Assets, as of June 30, 2004, As Previously Reported	$5,745,221	$5,106,134	$10,851,355
Prior Period Adjustments that Increased/(Decreased) Net Assets:			
Cash and Cash Equivalents-Central State University	—	(2,000)	
Restricted Cash and Cash Equivalents-Central State University	—	2,970	
Loans Receivable-Central State University	—	(4,059)	
Other Receivables-Ohio Air Quality Development Authority	—	43	
Other Receivables-Central State University	—	4,364	
Other Receivables-Northwest State Community College	—	35	
Other Assets-Central State University	—	4	
Capital Assets Being Depreciated, Net-Central State University	—	8,773	
Capital Assets Not Being Depreciated-Central State University	—	8,482	
Accounts Payable-Central State University	—	205	
Accrued Liabilities-Central State University	—	1,577	
Intergovernmental Payable-School Facilities Commission	1,728	—	
Unearned Revenue-Central State University	—	(331)	
Refund and Other Liabilities-Central State University	—	(748)	
Bonds Payable-Central State University	—	(20,511)	
Total Corrections, Net	1,728	(1,196)	532
Change in Accounting Principle:			
Capital Assets-University of Akron	—	(11,833)	(11,833)
Change in Reporting Entity:			
Net Assets of Medical Faculty, Inc-Component Unit of Medical University of Ohio	—	3,963	
Net Assets of Medical Center, Inc-Component Unit of Ohio University	—	(2,557)	
Total Change in Reporting Entity, Net	—	1,406	1,406
Net Assets, July 1, 2004, As Restated	$5,746,949	$5,094,511	$10,841,460

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

B. Implementation of Recently Issued Accounting Pronouncements

For the fiscal year ended June 30, 2005, the State implemented the provisions of

- Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3,*
- GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, and
- GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit [OPEB] Expenditures/Expense and Liabilities by Cost-Sharing Employers* (only those provisions applicable to pension transactions were implemented).

GASB 40 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.

GASB 44 amends portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section.

GASB Technical Bulletin No. 2004-2 clarifies the application of requirements regarding accounting for employers' contractually required contributions to cost-sharing pension and OPEB plans issued in GASB 27, *Accounting for Pensions by State and Local Governmental Employers,* and GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* respectively. This Technical Bulletin's provisions became effective for financial statements for periods ending after December 15, 2004, with respect to pension transactions, and are to be applied simultaneously with the implementation of GASB 45 with respect to OPEB transactions. GASB 45 provisions are further explained in the next section on recently issued GASB pronouncements.

C. Recently Issued GASB Pronouncements

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 GASB 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 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, 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 45 are discussed below.

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).

In December 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation — an amendment of GASB Statement No. 34*. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government — such as citizens, public interest groups, or the judiciary — can compel a government to honor. This Statement's provisions are

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

effective for financial statements for periods beginning after June 15, 2005.

In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*. GASB 47 provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are involuntarily terminated. The Statement requires that similar forms of termination benefits be accounted for in the same manner. In general, GASB 47 is effective for financial statements for periods beginning after June 15, 2005. However, for termination benefits that affect defined benefit postemployment benefits other than pensions, governments should implement GASB 47 simultaneously with GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

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 2005. 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 2005, whenever signed into law or otherwise legally authorized.

For fiscal year 2005, 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, 2005
(dollars in thousands)

		Major Special Revenue Funds			
	General	Job, Family, and Other Human Services	Education	Highway Operating	Revenue Distribution
Total Fund Balances - GAAP Basis	$1,345,772	$ (114,508)	$66,837	$ 592,160	$114,563
Less: Reserved Fund Balances	(627,395)	(2,016,648)	(38,255)	(1,644,387)	(129,299)
Less: Designated Fund Balances	(718,377)	—	—	—	—
Unreserved/Undesignated Fund Balances — GAAP Basis	—	(2,131,156)	28,582	(1,052,227)	(14,736)
BASIS DIFFERENCES					
Revenue Accruals/Adjustments:					
Cash Equity with Treasurer	(83,835)	(2,466)	—	(1,530)	(3,960)
Taxes Receivable	(868,701)	—	—	(59,765)	(223,396)
Intergovernmental Receivable	(330,159)	(503,846)	(106,542)	(112,084)	—
Loans Receivable, Net	(39,233)	—	(8,653)	(71,369)	—
Interfund Receivable	(256,651)	(3)	—	(1)	—
Other Receivables	(417,180)	(38,417)	(302)	(1,600)	—
Deferred Revenue	190,322	298,536	8,448	10,574	21,658
Unearned Revenue	153	234,472	49,191	3,129	7,939
Total Revenue Accruals/Adjustments	(1,805,284)	(11,724)	(57,858)	(232,646)	(197,759)
Expenditure Accruals/Adjustments:					
Cash Equity with Treasurer	(75,128)	(9,593)	(813)	(15,211)	—
Inventories	(18,617)	—	—	(23,634)	—
Other Assets	(10,726)	(1,357)	(5,530)	(2,294)	—
Accounts Payable	181,783	53,878	9,238	166,723	—
Accrued Liabilities	106,619	13,560	1,492	20,550	—
Medicaid Claims Payable	951,241	—	—	—	—
Intergovernmental Payable	333,207	264,685	70,371	795	376,430
Interfund Payable	571,330	16,435	2,121	95,309	396
Payable to Component Units	15,160	431	268	406	—
Refund and Other Liabilities	773,305	10,374	—	—	70,389
Liability for Escheat Property	9,863	—	—	—	—
Total Expenditure Accruals/Adjustments	2,838,037	348,413	77,147	242,644	447,215
Other Adjustments:					
Fund Balance Reclassifications:					
From Unreserved (Non-GAAP Budgetary Basis) to Reserved for:					
Noncurrent Portion of Loans Receivable	36,200	—	8,369	70,462	—
Noncurrent Portion of Interfund Receivable	251,653	—	—	—	—
Inventories	18,617	—	—	23,634	—
State and Local Highway Construction	—	—	—	—	129,299
Federal Programs	—	303	8,040	—	—
Other	43,404	4,982	450	7,419	—
From Undesignated (Non-GAAP Budgetary Basis) to Designated	573,157	—	—	—	—
Cash and Investments Held Outside of State Treasury	(358,923)	(10,804)	(2,914)	(1,236)	(13,179)
Other	(1)	1	—	—	(2)
Total Other Adjustments	564,107	(5,518)	13,945	100,279	116,118
Total Basis Differences	1,596,860	331,171	33,234	110,277	365,574
TIMING DIFFERENCES					
Encumbrances	(365,955)	(373,430)	(8,694)	(153,840)	—
Budgetary Fund Balances (Deficits) — Non-GAAP Basis	$1,230,905	$(2,173,415)	$53,122	$(1,095,790)	$350,838

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:

- U.S. treasury bills, notes, bonds, or other obligations or securities issued by or guaranteed as to principal and interest by the United States;
- Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality;
- 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;
- Commercial paper issued by any corporation that is incorporated under the laws of the United States or a state, and rated at the time of purchase in the two highest rating categories by two nationally recognized rating agencies;
- Written repurchase agreements with any eligible Ohio financial institution that is a member of the Federal Reserve System or Federal Home Loan Bank, or any recognized U.S. government securities dealer in the securities enumerated above;
- No-load money market mutual funds consisting exclusively of securities and repurchase agreements enumerated above;
- 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;
- Bankers' acceptances maturing in 270 days or less;
- Certificates of deposit in the eligible institutions applying for interim moneys, including linked deposits, as authorized under Sections 135.61 to 135.67, Ohio Revised Code; agricultural linked deposits, as authorized under Sections 135.71 to 135.76, Ohio Revised Code; and housing linked deposits, as authorized under Sections 135.81 to 135.87, Ohio Revised Code;
- The Treasurer of State's investment pool, as authorized under Section 135.45, Ohio Revised Code;
- Debt interests, other than commercial paper as enumerated above, of corporations incorporated under the laws of the United States or a state, of foreign nations diplomatically recognized by the United States, or any instrument based on, derived from, or related to such interests that are rated at the time of purchase in the three highest categories by two nationally recognized rating agencies, and denominated and payable in U.S. funds; and
- Obligations of a board of education, as authorized under Sections 133.10 or 133.301, Ohio Revised Code.

The reporting entity's deposits must be held in insured depositories approved by the State Board of Deposit and must be fully collateralized. However, in the case of foundations and other component units of the colleges and universities, deposits of these entities are not subject to the legal requirements for deposits of governmental entities.

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 System Pension Trust Fund, the Tuition Trust Authority Enterprise Fund, the Workers' Compensation Enterprise Fund, the Retirement Systems Agency Fund, and the

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

higher education institutions may also invest in common and preferred stocks, domestic and foreign corporate and government bonds and notes, mortgage loans, 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, 9th Floor, Columbus, Ohio 43215, by calling (614) 466-2160, or by accessing the Treasurer of State's website at www.ohiotreasurer.org.

C. Deposit and Investment Risks
Although risks exposures are minimized by complying with the legal requirements explained above and internal policies adopted by the Treasurer of State and the investment departments at the various state agencies, the State's deposits and investments are exposed to risks that may lead to losses of value.

The following risk disclosures report investments by type. The "U.S. Agency Obligations" category includes securities issued by federal government agencies and instrumentalities, including government-sponsored enterprises.

1. Custodial Credit Risk
Custodial credit risk for deposits exists when a government is unable to recover deposits or recover collateral securities that are in the possession of an outside party in the event of a failure of a depository financial institution.

Deposits of the primary government and its component units are exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

In Ohio, legal requirements for depositor-governments are met when deposits are collateralized with securities held by the pledging financial institution, or by the pledging financial institution's trust department or agent but not in the government's name.

Custodial credit risk for investments exists when a government is unable to recover the value of investment or collateral securities that are in the possession of an outside party in the event of a failure of a counterparty to a transaction.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department but not in the government's name.

In addition to existing legal requirements, the State's reporting entity has not established specific policies for managing custodial credit risk exposure for deposits and investments.

The following table reports the carrying amount of deposits held by the primary government and its component units, as of June 30, 2005, and the extent of exposure to custodial credit risk.

Primary Government (including Fiduciary Activities) and Component Units
Deposits—Custodial Credit Risk
As of June 30, 2005
(dollars in thousands)

			Uninsured Portion of Reported Bank Balance		
	Carrying Amount	Bank Balance	Uncollateralized*	Collateralized with Securities Held by the Pledging Institution's Trust Department or Agent but not in the Depositor-Government's Name	Collateralized with Securities Held by the Pledging Institution
Primary Government......................	$ 521,127	$ 614,251	$ —	$131,220	$ —
Component Units...........................	515,389	593,478	77,509	463,239	12,907
Total Deposits — Reporting Entity..	$1,036,516	$1,207,729	$77,509	$594,459	$12,907

*Uncollateralized deposits are reported for the foundations and other component units of the colleges and universities.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The following tables report the fair value of investments for the primary government and its component units by type, as of June 30, 2005, and the extent of exposure to custodial credit risk (dollars in thousands).

Investments for the Primary Government (including Fiduciary Activities), as of June 30, 2005	Total Fair Value	Uninsured, Unregistered, and Held by the Counterparty's Trust Department or Agent but not in the State's Name
Investments Subject to Custodial Credit Risk Exposure:		
U.S. Government Obligations:		
Not on Securities Loan	$ 9,481,057	$153,773
On Securities Loan	17,287	6,948
U.S. Government Obligations—Strips	397,591	—
U.S. Agency Obligations:		
Not on Securities Loan	9,268,170	27,143
On Securities Loan	66,772	—
U.S. Agency Obligations—Strips	331,836	—
Common and Preferred Stock	66,187,782	—
Corporate Bonds and Notes:		
Not on Securities Loan	13,773,430	893
On Securities Loan	131,838	131,838
Corporate Bonds and Notes—Strips	905	—
Commercial Paper	5,117,994	—
Repurchase Agreements	113,907	349
Mortgage and Asset-Backed Securities	6,106,339	—
International Investments:		
Foreign Stocks	30,543,137	—
Foreign Bonds:		
Not on Securities Loan	1,670,791	—
On Securities Loan	4,794	4,794
High-Yield and Emerging Markets Fixed Income	388,767	—
Securities Lending Collateral:		
Negotiable Certificates of Deposit	149,490	—
Repurchase Agreements	2,186,112	—
Commercial Paper	94,632	—
Corporate Bonds and Notes	3,251,817	—
Time Deposits	125,710	—
Master Notes	590,847	—
		$325,738
Investments Not Subject to Custodial Credit Risk Exposure:		
Investments Held by Broker-Dealers under Securities Loans with Cash Collateral:		
U.S. Government Obligations	2,581,245	
U.S. Government Obligations—Strips	47,967	
U.S. Agency Obligations	4,258,367	
U.S. Agency Obligations—Strips	297,612	
Common and Preferred Stock	1,109,245	
Corporate Bonds and Notes	231,702	
Mortgage and Asset-Backed Securities	1,265	
International Investments:		
Foreign Stocks	923,278	
Foreign Bonds	23,014	
High-Yield and Emerging Markets Fixed Income	99,217	
International Investments-Commingled Equity Funds	614,931	
Equity Mutual Funds	8,076,424	
Bond Mutual Funds	2,769,410	
Real Estate	10,095,386	
Venture Capital	2,270,024	
Limited Partnerships	940,083	
Investment Contracts	942	
Deposit with Federal Government	612,728	
Component Units' Equity in State Treasurer's Cash and Investment Pool	(652,173)	
Component Units' Equity in the State Treasury Asset Reserve of Ohio	(476,122)	
Total Investments — Primary Government	$183,825,550	

(Continued)

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Investments for Component Units, as of June 30, 2005	Total Fair Value	Uninsured, Unregistered, and Held by the Counterparty's Trust Department or Agent but not in the Component Unit's Name	Counterparty but not in the Component Unit's Name
Investments Subject to Custodial Credit Risk Exposure:			
U.S. Government Obligations	$ 296,350	$ 47,247	$ 131,400
U.S. Government Obligations—Strips	18,273	9,700	—
U.S. Agency Obligations	953,048	353,661	292,599
Common and Preferred Stock	1,553,610	390,390	656,665
Corporate Bonds and Notes	309,214	110,193	135,165
Commercial Paper	19,923	4,875	—
Repurchase Agreements	346,832	225,340	82,730
Mortgage and Asset-Backed Securities	13,041	—	—
Negotiable Certificates of Deposit	299	200	—
Municipal Obligations	2,996	637	2,020
Other Investments	45,401	319	25,456
		$1,142,562	$1,326,035
Investments Not Subject to Custodial Credit Risk Exposure:			
Equity Mutual Funds	1,751,946		
Bond Mutual Funds	872,802		
Absolute Return Funds	30,888		
Real Estate	151,519		
Direct Mortgages	75,251		
Life Insurance	3,065		
Investment Contracts	690,904		
Charitable Remainder Trusts	5,435		
Partnerships and Hedge Funds	156,811		
Investment in State Treasurer's Cash and Investment Pool	652,173		
Investment in the State Treasury Asset Reserve of Ohio (STAR Ohio)	476,122		
Total Investments — Component Units	8,425,903		
Total Investments — Reporting Entity	$192,251,453		

The total carrying amount of deposits and investments, as of June 30, 2005, reported for the primary government and its component units is (dollars in thousands) $193,191,425. The total of the carrying amounts of both deposits in the amount of $1,036,516 and investments in the amount of $192,251,453 that has been categorized and disclosed in this note is $193,287,969. A reconciliation of the difference is presented in the table below.

Reconciliation of Deposit and Investments Disclosures with Financial Statements
As of June 30, 2005
(dollars in thousands)

	Government-Wide Statement of Net Assets				
	Governmental Activities	Business-Type Activities	Component Units	Fiduciary Funds Statement of Net Assets	Total
Cash Equity with Treasurer	$ 5,902,053	$ 80,271	$ 415,057	$ 221,427	$ 6,618,808
Cash and Cash Equivalents	94,269	1,297,468	690,134	411,792	2,493,663
Investments	934,536	15,561,651	5,428,701	151,221,512	173,146,400
Collateral on Lent Securities	3,514,417	1,767,597	237,116	429,947	5,949,077
Deposit with Federal Government	—	612,728	—	—	612,728
Restricted Assets:					
Cash Equity with Treasurer	—	62,752	—	—	62,752
Cash and Cash Equivalents	—	1,675	549,786	—	551,461
Investments	—	1,695,507	1,621,779	—	3,317,286
Collateral on Lent Securities	—	439,250	—	—	439,250
Total Reporting Entity	$10,445,275	$21,518,899	$8,942,573	$152,284,678	$193,191,425

Total Carrying Amount of Deposits and Investments per Financial Statements	$193,191,425
Outstanding Warrants and Other Reconciling Items	178,625
Differences Resulting from Component Units with December 31 Year-Ends	(82,081)
Total Carrying Amount of Deposits and Investments Disclosed in Note 4	$193,287,969

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

2. Credit Risk
The risk that an investment's issuer or counterparty will not satisfy its obligation is called credit risk. The exposure to this risk has been minimized through the laws and policies adopted by the State.

For investments that are included in the treasury's cash and investment pool and reported as "Cash Equity with Treasurer" and other investment securities managed by the Treasurer of State's Office, Chapter 135, Ohio Revised Code, requires such investments to carry certain credit ratings at the time of purchase as follows:

- Commercial paper must carry ratings in the two highest categories by two nationally recognized rating agencies;
- Debt interests (other than commercial paper) must carry ratings in the three highest categories by two nationally recognized rating agencies. This requirement is met when either the debt interest or the issuer of the debt interest carries this rating.

Investment policies of the Treasurer of State's Office further define required credit ratings as follows:

- Commercial paper must have a short-term debt rating of at least "A1" or equivalent by all agencies that rate the issuer, with at least two agencies rating the issuer,
- Banker acceptances must carry a minimum of "AA" for long-term debt ("AAA" for foreign issuers) by a majority of the agencies rating the issuer. For short-term debt, the rating must be "A1" or equivalent by all agencies that rate the issuer, with at least two agencies rating the issuer,
- Corporate notes must be rated at a minimum of "Aa" by Moody's Investors Service and a minimum of "AA" by Standard & Poor's for long-term debt,
- Foreign debt must be guaranteed as to principal and interest by the United States or carry a minimum of "Aa" by Moody's Investors Service and a minimum of "AA" by Standard & Poor's for long-term debt,
- For Registered Investment Companies (Mutual Funds), no-load money market mutual funds must carry a rating of "AAm", "AAm-G", or better by Standard & Poor's or the equivalent rating of another agency.

Investment policies regarding credit risk that are in addition to Ohio Revised Code requirements and are specific to the following significant entities reported for the State's reporting entity are as follows:

Workers' Compensation Enterprise Fund
The Fund requires an average credit quality no lower than an "A" rating for fixed income securities.

State Highway Patrol Retirement System Pension Trust Fund
Commercial paper must be rated "A-1" and must be issued by U.S. corporations. Bond investments must be rated within the four highest classifications of at least two rating agencies when purchased.

STAR Ohio Investment Trust Fund
Investment policies governing the STAR Ohio external investment pool require that all securities must be rated the equivalent of "A-1", and at least 50 percent of the total average portfolio must be rated "A-1+" or better.

Retirement Systems Agency Fund
For the Ohio Public Employees Retirement System, non-investment grade securities are limited to 15 percent of the total Global Bond portfolio.

For the Ohio Police and Fire Pension Fund,

- Securities in the core fixed income portfolio shall be rated "BBB-" or better by two standard rating agencies at the time of purchase,
- Securities in the high yield fixed income portfolio are high yield bonds issued by US corporations with a minimum rating of "CCC" or equivalent,
- Investment managers may purchase securities that are "Not Rated" as long as they deem these securities to be at least equivalent to the minimum ratings,
- Commercial paper must be rated within the two highest classifications established by two standard rating agencies,
- Investment managers may hold no more than 15 percent of their entire portfolio in convertible bonds with no minimum credit rating specified.

Ohio Water Development Authority Component Unit Fund
The Authority's policy authorizes the acquisition of repurchase agreements from financial institutions with a Moody's or Standard & Poor's rating of "A" and the entering into investment agreements with financial institutions rated in the highest short-term categories or one of the top three long-term categories by Moody's and/or Standard & Poor's.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

University of Cincinnati Component Unit Fund
The policy governing the university's temporary investment pool permits investments in securities rated "A" or higher at the time of purchase. Endowment investment-grade bonds are limited to those in the first four grades of any rating system. Below-investment grade, high-yield bond investments and certain unrated investments having strategic value to the university are permitted.

All investments, as categorized by credit ratings in the following tables, meet the requirements of the State's laws and policies, when applicable.

Descriptions of the investment credit ratings shown in the tables are as follows:

Rating	General Description of Credit Rating
AAA/Aaa	Extremely strong
AA/Aa	Very strong
A/A-1	Strong
BBB/Baa	Adequate
BB/Ba	Less vulnerable
B	More vulnerable
CCC/Caa	Currently vulnerable to nonpayment
CC/Ca	Currently highly vulnerable to nonpayment
C	Currently highly vulnerable to nonpayment due to certain conditions (e.g., filing of bankruptcy petition or similar action by issuer)

Primary Government (including Fiduciary Activities)
Investment Credit Ratings
As of June 30, 2005
(dollars in thousands)

	Credit Rating					
Investment Type	AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations	$ 9,451,412	$ 52,472	$ 24,598	$ —	$ —	$ —
U.S. Agency Obligations—Strips	411,196	1,986	—	—	—	—
Corporate Bonds and Notes	2,068,920	1,916,628	4,845,755	2,302,952	1,168,506	1,158,779
Corporate Bonds and Notes—Strips	905	—	—	—	—	—
Commercial Paper	217,796	—	3,969,951	—	—	—
Repurchase Agreements	—	—	113,502	—	—	—
Mortgage and Asset-Backed Securities	1,637,749	51,781	77,148	112,949	2,181	—
Foreign Bonds	5,186	37,685	71,495	105,832	125,747	733,655
High-Yield & Emerging Markets Fixed Income	—	—	2,278	120,129	198,867	111,626
Bond Mutual Funds	454,297	52,753	15,491	—	107,128	2,337
Investment Contracts	—	—	—	—	—	—
Securities Lending Collateral:						
Negotiable Certificates of Deposit	—	—	149,490	—	—	—
Repurchase Agreements	—	22,007	254,263	—	—	—
Commercial Paper	—	—	94,632	—	—	—
Corporate Bonds and Notes	835,179	371,842	1,834,830	—	—	—
Time Deposits	—	—	125,000	—	—	—
Master Notes	—	—	410,378	—	—	—
Total	$15,082,640	$2,507,154	$11,988,811	$ 2,641,862	$ 1,602,429	$2,006,397

	Credit Rating				
Investment Type	CCC/Caa	CC/Ca	C	Unrated	Total
U.S. Agency Obligations	$ —	$ —	$ —	$ 4,064,827	$13,593,309
U.S. Agency Obligations—Strips	—	—	—	216,266	629,448
Corporate Bonds and Notes	147,946	3,429	78,300	445,755	14,136,970
Corporate Bonds and Notes—Strips	—	—	—	—	905
Commercial Paper	—	—	—	930,247	5,117,994
Repurchase Agreements	—	—	—	405	113,907
Mortgage and Asset-Backed Securities	—	—	—	4,225,796	6,107,604
Foreign Bonds	1,935	—	34,698	582,366	1,698,599
High-Yield & Emerging Markets Fixed Income	16,241	—	—	38,843	487,984
Bond Mutual Funds	—	—	—	2,137,404	2,769,410
Investment Contracts	—	—	—	942	942
Securities Lending Collateral:					
Negotiable Certificates of Deposit	—	—	—	—	149,490
Repurchase Agreements	—	—	—	1,909,842	2,186,112
Commercial Paper	—	—	—	—	94,632
Corporate Bonds and Notes	—	—	—	209,966	3,251,817
Time Deposits	—	—	—	710	125,710
Master Notes	—	—	—	180,469	590,847
Total	$ 166,122	$ 3,429	$ 112,998	$14,943,838	$51,055,680

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Component Units
Investment Credit Ratings
As of June 30, 2005
(dollars in thousands)

Investment Type	Credit Rating AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations	$ 918,503	$ —	$ 101	$ —	$ —	$ —
Corporate Bonds and Notes	81,977	47,808	118,357	43,632	14,687	162
Commercial Paper	993	—	14,340	1,099	—	—
Repurchase Agreements	82,730	—	—	—	—	—
Mortgage and Asset-Backed Securities	12,435	548	—	—	54	—
Negotiable Certificates of Deposit	—	—	—	—	—	—
Municipal Obligations	2,174	501	21	—	—	—
Bond Mutual Funds	627,330	42,227	74,300	58,449	4,759	21,430
Direct Mortgages	—	—	—	—	—	—
Investment Contracts	—	—	—	—	—	—
Other Investments	560	46	—	275	—	—
Total	$1,726,702	$ 91,130	$ 207,119	$103,455	$19,500	$21,592

Investment Type	Credit Rating CCC/Caa	Unrated	Total
U.S. Agency Obligations	$ —	$ 34,444	$ 953,048
Corporate Bonds and Notes	—	2,591	309,214
Commercial Paper	—	3,491	19,923
Repurchase Agreements	—	264,102	346,832
Mortgage and Asset-Backed Securities	—	4	13,041
Negotiable Certificates of Deposit	—	299	299
Municipal Obligations	—	300	2,996
Bond Mutual Funds	7,099	37,208	872,802
Direct Mortgages	—	75,251	75,251
Investment Contracts	—	690,904	690,904
Other Investments	—	18,745	19,626
Total	$ 7,099	$1,127,339	$3,303,936

3. Concentration of Credit Risk
The potential for loss of value increases when investments are not diversified. The State has imposed limits on the types of authorized investments to prevent this type of loss.

For investments that are included in the treasury's cash and investment pool and reported as "Cash Equity with Treasurer" and other investment securities managed by the Treasurer of State's Office, Chapter 135, Ohio Revised Code, requires the following:

- Investments in commercial paper may not exceed 25 percent of the State's total average portfolio,
- Bankers acceptances cannot exceed 10 percent of the State's total average portfolio,
- Debt interests cannot exceed 25 percent of the State's total average portfolio,
- Debt interests in foreign nations may not exceed one percent of the State's total average portfolio,
- Debt interests of a single issuer may not exceed one-half of one percent of the State's total average portfolio.

Investment policies of the Treasurer of State further restrict concentrations of investments. Maximum concentrations are as follows:

Investment Type	Maximum % of Total Average Portfolio
U.S. Treasury	100
Federal Agency (fixed rate)	100
Federal Agency (callable)	55
Federal Agency (variable rate)	10
Repurchase Agreements	25
Bankers' Acceptances	10
Commercial Paper	10
Corporate Notes	5
Foreign Notes	1
Interim Deposits	20
Municipal Obligations	10
STAR Ohio	25
Mutual Funds	25

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The investment policies of the Treasurer of State's Office also specify that commercial paper is limited to no more than five percent of the issuing corporation's total outstanding commercial paper, and investments in a single issuer are further limited to no more than two percent of the total average portfolio except for U.S. government obligations, limited at 100 percent; repurchase agreement counterparties, limited at the lesser of five percent or $250 million; bankers' acceptances, limited at five percent; corporate notes and foreign debt, limited at one-half of one percent; and mutual funds, limited at 10 percent.

For large capitalization equity securities acquired for the Workers' Compensation Enterprise Fund, no single holding is to be more than five percent of the entire portfolio at market, or 9.9 percent of the outstanding equity securities of any one corporation.

For the Lottery Commission Enterprise Fund, no more than two percent of the total average portfolio may be invested in the securities of any single issuer with the following exceptions: U.S. government obligations, 100 percent maximum; repurchase agreements, limited at the lesser of five percent or $250 million; and mutual funds, 10 percent maximum.

The State Highway Patrol Retirement System Pension Trust Fund's policy does not allow more than 10 percent of its fixed income portfolio to be invested in securities of any one issuer with the exception of U.S. government securities, or more than five percent of the Fund's total investments in any one issuer with the exception of U.S. government securities.

For the STAR Ohio Investment Trust Fund, investments in a single issuer are further limited to no more than two percent of the total average portfolio except for U.S. Treasury obligations, limited at 100 percent; U.S. Agency obligations, limited at 33 percent; repurchase agreement counterparties, limited at the lesser of 10 percent or $500 million; and mutual funds, limited at 10 percent.

As of June 30, 2005, all investments meet the requirements of the State's laws and policies, when applicable. However, investments in certain issuers are greater than five percent of investment balances, as follows (dollars in thousands):

Issuer	Amount	Percentage of Investment Balance
Governmental and Business-Type Activities:		
Federal National Mortgage Association	$2,965,368	10%
Federal Home Loan Bank	1,750,937	6%
Federal Home Loan Mortgage Corporation	2,113,323	7%
STAR Ohio Investment Trust Fund:		
Federal National Mortgage Association	834,429	21%
Federal Home Loan Bank	741,714	19%
Federal Home Loan Mortgage Corporation	803,524	20%
School Facilities Commission Component Unit Fund:		
Federal National Mortgage Association	76,954	13%
Federal Home Loan Bank	96,495	16%
Federal Home Loan Mortgage Corporation	93,987	16%
Ohio Water Development Authority Component Unit Fund (12/31//04):		
Federal Home Loan Bank	84,612	7%
Bear Stearns	61,693	5%
Citigroup	481,996	40%
Morgan Stanley	61,693	5%
Transamerica	118,542	10%

4. Interest Rate Risk

Certain of the State's investments are exposed to interest rate risk. This risk exists when changes to interest rates will negatively impact the fair value of an investment. The State has adopted policies to mitigate this risk.

Investment policies governing the treasury's cash and investment pool, which is reported as "Cash Equity with Treasurer" and is managed by the Treasurer of State's Office, limit maturities of short-term investments to no more than 12 months with a weighted average maturity not to exceed 90 days. For long-term investments, maturities are limited to five years or less except for those that are matched to a specific obligation or debt of the State. A duration target of three years or less has been established for long-term investments.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Variable rate notes are permitted if they meet the following criteria:

- the note has an ultimate maturity of less than three years,
- the rate resets frequently to follow money market rates,
- the note is indexed to a money market rate that correlates (by at least 95 percent) with overall money market rate changes, even during wide swings in interest rates, e.g., federal funds, 3-month treasury bill, LIBOR, and
- any cap on the interest rate is at least 15 percent (1500 basis points) higher than the coupon at purchase.

The Lottery Commission Enterprise Fund's investments are required to have maturities of 30 years or less. In no case may the maturity of an investment exceed the expected date of disbursement of those funds.

For the State Highway Patrol Retirement System Pension Trust Fund, investment policies require that commercial paper matures within 95 days. In addition, the Fund's fixed income portfolio is required to have an average maturity of 10 years or less.

Investment policies governing the STAR Ohio Investment Trust Fund limit maturities of investments to a final stated maturity of 397 days or less. The weighted average maturity of each portfolio is limited to 60 days or less.

All investments of the Ohio Water Development Authority Component Unit Fund must mature within five years unless the investment is matched to a specific obligation or debt of the Authority.

The policy of the University of Cincinnati Component Unit Fund stipulates that the weighted average maturity in the Temporary Investment Pool shall be no longer than five years. The weighted average of the fixed income maturities in the university's endowment portfolio shall not exceed 20 years.

As of June 30, 2005, several investments reported as "Cash Equity with Treasurer" have terms that make their fair values highly sensitive to interest rate changes. The U.S. agency obligations investment type includes $272.5 million of investments with call dates during fiscal year 2006. These investments have scheduled maturities between fiscal year 2007 and fiscal year 2009 and are reported in the table on the following page as maturing in one to five years.

As of June 30, 2005, the Workers' Compensation Enterprise Fund held approximately $1.5 billion in certain mortgage and asset-backed securities (primarily classified under the "Corporate Bonds and Notes" 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.

The Lottery Commission Enterprise Fund has $30.5 million of U.S. government obligations—strips and $6.8 million of U.S. agency obligations with call dates. The U.S. government obligations—strips are callable in fiscal year 2006 and have a scheduled maturity in fiscal year 2011. This investment is reported as maturing in six to 10 years in the table on the following page. The U.S. agency obligations investment type has $3.7 million callable in fiscal year 2007 with a scheduled maturity during fiscal year 2012 and $3.1 million callable in fiscal year 2007 with a scheduled maturity during fiscal year 2022. These investments are reported as maturing in six to 10 years and in over 10 years, respectively, in the table on the following page.

The State Highway Patrol Retirement System Pension Trust Fund also has investments with terms that make the fair values highly sensitive to interest rate changes. Within the mortgage and asset-backed securities investment type are investments of $4.8 million that include floating interest rates and adjustable coupons. The corporate bonds and notes investment type also include $2.3 million of investments with floating interest rates and adjustable coupons. The mortgage and asset-backed securities and corporate bonds and notes investment types contain call provisions of $1.3 million and $2.5 million, respectively. The investments with call provisions are listed in the table on the following page based on these terms.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Also during fiscal year 2005, the Treasurer of State acted as the custodian of the Retirement Systems Agency Fund's investments. These investments contain terms that make their fair values highly sensitive to interest rate changes. Specific information on the nature of the investments and their terms can be found in each respective system's Comprehensive Annual Financial Report.

The following table lists the investment maturities of the State's investments. All investments at June 30, 2005, meet the requirements of the State's laws and policies, when applicable.

Primary Government (including Fiduciary Activities)
Investments Subject to Interest Rate Risk
As of June 30, 2005
(dollars in thousands)

	Investment Maturities (in years)				
Investment Type	Less than 1	1-5	6-10	More than 10	Total
U.S. Government Obligations	$ 1,024,598	$ 3,597,195	$1,927,933	$ 5,529,863	$12,079,589
U.S. Government Obligations—Strips	24,904	36,057	92,296	292,301	445,558
U.S. Agency Obligations	7,757,536	2,288,325	571,876	2,975,572	13,593,309
U.S. Agency Obligations—Strips	51,757	273,553	167,380	136,758	629,448
Corporate Bonds and Notes	1,235,691	5,590,352	4,057,107	3,253,820	14,136,970
Corporate Bonds and Notes—Strips	—	—	—	905	905
Commercial Paper	5,117,994	—	—	—	5,117,994
Repurchase Agreements	113,851	—	—	56	113,907
Mortgage and Asset-Backed Securities	256	1,646,373	321,622	4,139,353	6,107,604
Foreign Bonds	15,860	400,949	462,362	819,428	1,698,599
High-Yield & Emerging Markets Fixed Income	31,803	57,336	211,959	186,886	487,984
Bond Mutual Funds	2,510,355	157,399	50,705	50,951	2,769,410
Investment Contracts	—	—	942	—	942
Securities Lending Collateral:					
Negotiable Certificates of Deposit	2,999	146,491	—	—	149,490
Repurchase Agreements	2,186,112	—	—	—	2,186,112
Commercial Paper	94,632	—	—	—	94,632
Corporate Bonds and Notes	2,647,392	604,425	—	—	3,251,817
Time Deposits	125,000	710	—	—	125,710
Master Notes	590,847	—	—	—	590,847
Total Primary Government	$23,531,587	$14,799,165	$7,864,182	$17,385,893	$63,580,827

Component Units
Investments Subject to Interest Rate Risk
As of June 30, 2005
(dollars in thousands)

	Investment Maturities (in years)				
Investment Type	Less than 1	1-5	6-10	More than 10	Total
U.S. Government Obligations	$ 85,561	$ 132,572	$ 48,733	$ 29,484	$ 296,350
U.S. Government Obligations—Strips	3,669	8,735	4,052	1,817	18,273
U.S. Agency Obligations	403,031	390,680	64,950	94,387	953,048
Corporate Bonds and Notes	78,441	114,872	52,619	63,282	309,214
Commercial Paper	19,923	—	—	—	19,923
Repurchase Agreements	346,832	—	—	—	346,832
Mortgage and Asset-Backed Securities	52	1,565	1,705	9,719	13,041
Negotiable Certificates of Deposit	299	—	—	—	299
Municipal Obligations	1,252	647	104	993	2,996
Bond Mutual Funds	248,401	348,179	177,616	98,606	872,802
Direct Mortgages	—	540	—	74,711	75,251
Investment Contracts	17,062	633,764	—	40,078	690,904
Other Investments	12,501	5,180	1,652	293	19,626
Total Component Units	$1,217,024	$1,636,734	$351,431	$413,370	$3,618,559

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

5. Foreign Currency Risk
Investments in stocks and bonds denominated in foreign currencies are affected by foreign currency risk which arises from changes in currency exchange rates. The State's laws and investment policies include provisions to limit the exposure to this type of risk.

According to Chapter 135, Ohio Revised Code, investments reported as "Cash Equity with Treasurer" and managed by the Treasurer of State's Office are limited to the debt of nations diplomatically recognized by the United States that are backed by the full faith and credit of that foreign nation.

Investment policies of the Treasurer of State's Office further limit the types of authorized investments. These requirements include maturity limitations of five years at the date of purchase and denomination of principal and interest in United States funds. Other limitations are noted in the previous sections of this note that discuss credit risk and concentration of credit risk.

Investment policies regarding foreign currency risk have also been adopted for the following significant entities reported in the primary government and are specific to those entities:

Workers' Compensation Enterprise Fund
The Fund's investment policy requires that

- equity securities of any one international company shall not exceed 10 percent of the total value of all the investments in international equity securities,
- equity holdings of international equity securities shall not exceed 25 percent of the total value of all investments in international equity securities,
- no more than 40 percent of the total value of all investments in international equity securities shall be invested in any one country.

Retirement Systems Agency Fund
For the Ohio Public Employees Retirement System, non-U.S. dollar-based securities are limited to five percent of the total Global Bond portfolio. Additionally, no more than 25 percent of the Global Bond portfolio assets may be from non-U.S. issuers.

Through the use of international money managers, the Bureau of Workers' Compensation enters into various foreign currency exchange contracts to manage exposure to changes in foreign currency exchange rates on its international securities holdings. A foreign currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risk associated with such contracts includes movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. The fair value of the forward currency contracts receivable for the Bureau was $259 thousand, as of June 30, 2005.

As of June 30, 2005, investments denominated in the currency of foreign nations, as detailed in the tables appearing on the next two pages for the primary government and its discretely presented component units, meet the requirements of the State's laws and policies, when applicable. Balances reported for the business-type activities exclusively pertain to the Workers' Compensation Enterprise Fund.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Primary Government
International Investments—Foreign Currency Risk
As of June 30, 2005
(dollars in thousands)

Currency	Business-Type Activities — Stocks	Fiduciary Activities: Stocks	Fiduciary Activities: Bonds	Fiduciary Activities: High-Yield & Emerging Markets Fixed Income	Total
Argentinean Peso	$ —	$ 8,087	$ —	$ 6,895	$ 14,982
Australian Dollar	27,581	260,963	—	—	288,544
Bahamian Dollar	—	26	—	—	26
Belize Dollar	—	2	—	—	2
Bermudian Dollar	—	264	—	—	264
Brazilian Real	—	263,229	—	—	263,229
British Pound	288,925	1,892,855	21	—	2,181,801
Bulgarian Lev	—	17	—	—	17
Canadian Dollar	166,954	412,122	656,139	—	1,235,215
Caymanian Dollar	—	39	—	—	39
Chilean Peso	—	3,724	—	—	3,724
Chinese Yuan	—	26,661	—	—	26,661
Colombian Peso	—	165	9,819	1,024	11,008
Czech Koruna	—	29,945	—	—	29,945
Danish Krone	21,298	77,665	—	—	98,963
Egyptian Pound	—	58,633	—	1,492	60,125
Euro	675,394	2,767,827	8,245	407	3,451,873
Hong Kong Dollar	50,830	438,505	—	—	489,335
Hungarian Forint	—	79,805	2,072	—	81,877
Icelandic Krona	—	2	—	—	2
Indian Rupee	—	160,419	—	—	160,419
Indonesian Rupiah	—	106,245	—	539	106,784
Israeli Shekel	—	114,271	—	1,049	115,320
Japanese Yen	418,069	1,983,092	8,877	1	2,410,039
Jordanian Dollar	—	1	—	—	1
Lithuanian Litas	—	34	—	—	34
Malaysian Ringgit	—	150,149	299	1,229	151,677
Mexican Peso	2,173	189,535	22,165	1,438	215,311
Netherlands Antilles Guilder	—	2	—	—	2
New Zealand Dollar	631	33,149	1,604	—	35,384
Norwegian Kroner	10,273	104,862	—	—	115,135
Pakistani Rupee	—	8,100	—	—	8,100
Panamanian Balboa	—	5	—	—	5
Peruvian New Sol	—	1,412	—	992	2,404
Philippines Peso	—	29,803	—	—	29,803
Polish Zloty	—	34,431	4,098	—	38,529
Romanian Leu	—	1,329	—	—	1,329
Russian Ruble	—	10,859	—	—	10,859
Singapore Dollar	11,011	145,854	—	—	156,865
South African Rand	1,477	431,865	—	—	433,342
South Korean Won	—	851,565	—	—	851,565
Sri Lankan Rupee	—	15,251	—	—	15,251
Swedish Krona	28,408	134,417	—	—	162,825
Swiss Franc	153,466	496,498	492	—	650,456
Taiwan Dollar	—	472,307	—	—	472,307
Thailand Baht	3,789	155,681	—	—	159,470
Turkish Lira	—	219,622	48,246	3,398	271,266
Uruguayan Peso	—	—	395	972	1,367
Venezuelan Bolivar	—	9	—	—	9
Zimbabwean Dollar	—	2,402	—	—	2,402
Emerging Markets (various currencies)	—	2,382	—	—	2,382
Investments Held in Foreign Currency	$1,860,279	$12,176,087	$762,472	$19,436	14,818,274
Foreign Investments Held in U.S. Dollars					19,449,655
Total Foreign Investments-Primary Government, including Fiduciary Activities					$34,267,929

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Component Units
International Investments—Foreign Currency Risk
As of June 30, 2005
(dollars in thousands)

Ohio State University:

	Included in the Investment Balances Reported for:				
Currency	Common & Preferred Stock	Corporate Bonds	Equity Mutual Funds	Bond Mutual Funds	Total
Australian Dollar	$ 417	$ —	$ 7,061	$ 156	$ 7,634
British Pound	5,829	—	32,570	2,753	41,152
Canadian Dollar	740	—	8,982	987	10,709
Euro	7,707	234	43,109	21,298	72,348
Hong Kong Dollar	539	—	2,002	—	2,541
Japanese Yen	5,176	—	26,337	14,909	46,422
South Korean Won	—	—	3,443	—	3,443
Swedish Krona	300	—	2,171	—	2,471
Swiss Franc	2,243	—	6,217	—	8,460
Taiwan Dollar	—	—	2,875	—	2,875
Other (various currencies)	719	—	13,738	831	15,288
Total Foreign Investments	$23,670	$234	$148,505	$40,934	$213,343

Wright State University:

Currency	Included in the Balance Reported for Corporate Bonds
Brazilian Real	$162
Canadian Dollar	65
Columbian Peso	18
Japanese Yen	290
Norwegian Kroner	66
Panama Balboa	82
Total Foreign Investments	$683

D. Securities Lending Transactions

The Treasurer of State, Bureau of Workers' Compensation (BWC), and the State Highway Patrol Retirement System (SHPRS) 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.

At the time of the loan, the Treasurer of State requires its custodial agents to ensure that the State's lent securities are collateralized at no less than 102 percent of fair value. At no point in time can the value of the collateral be less than 100 percent of the underlying securities. For the STAR Ohio Program, in the case of discount securities, such as U.S. Treasury bills or similar agency issues, where the market functions so as to not allow the sale of securities at a price greater than par, the borrower must pledge 102 percent of the value of the loaned securities, unless a profitable transaction requires that some lesser amount, which is not to be less than the par value of the loaned security, be accepted.

The BWC and SHPRS also require custodial agents to ensure that lent securities are collateralized at 102 percent of fair value. SHPRS requires its custodial agents to provide additional collateral when the fair value of the collateral held falls below 102 percent of the fair value of securities lent.

Consequently, as of June 30, 2005, the State had no credit exposure since the amount the State owed to borrowers at least equaled or exceeded the amount borrowers owed the State.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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 current investment portfolio may be lent.

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.

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 is to be limited to an indemnification amount equal to the difference between the market value of the lent securities on the date that such lent 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 is to 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 2005, the State had not experienced any losses due to credit or market risk on securities lending activities.

In fiscal year 2005, 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.

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, 2005, approximately $206.3 million of the net taxes receivable balance is also reported as deferred revenue on the governmental funds' balance sheet, of which $184.6 million is reported in the General Fund and $21.7 million is reported in the Revenue Distribution Special Revenue Fund.

Refund liabilities for income, corporation franchise, and sales taxes, totaling approximately $841.5 million, are reported for governmental activities as "Refunds and Other Liabilities" on the Statement of Net Assets, of which, $771.1 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				
	General	Highway Operating	Revenue Distribution	Nonmajor Govern-mental Funds	Total Primary Government
Current-Due Within One Year:					
Sales Taxes	$413,886	$ —	$ 28,655	$ 661	$ 443,202
Income Taxes	325,503	—	51,643	162	377,308
Motor Vehicle Fuel Taxes	—	59,765	105,402	2,196	167,363
Public Utility Taxes	73,411	—	31,138	—	104,549
Severance Taxes	—	—	—	1,941	1,941
	812,800	59,765	216,838	4,960	1,094,363
Noncurrent-Due in More Than One Year:					
Income Taxes	55,901	—	6,558	—	62,459
Taxes Receivable, Net	$868,701	$59,765	$223,396	$4,960	$1,156,822

B. Intergovernmental Receivable — 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, 2005 (dollars in thousands).

	From Nonexchange Programs		From Sales of Goods and Services		
	Federal Government	Local Government	Other State Governments	Local Government	Total Primary Government
Governmental Activities:					
Major Governmental Funds:					
General	$ 562,811	$ 10,525	$ —	$ 5,884	$ 579,220
Job, Family and Other Human Services	417,003	86,843	—	—	503,846
Education	37,692	68,850	—	—	106,542
Highway Operating	112,084	—	—	—	112,084
Nonmajor Governmental Funds	255,098	13,112	—	19,372	287,582
Total Governmental Activities	1,384,688	179,330	—	25,256	1,589,274
Business-Type Activities:					
Major Proprietary Funds:					
Unemployment Compensation	—	—	3,315	—	3,315
Nonmajor Proprietary Funds	30	—	—	—	30
Total Business-Type Activities	30	—	3,315	—	3,345
Intergovernmental Receivable	$1,384,718	$179,330	$3,315	$25,256	$1,592,619

NOTE 5 RECEIVABLES (Continued)

C. Loans Receivable

Loans receivable for the primary government and its discretely presented major component units, as of June 30, 2005, are detailed in the following tables (dollars in thousands).

Primary Government — Loans Receivable

	Governmental Activities				
	Major Governmental Funds				
Loan Program	General	Education	Highway Operating	Nonmajor Govern-mental Funds	Total Primary Government
Economic Development					
Office of Financial Incentives	$ —	$ —	$ —	$294,607	$294,607
Local Infrastructure Improvements	—	—	—	272,490	272,490
Ohio Housing Finance Agency	—	—	—	253,642	253,642
Highway, Transit, & Aviation Infrastructure Bank	—	—	71,369	—	71,369
School District Solvency Assistance	26,258	—	—	—	26,258
Vocational School Assistance	—	8,622	—	—	8,622
State Workforce Development	5,120	—	—	—	5,120
Wayne Trace Local School District	4,504	—	—	—	4,504
Rail Development	—	—	—	3,898	3,898
Office of Minority Financial Incentives	1,275	—	—	—	1,275
Columbiana County Economic Stabilization	1,184	—	—	—	1,184
Professional Development	1,040	—	—	—	1,040
Higher Education Research Investment Loans	—	—	—	566	566
Small Government Fire Departments	480	—	—	—	480
Natural Resources	—	—	—	110	110
Nurses Education Assistance	—	31	—	—	31
Loans Receivable, Gross	39,861	8,653	71,369	825,313	945,196
Estimated Uncollectible	(628)	—	—	(11,425)	(12,053)
Loans Receivable, Net	$39,233	$8,653	$71,369	$813,888	$933,143
Current-Due Within One Year	$22,967	$1,293	$ 4,420	$ 86,951	$115,631
Noncurrent-Due in More Than One Year	16,266	7,360	66,949	726,937	817,512
Loans Receivable, Net	$39,233	$8,653	$71,369	$813,888	$933,143

Major Component Units — Loans Receivable

Loan Program	Ohio Water Development Authority (12/31/04)	Ohio State University	University of Cincinnati
Water and Wastewater Treatment			
(including restricted portion)	$2,928,369	$ —	$ —
Student	—	84,459	37,249
Other	—	—	677
Loans Receivable, Gross	2,928,369	84,459	37,926
Estimated Uncollectible	—	(12,405)	(4,407)
Loans Receivable, Net	$2,928,369	$72,054	$33,519
Current-Due Within One Year	$ 1,452	$ 9,108	$ 3,224
Noncurrent-Due in More Than One Year	2,926,917	62,946	30,295
Loans Receivable, Net	$2,928,369	$72,054	$33,519

NOTE 5 RECEIVABLES (Continued)

D. Other Receivables

The other receivables balances reported for the primary government and its discretely presented major component units reporting significant balances, as of June 30, 2005, consist of the following (dollars in thousands).

Primary Government — Other Receivables

	Governmental Activities					
	Major Governmental Funds					
Type of Receivable	General	Job, Family & Other Human Services	Education	Highway Operating	Nonmajor Govern-mental Funds	Total
Manufacturers' Rebates	$384,841	$ —	$ —	$ —	$ 13,039	$397,880
Tobacco Settlement	—	—	—	—	158,923	158,923
Health Facility Bed Assessments	—	36,250	—	—	—	36,250
Interest	9,706	—	—	924	3,047	13,677
Accounts	4,213	—	302	676	6,837	12,028
Environmental Legal Settlements	—	—	—	—	10,108	10,108
Miscellaneous	18,420	2,167	—	—	—	20,587
Other Receivables, Net-Due Within One Year	$417,180	$38,417	$302	$1,600	$191,954	$649,453

	Business-Type Activities				
	Major Proprietary Funds				
Type of Receivable	Workers' Compen-sation	Lottery Com-mission	Unemploy-ment Compen-sation	Nonmajor Proprietary Funds	Total
Accounts	$991,529	$ —	$83,229	$12,000	$1,086,758
Interest and Dividends (including restricted portion)	72,094	2,775	—	271	75,140
Leases	—	—	—	11,042	11,042
Lottery Sales Agents	—	34,979	—	—	34,979
Other Receivables, Gross	1,063,623	37,754	83,229	23,313	1,207,919
Estimated Uncollectible	(819,608)	(21)	(73,438)	(80)	(893,147)
Other Receivables, Net	$244,015	$37,733	$ 9,791	$23,233	$ 314,772
Current-Due Within One Year	$244,015	$37,733	$ 9,791	$14,238	$ 305,777
Noncurrent-Due in More Than One Year	—	—	—	8,995	8,995
Other Receivables, Net	$244,015	$37,733	$ 9,791	$23,233	$ 314,772
Total Primary Government					$ 964,225

Major Component Units — Other Receivables

Type of Receivable	Ohio State University	University of Cincinnati
Accounts	$678,564	$ 27,856
Interest	19,641	10,949
Pledges	48,318	65,897
Unbilled Charges	—	22,229
Other Receivables, Gross	746,523	126,931
Estimated Uncollectible	(336,590)	(11,642)
Other Receivables, Net	$409,933	$115,289
Current-Due Within One Year	$387,451	$ 81,549
Noncurrent-Due in More Than One Year	22,482	33,740
Other Receivables, Net	$409,933	$115,289

NOTE 5 RECEIVABLES (Continued)

The "Other Receivables" balance reported in the fiduciary funds as of June 30, 2005, is comprised of interest due of $2.8 million and miscellaneous receivables of $9.6 million.

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.

As of June 30, 2005, future lease payments included under "Other Receivables" in business-type activities, net of executory costs, (dollars in thousands) were as follows:

Year Ending June 30,	Business-Type Activities
2006	$ 2,345
2007	4,802
2008	2,716
Total Minimum Lease Payments	9,863
Amount for interest	(477)
Present Value of Net Minimum Lease Payments	9,386
Unearned Income	1,656
Net Leases Receivable	$11,042

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, 2005, follow (dollars in thousands).

Primary Government — Accrued Liabilities

	Wages	Accrued Interest	Total Accrued Liabilities
Governmental Activities:			
Major Governmental Funds:			
General	$106,619	$ —	$106,619
Job, Family and Other Human Services	13,560	—	13,560
Education	1,492	—	1,492
Highway Operating	20,550	—	20,550
Nonmajor Governmental Funds	39,334	36	39,370
	181,555	36	181,591
Reconciliation of balances in fund financial statements to government-wide financial statements due to basis differences	—	113,129	113,129
Total Governmental Activities	181,555	113,165	294,720
Business-Type Activities:			
Nonmajor Proprietary Funds	4,487	90	4,577
Total Business-Type Activities	4,487	90	4,577
Total Primary Government	$186,042	$113,255	$299,297

	Wages	Health Benefit Claims	Management and Administrative Expenses	Total Accrued Liabilities
Fiduciary Activities:				
State Highway Patrol Retirement System Pension Trust (12/31/04)	$142	$699	$ —	$ 841
Variable College Savings Plan Private-Purpose Trust	—	—	5,509	5,509
Total Fiduciary Activities	$142	$699	$5,509	$6,350

NOTE 6 PAYABLES (Continued)

Major Component Units — Accrued Liabilities

	Wages & Employee Benefits	Accrued Interest	Other	Total Accrued Liabilities
Ohio State University	$198,813	$2,863	$29,402	$231,078
University of Cincinnati	59,176	3,396	9,462	72,034

B. Intergovernmental Payable

The intergovernmental payable balances for the primary government, as of June 30, 2005, are comprised of the following (dollars in thousands).

Primary Government

	Local Government				
	Shared Revenue and Local Permissive Taxes	Subsidies and Other	Federal Government	Other States	Total
Governmental Activities:					
Major Governmental Funds:					
General	$244,279	$ 88,928	$ —	$ —	$ 333,207
Job, Family and Other Human Services	—	264,685	—	—	264,685
Education	—	69,859	512	—	70,371
Highway Operating	—	795	—	—	795
Revenue Distribution	372,489	—	—	3,941	376,430
Nonmajor Governmental Funds	—	217,422	—	—	217,422
Total Governmental Activities	616,768	641,689	512	3,941	1,262,910
Business-Type Activities:					
Major Proprietary Funds:					
Unemployment Compensation	—	—	47	—	47
Nonmajor Proprietary Funds	414	—	—	—	414
Total Business-Type Activities	414	—	47	—	461
Total Primary Government	$617,182	$641,689	$ 559	$3,941	$1,263,371
Fiduciary Activities:					
Holding and Distribution Agency Fund	$ —	$ —	$3,085	$3,993	$ 7,078
Payroll Withholding and Fringe Benefits Agency Fund	—	357	—	—	357
Other Agency Fund	72,600	6,635	—	—	79,235
Total Fiduciary Activities	$ 72,600	$ 6,992	$3,085	$3,993	$ 86,670

As of June 30, 2005, the School Facilities Commission Component Unit Fund reported an intergovernmental payable balance totaling approximately $2.34 billion for long-term funding contracts the-Commission has with local school districts. In the government-wide Statement of Net Assets, the intergovernmental payable balance for the Commission is included with "Other Noncurrent Liabilities."

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.

C. Refund and Other Liabilities

Refund and other liabilities for the primary government and its discretely presented major component units reporting significant balances, as of June 30, 2005, consist of the balances reported on the tables presented on the following page (dollars in thousands).

NOTE 6 PAYABLES (Continued)

Primary Government — Refund and Other Liabilities

Governmental Activities:	Estimated Tax Refund Claims: Personal Income Tax	Corporation Franchise Tax	Total Tax Refund Liabilities	Interest on Lawyers' Trust Accounts	Other	Total
Major Governmental Funds:						
General	$567,021	$204,128	$771,149	$ —	$ 2,156	$773,305
Job, Family and Other Human Services	—	—	—	8,269	2,105	10,374
Revenue Distribution	64,766	5,623	70,389	—	—	70,389
Nonmajor Governmental Funds	—	—	—	—	3,898	3,898
	631,787	209,751	841,538	8,269	8,159	857,966
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-wide financial statements	—	—	—	—	3,140	3,140
Total Governmental Activities	$631,787	$209,751	$841,538	$8,269	$11,299	$861,106

Business-Type Activities:	Reserve for Compen-sation Adjustment	Refund & Security Deposits	Compensated Absences	Capital Leases	Other	Total
Major Proprietary Funds:						
Workers' Compensation	$1,707,720	$86,992	$22,766	$ —	$110,293	$1,927,771
Lottery Commission	—	—	2,662	—	49,968	52,630
Unemployment Compensation	—	8,556	—	—	—	8,556
Nonmajor Proprietary Funds	—	50	10,539	205	12,535	23,329
	1,707,720	95,598	35,967	205	172,796	2,012,286
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-wide financial statements	(1,707,720)	(86,992)	(35,683)	(205)	(77,120)	(1,907,720)
Total Business-Type Activities	$ —	$ 8,606	$ 284	$ —	$ 95,676	$ 104,566
Total Primary Government						$ 965,672

Fiduciary Activities:	Child Support Collections	Refund & Security Deposits	Payroll Withholdings	Retirement Systems' Assets	Other	Total
State Highway Patrol Retirement System Pension Trust (12/31/04)	$ —	$ —	$ —	$ —	$ 47	$ 47
STAR Ohio Investment Trust	—	—	—	—	2,990	2,990
Agency Funds:						
Holding and Distribution	—	16,328	—	—	—	16,328
Centralized Child Support Collections	90,477	—	—	—	—	90,477
Retirement Systems	—	—	—	143,995,483	—	143,995,483
Payroll Withholding and Fringe Benefits	—	—	121,112	—	—	121,112
Other	—	390,713	—	—	93,406	484,119
Total Fiduciary Activities	$90,477	$407,041	$121,112	$143,995,483	$96,443	$144,710,556

Major Component Units — Refund and Other Liabilities

	Refund & Security Deposits	Compensated Absences	Capital Leases	Obligations Under Annuity Life Agreements	Other	Total
Ohio State University	$57,754	$78,752	$ 15,458	$50,860	$67,424	$270,248
University of Cincinnati	4,768	65,289	126,800	—	31,036	227,893

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

A. Interfund Balances

Interfund balances, as of June 30, 2005, consist of the following (dollars in thousands):

	Due to				
	Governmental Activities				
	Major Governmental Funds				
Due from	General	Job, Family and Other Human Services	Highway Operating	Nonmajor Governmental Funds	Total
Major Governmental Funds:					
General	$ —	$3	$1	$2,618	$ 2,622
Job, Family and Other Human Services	—	—	—	—	—
Education	—	—	—	—	—
Highway Operating	—	—	—	—	—
Revenue Distribution	—	—	—	396	396
Nonmajor Governmental Funds	253,891	—	—	350	254,241
Total Governmental Activities	253,891	3	1	3,364	257,259
Nonmajor Proprietary Funds	2,760	—	—	—	2,760
Total Business-Type Activities	2,760	—	—	—	2,760
Total Primary Government	$256,651	$3	$1	$3,364	$260,019

	Business-Type Activities			
	Major Proprietary Fund			
	Workers' Compensation	Nonmajor Proprietary Funds	Total	Total Primary Government
Major Governmental Funds:				
General	$556,723	$11,985	$568,708	$ 571,330
Job, Family and Other Human Services	16,435	—	16,435	16,435
Education	2,121	—	2,121	2,121
Highway Operating	95,309	—	95,309	95,309
Revenue Distribution	—	—	—	396
Nonmajor Governmental Funds	112,661	—	112,661	366,902
Total Governmental Activities	783,249	11,985	795,234	1,052,493
Major Proprietary Funds:				
Lottery Commission	3,474	—	3,474	3,474
Nonmajor Proprietary Funds	2,827	—	2,827	5,587
Total Business-Type Activities	6,301	—	6,301	9,061
Total Primary Government	$789,550	$11,985	$801,535	$1,061,554

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 $253.6 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, approximately $251.7 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 $789.6 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 $783.2 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, 2005, consist of the following (dollars in thousands):

	Transferred to						
	Governmental Activities						
	Major Governmental Funds						
Transferred from	General	Job, Family and Other Human Services	Education	Highway Operating	Revenue Distribution	Nonmajor Governmental Funds	Total
Major Governmental Funds:							
General	$ —	$ 92,119	$ 9,961	$ 77	$ 4,695	$1,053,952	$1,160,804
Job, Family and Other Human Services	97,311	—	1,500	—	—	—	98,811
Education	31,886	—	—	—	—	—	31,886
Highway Operating	934	—	—	—	95,623	188,547	285,104
Revenue Distribution	88,149	—	—	518,557	—	224,937	831,643
Nonmajor Governmental Funds	24,981	7,570	116	685	—	14,111	47,463
Total Governmental Activities	243,261	99,689	11,577	519,319	100,318	1,481,547	2,455,711
Major Proprietary Funds:							
Workers' Compensation	7,568	—	—	—	—	—	7,568
Lottery Commission	536	—	645,137	—	—	—	645,673
Unemployment Compensation	—	35,790	—	—	—	—	35,790
Nonmajor Proprietary Funds	115,011	—	—	—	—	63,497	178,508
Total Business-Type Activities	123,115	35,790	645,137	—	—	63,497	867,539
Total Primary Government	$366,376	$135,479	$656,714	$519,319	$100,318	$1,545,044	$3,323,250

	Business-Type Activities			
	Major Proprietary Fund			
	Unemployment Compensation	Nonmajor Proprietary Funds	Total	Total Primary Government
Major Governmental Funds:				
General	$ —	$55,247	$55,247	$1,216,051
Job, Family and Other Human Services	4,639	—	4,639	103,450
Education	—	—	—	31,886
Highway Operating	—	—	—	285,104
Revenue Distribution	—	—	—	831,643
Nonmajor Governmental Funds	—	—	—	47,463
Total Governmental Activities	4,639	55,247	59,886	2,515,597
Major Proprietary Funds:				
Workers' Compensation	—	—	—	7,568
Lottery Commission	—	—	—	645,673
Unemployment Compensation	—	—	—	35,790
Nonmajor Proprietary Funds	—	—	—	178,508
Total Business-Type Activities	—	—	—	867,539
Total Primary Government	$4,639	$55,247	$59,886	$3,383,136

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 2005, the component units reported $2.46 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.

Primary Government
(dollars in thousands)

		Program Expenses for State Assistance to Component Units			
	Payable to the Component Units	Primary, Secondary and Other Education Function	Higher Education Support Function	Community And Economic Development Function	Total State Assistance to the Component Units
Major Governmental Funds:					
General	$15,160	$417,686	$1,665,252	$20,026	$2,102,964
Job, Family and Other Human Services	431	—	—	—	—
Education	268	—	—	—	—
Highway Operating	406	—	—	—	—
Nonmajor Governmental Funds	30,939	133,942	225,918	—	359,860
Total Primary Government	$47,204	$551,628	$1,891,170	$20,026	$2,462,824

Component Units
(dollars in thousands)

	Receivable from the Primary Government	Total State Assistance from the Primary Government
Major Component Units:		
School Facilities Commission	$ —	$ 525,738
Ohio State University	19,272	525,804
University of Cincinnati	889	223,031
Nonmajor Component Units	27,043	1,188,251
Total Component Units	$47,204	$2,462,824

NOTE 8 CAPITAL ASSETS

A. Primary Government

Capital asset activity, for the year ended June 30, 2005, reported for the primary government was as follows (dollars in thousands):

	Primary Government			
	Balance July 1, 2004 (as restated)	Increases	Decreases	Balance June 30, 2005
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Buildings	$ 54,602	$ 4,533	$ —	$ 59,135
Land	1,594,965	42,869	(2,318)	1,635,516
Land Improvements	930	—	—	930
Construction-in-Progress	1,710,488	516,943	(388,423)	1,839,008
Infrastructure:				
Highway Network:				
General Subsystem	8,232,748	107,384	—	8,340,132
Priority Subsystem	6,707,733	123,934	—	6,831,667
Bridge Network	2,287,175	46,517	—	2,333,692
Total Capital Assets Not Being Depreciated	20,588,641	842,180	(390,741)	21,040,080
Other Capital Assets:				
Buildings	3,190,147	59,283	(20,496)	3,228,934
Land Improvements	272,869	39,180	(5,513)	306,536
Machinery and Equipment	481,051	70,258	(27,876)	523,433
Vehicles	234,734	29,690	(20,761)	243,663
Infrastructure:				
Parks, Recreation and Natural Resources Network	24,517	8,816	(1)	33,332
Total Other Capital Assets at historical cost	4,203,318	207,227	(74,647)	4,335,898
Less Accumulated Depreciation for:				
Buildings	1,212,193	95,551	(8,518)	1,299,226
Land Improvements	128,496	12,449	(3,865)	137,080
Machinery and Equipment	321,891	55,834	(25,526)	352,199
Vehicles	108,119	20,629	(15,135)	113,613
Infrastructure:				
Parks, Recreation and Natural Resources Network	1,115	888	—	2,003
Total Accumulated Depreciation	1,771,814	185,351	(53,044)	1,904,121
Other Capital Assets, Net	2,431,504	21,876	(21,603)	2,431,777
Governmental Activities-Capital Assets, Net	$23,020,145	$864,056	$(412,344)	$23,471,857

For fiscal year 2005, the State charged depreciation expense to the following governmental functions:

Governmental Activities:	
Primary, Secondary and Other Education	$ 1,926
Higher Education Support	6
Public Assistance and Medicaid	9,765
Health and Human Services	21,902
Justice and Public Protection	62,220
Environmental Protection and Natural Resources	13,735
Transportation	28,010
General Government	71,858
Community and Economic Development	3,240
Total Depreciation Expense for Governmental Activities	212,662
Losses on Capital Asset Disposals Included in Depreciation	(27,311)
Fiscal Year 2005 Increases to Accumulated Depreciation	$185,351

NOTE 8 CAPITAL ASSETS (Continued)

	Primary Government *(Continued)*			
	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land	$ 12,631	$ —	$ (637)	$ 11,994
Construction-in-Progress	—	71	—	71
Total Capital Assets Not Being Depreciated	12,631	71	(637)	12,065
Other Capital Assets:				
Buildings	257,854	156	(35,972)	222,038
Land Improvements	66	—	—	66
Machinery and Equipment	152,104	6,279	(13,207)	145,176
Vehicles	4,538	108	(359)	4,287
Total Other Capital Assets at historical cost	414,562	6,543	(49,538)	371,567
Less Accumulated Depreciation for:				
Buildings	124,091	8,008	(23,892)	108,207
Land Improvements	49	1	—	50
Machinery and Equipment	117,176	12,073	(11,405)	117,844
Vehicles	2,076	559	(279)	2,356
Total Accumulated Depreciation	243,392	20,641	(35,576)	228,457
Other Capital Assets, Net	171,170	(14,098)	(13,962)	143,110
Business-Type Activities-Capital Assets, Net	$183,801	$(14,027)	$(14,599)	$155,175

For fiscal year 2005, the State charged depreciation expense to the following business-type functions:

Business-Type Activities:	
Workers' Compensation	$ 3,472
Lottery Commission	14,646
Tuition Trust Authority	25
Liquor Control	309
Underground Parking Garage	564
Office of Auditor of State	1,656
Total Depreciation Expense for Business-Type Activities	20,672
Losses on Capital Asset Disposals Included in Depreciation	(31)
Fiscal Year 2005 Increases to Accumulated Depreciation	$20,641

NOTE 8 CAPITAL ASSETS (Continued)

B. Major Component Units

Capital asset activity, for the year ended June 30, 2005, reported for discretely presented major component unit funds with significant capital asset balances was as follows (dollars in thousands):

	Major Component Units			
Ohio State University:	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital Assets Not Being Depreciated:				
Land	$ 42,202	$ 4,934	$ (3,120)	$ 44,016
Construction-in-Progress	377,423	—	(6,670)	370,753
Total Capital Assets Not Being Depreciated	419,625	4,934	(9,790)	414,769
Other Capital Assets:				
Buildings	2,281,483	396,167	(7,237)	2,670,413
Land Improvements	193,563	25,925	(1,647)	217,841
Machinery, Equipment and Vehicles	685,915	114,322	(51,854)	748,383
Library Books and Publications	160,540	2,816	(2,313)	161,043
Total Other Capital Assets at historical cost	3,321,501	539,230	(63,051)	3,797,680
Less Accumulated Depreciation for:				
Buildings	930,906	70,456	(3,008)	998,354
Land Improvements	112,482	8,059	(1,647)	118,894
Machinery, Equipment and Vehicles	474,835	64,215	(50,109)	488,941
Library Books and Publications	134,238	3,246	—	137,484
Total Accumulated Depreciation	1,652,461	145,976	(54,764)	1,743,673
Other Capital Assets, Net	1,669,040	393,254	(8,287)	2,054,007
Total Capital Assets, Net	$2,088,665	$398,188	$(18,077)	$2,468,776
University of Cincinnati:				
Capital Assets Not Being Depreciated:				
Land	$ 19,976	$ 1,329	$ —	$ 21,305
Construction-in-Progress	199,798	146,482	(50,655)	295,625
Collections of Works of Art and Historical Treasures	4,408	61	—	4,469
Total Capital Assets Not Being Depreciated	224,182	147,872	(50,655)	321,399
Other Capital Assets:				
Buildings	1,276,828	37,570	—	1,314,398
Land Improvements	27,926	6,826	—	34,752
Machinery, Equipment and Vehicles	146,601	16,857	(9,429)	154,029
Library Books and Publications	125,588	9,931	(1,801)	133,718
Infrastructure	76,801	1,598	—	78,399
Total Other Capital Assets at historical cost	1,653,744	72,782	(11,230)	1,715,296
Less Accumulated Depreciation for:				
Buildings	437,157	48,491	(16,045)	469,603
Land Improvements	6,603	1,490	(53)	8,040
Machinery, Equipment and Vehicles	97,883	12,026	(8,804)	101,105
Library Books and Publications	80,576	6,881	(1,801)	85,656
Infrastructure	38,339	3,115	—	41,454
Total Accumulated Depreciation	660,558	72,003	(26,703)	705,858
Other Capital Assets, Net	993,186	779	15,473	1,009,438
Total Capital Assets, Net	$1,217,368	$148,651	$(35,182)	$1,330,837

For fiscal year 2005, Ohio State University and the University of Cincinnati reported approximately $146 million and $72 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 is a cost-sharing, multiple-employer public employee retirement system that administers three separate pension plans — a defined benefit plan, a defined contribution plan, and a combined plan with features of both the defined benefit plan and the defined contribution plan.

As 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.

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 for the defined benefit portion of the plan 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.

Regular employees who participate in the defined contribution plan may retire after they reach the age of 55. The retirement allowance for the defined contribution plan is based entirely on the total member and vested employer contributions to the plan, plus or minus any investment gains or losses. Employer contributions vest at a rate of 20 percent per year over a five-year vesting period. Retirees may choose from various payment options including monthly annuities, partial lump-sum payments, payments for a guaranteed period, or various combinations of these options. 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

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

unreduced monthly pension benefit, and is capped at no more than 50 percent of the retirement benefit amount.

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 2005, 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%

Employer rates for regular employees and law enforcement employees are scheduled to increase to 13.54 percent and 16.93 percent, respectively, beginning January 1, 2006. Employee rates for regular employees are scheduled to increase to nine percent, beginning January 1, 2006.

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):

	2005	2004	2003
Primary Government:			
Regular Employees	$248,032	$235,634	$224,267
Law Enforcement Employees	3,946	3,763	3,596
Total	$251,978	$239,397	$227,863
Major Component Units:			
School Facilities Commission	$ 283	$ 346	$ 298
Ohio Water Development Authority	83	83	72
Ohio State University	63,044	54,280	51,968
University of Cincinnati	14,070	12,596	11,339

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):

	2005	2004	2003
Primary Government:			
Employer Contributions	$2,054	$1,593	$ 530
Employee Contributions	4,375	3,322	1,137
Major Component Units:			
Ohio State University:			
Employer Contributions	1,002	720	188
Employee Contributions	2,032	1,437	392
University of Cincinnati:			
Employer Contributions	200	150	39
Employee Contributions	403	291	83

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 2005, 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, 2005, were as follows (dollars in thousands):

	2005
Primary Government	$1,162
Major Component Units:	
Ohio State University	567
University of Cincinnati	113

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.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 four percent of covered payroll during fiscal year 2005. Employees do not fund any portion of healthcare costs.

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, 2003 (the latest information available), include a rate of return on investments of eight percent, an annual increase in total payroll for active employees of four 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 four percent based on additional annual pay increases. Healthcare costs were assumed to increase between five percent and 10 percent annually from 2004 through 2012, and at an annual rate of four percent thereafter.

Net assets available for payment of benefits at December 31, 2003 were $10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $26.9 billion and $16.4 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 2005, the State's actuarially required and actual contributions for the defined benefit plan and the defined benefit portion of the combined plan were as follows (dollars in thousands):

	2005
Primary Government:	
Regular Employees	$106,566
Law Enforcement Employees	1,243
Total	$107,809
Major Component Units:	
School Facilities Commission	$ 122
Ohio Water Development Authority	35
Ohio State University	27,086
University of Cincinnati	6,045

The number of active contributing participants for the primary government was 59,154, as of June 30, 2005.

B. State Teachers Retirement System of Ohio (STRS)

Pension Benefits

STRS is a cost-sharing, multiple-employer public employee retirement system that administers three separate pension plans — a defined benefit plan, a defined contribution plan, and a 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 31st 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, and each year over 30 years is increased incrementally by .1 percent starting at 2.6 percent for the 32nd year of Ohio 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.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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.

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. Employer contributions become vested after one year of service.

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 2005 were 14 percent for employers and 10 percent for employees for the defined benefit, defined contribution, and combined plans. For the defined benefit and combined plans, 13 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):

	2005	2004	2003
Primary Government	$ 6,893	$ 6,966	$ 7,248
Major Component Units:			
Ohio State University	33,075	31,995	31,181
University of Cincinnati	13,551	13,043	12,536

Contribution amounts shown for fiscal year 2003 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 three fiscal years for the defined contribution plan and the defined contribution part of the combined plan follow (dollars in thousands):

	2005	2004	2003
Primary Government:			
Employer Contributions	$ 129	$111	$ 96
Employee Contributions	184	161	138
Major Component Units:			
Ohio State University:			
Employer Contributions	1,018	634	418
Employee Contributions	1,283	819	517
University of Cincinnati:			
Employer Contributions	651	480	384
Employee Contributions	770	547	400

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.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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. 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, 2004 (the most recent information available), net assets available for future healthcare benefits were $3.1 billion. Net healthcare costs paid by the primary government and its discretely presented major component units, for the year ended June 30, 2005, were as follows (dollars in thousands):

	2005
Primary Government	$ 530
Major Component Units:	
Ohio State University	2,544
University of Cincinnati	1,042

The number of eligible benefit recipients for STRS as a whole was 147,545, as of June 30, 2004; a breakout of the number of eligible recipients for the primary government and its component units, as of June 30, 2005, 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, 2004, were as follows:

Contribution Rates	
Employee Share	Employer Share
10.0%	24.50%

The employer's share is scheduled to increase to 25.5 percent on July 1, 2005.

During calendar year 2004, all of the employees' contributions funded pension benefits while 21 percent of the employer's contributions funded pension benefits. 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.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

(A) Valuation Year	(B) Actuarial Accrued Liability (AAL)	(C) Valuation Assets	(D) Unfunded Actuarial Accrued Liability (UAAL) (B) – (C)	(E) Ratio of Assets to AAL (C)/(B)	(F) Active Member Payroll	(G) UAAL as Percentage of Active Member Payroll (D)/(F)
2004 (a)	$734,464	$569,858	$164,606	77.6%	$81,758	201.3%
2004	737,867	569,858	168,009	77.2	81,758	205.5
2003	702,799	545,982	156,817	77.7	81,738	191.9
2002 (b)	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

(a) Plan Amendment
(b) Change in assumption or method.

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

For the Year Ended December 31,	Primary Government	Percentage of Employer's Annual Pension Cost Contributed
2004	$17,870	100%
2003	16,307	100%
2002	15,393	100%

SHPRS used the entry-age, normal actuarial cost method for the Schedule of Funding Progress for the actuarial valuation, dated December 31, 2004. Assumptions used in preparing the Schedule of Funding Progress and in determining the annual required contribution include: an eight-percent rate of return on investments; projected salary increase of four 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 four percent a year; and postretirement increases each year equal to three 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 34 years.

The Schedule of Funding Progress for the last three years is presented in the table at the top of the page. 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, 2004, was 1,562. The cost of retiree healthcare benefits is recognized as claims are incurred and premiums are paid. The calendar year 2004 expense was $7.4 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 four percent, compounded annually, due to inflation, was also used in the valuation. Net assets available for benefits allocated to healthcare costs at December 31, 2004 were $93.7 million, and included investments carried at fair value, as previously described.

As of December 31, 2004, 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 $162.6 million; the actuarial accrued liability for healthcare benefits at that date was $256.3 million.

Employer contributions are made in accordance with actuarially determined requirements. For calendar year 2004, the employer contribution requirement was approximately $3 million or 3.5 percent of active member payroll.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 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, 2005, to STRS in cases when the employee would have otherwise been enrolled in STRS.

For the year ended June 30, 2005, 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, 2005, for the ARP follow (dollars in thousands):

	Fiscal Year 2005	
	OPERS	STRS
Major Component Units:		
Ohio State University:		
Employer Contributions	$16,147	$10,946
Employee Contributions	10,312	10,425
University of Cincinnati:		
Employer Contributions	5,751	5,085
Employee Contributions	3,673	4,843

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, 2005, the General Assembly had authorized the issuance of $3.04 billion in Common Schools Capital Facilities Bonds, of which $2.19 billion had been issued. As of June 30, 2005, the General Assembly had also authorized the issuance of $2.33 billion in Higher Education Capital Facilities Bonds, of which $1.55 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, 2005, the General Assembly had authorized the issuance of approximately $2.13 billion in Highway Capital Improvements Bonds, of which $1.44 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, 2005, the General Assembly had authorized $2.28 billion of these bonds to be sold (excluding any amounts for unaccreted discount on capital appreciation bonds at issuance), of which $2.04 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, 2005, for Highway Obligations, 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, 2005, the General Assembly had authorized the issuance of $165 million in Coal Research and Development Bonds, of which $150 million had been issued. Legislative authorizations for the issuance of Natural Resources Capital Facilities Bonds totaled $301 million, as of June 30, 2005 of which $265 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, 2005, the General Assembly had authorized the issuance of approximately $150 million in Conservation Projects Bonds of which $100 million had been issued.

General obligation bonds outstanding and future general obligation debt service requirements, as of June 30, 2005, are presented in the table on the following page.

For the year ended June 30, 2005, 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, 2005
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Common Schools Capital Facilities	2000-05	3.2%-5.4%	2025	$2,075,129	$ 845,000
Higher Education Capital Facilities	2000-05	3.6%-5.4%	2025	1,420,237	777,000
Highway Capital Improvements	1997-05	3.0%-5.0%	2015	822,488	695,000
Infrastructure Improvements	1990-05	2.0%-7.6%	2024	1,408,528	240,014
Coal Research and Development	1996-04	2.4%-5.0%	2013	41,643	15,000
Natural Resources Capital Facilities	1995-05	3.0%-5.2%	2020	179,281	36,000
Conservation Projects	2002-04	3.5%-4.3%	2019	91,897	50,000
Total General Obligation Bonds				$6,039,203	$2,658,014

Future Funding of Current Interest and Capital Appreciation Bonds:

Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2006	$ 413,290	$ 240,869	$ (52)	$ 654,107
2007	412,695	225,768	(42)	638,421
2008	408,990	209,016	(32)	617,974
2009	398,800	191,341	(22)	590,119
2010	388,185	173,717	(11)	561,891
2011-2015	1,656,120	626,942	—	2,283,062
2016-2020	1,076,155	310,584	—	1,386,739
2021-2025	644,225	65,503	—	709,728
Total Current Interest and Capital Appreciation Bonds	$5,398,460	$2,043,740	$(159)	$7,442,041

Future Funding of Variable-Rate Bonds:

Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2006	$ 8,975	$ 13,720	$ 5,879	$ 28,574
2007	9,030	13,703	5,870	28,603
2008	9,095	13,669	5,805	28,569
2009	9,195	13,631	5,562	28,388
2010	11,145	13,374	5,233	29,752
2011-2015	102,790	61,992	22,658	187,440
2016-2020	242,900	37,322	15,178	295,400
2021-2025	158,110	10,442	4,211	172,763
Total Variable-Rate Bonds	551,240	$177,853	$70,396	$799,489
Total General Obligation Bonds	5,949,700			
Unamortized Discount/ (Premium), Net	150,548			
Deferred Refunding Loss	(61,045)			
Total Carrying Amount	$6,039,203			

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, 2005. 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, 2005, approximately $576.6 million of issued Infrastructure Improvement Bonds and Common Schools Bonds include associated interest-rate swaps. The State has also entered into $200 million of forward-starting interest-rate swaps for bonds currently scheduled to be issued during fiscal year 2006. Terms of the swap agreements are provided below. Fair value has been estimated using quoted market value. Rates marked with an (*) indicate a weighted-average rate based on payment dates.

Primary Government-Governmental Activities
Interest Rate Swaps
As of June 30, 2005
(dollars in thousands)

Issue	Type of Swap	Original Notional Amount	Underlying Index	Counterparty's Swap Rate at 06/30/05	State's Swap Rate at 06/30/05	Effective Date	Termination (Maturity) Date	Fair Value
Infrastructure Improvements, Series 2001B	Floating to fixed knock-out	$63,900	BMA Index	*2.33%	4.63%	11/29/01	08/01/21	$(8,551)
Credit Quality Ratings of Counterparties:	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	2.62%	2.96%	02/26/03	08/01/08	$(165)
Credit Quality Ratings of Counterparty:	Aa3/A+ Morgan Stanley Capital Services							
Infrastructure Improvements, Refunding Series 2003D	Floating to fixed	$58,085	Actual Bond Rate	2.62%	3.04%	03/20/03	02/01/10	$(12)
Credit Quality Ratings of Counterparty:	Aa3/A+ Morgan Stanley Capital Services							
Infrastructure Improvements, Series 2003F	Fixed to floating	$30,115	BMA Index	2.54%	*2.33%	12/04/03	02/01/10	$(284)
Credit Quality Ratings of Counterparty:	Aa3/AA- JP Morgan Chase							
Infrastructure Improvements, Refunding Series 2004A	Floating to fixed Enhanced LIBOR	$58,725	LIBOR (see terms below)	2.14%	3.51%	03/03/04	02/01/23	$(3,187)
Credit Quality Ratings of Counterparty:	Aa3/A+ Morgan Stanley Capital Services							
Terms: 68% of LIBOR (1-month LIBOR > 5.0%) or 63% of LIBOR + 25 basis points (1-month LIBOR < 5.0%)								
Common Schools, Series 2003D	Fixed to floating	$67,000	BMA Index	2.67%	*2.42%	12/15/03	09/01/07	$(378)
Credit Quality Ratings of Counterparties:	50% Aa3/AA- JP Morgan Chase; 50% Aa3/A+ Morgan Stanley Capital Services							
Common Schools, Series 2005A	Floating to fixed	$100,000	BMA Index	*2.42%	4.08%	04/01/05	03/15/25	$(4,646)
Credit Quality Ratings of Counterparties:	50% Aaa/AAA Bear Stearns Financial Products; 50% Aa3/AA- JP Morgan Chase							
Common Schools, Series 2005B	Floating to fixed	$100,000	BMA Index	*2.42%	4.08%	04/01/05	03/15/25	$(4,646)
Credit Quality Ratings of Counterparties:	50% Aaa/AAA Bear Stearns Financial Products; 50% Aa3/AA- JP Morgan Chase							
Common Schools, 2006-Series to be determined	Floating to fixed LIBOR	$100,000	LIBOR (see terms below)	N/A	N/A	06/15/06	06/15/26	$(418)
Credit Quality Ratings of Counterparties:	50% Aa2/AA+ UBS AG; 50% Aa2/AA- Royal Bank of Canada;							
Terms: 65% of 1-month LIBOR + 25 basis points								
Common Schools, 2006-Series to be determined	Floating to fixed LIBOR	$100,000	LIBOR (see terms below)	N/A	N/A	06/15/06	06/15/26	$(418)
Credit Quality Ratings of Counterparties:	50% Aa2/AA+ UBS AG; 50% Aa2/AA- Royal Bank of Canada							
Terms: 65% of 1-month LIBOR + 25 basis points								

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, 2005. 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, 2005. 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, 2010, which is consistent with its long-term asset/liability management policy objective.

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2005. 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-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 synthetic variable-rate debt that is exposed to changing interest rates. The borrowing cost 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, 2005. 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.

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2005. 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.

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. Given that the variable swap receipt is based on a taxable index (LIBOR), the State assumes the risk of reductions in marginal federal tax rates or elimination of the tax preference for municipal securities. Those changes would increase the interest rates on the underlying variable rate debt but would not impact the variable rate swap receipt based on the LIBOR index.

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 21.5 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, 2005. 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.

Common Schools-Series 2005A
The State entered into an interest rate swap to convert its Common Schools, Series 2005A variable-rate bonds into a synthetic fixed rate. 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.

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2005. 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.

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.

Common Schools-Series 2005B
The State entered into an interest rate swap to convert its Common Schools, Series 2005B variable-rate bonds into a synthetic fixed rate. 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.

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2005. 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.

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.

Common Schools-2006 Series to be determined
The State entered into two forward-starting interest rate swaps to convert two series of future Common Schools variable-rate bonds into synthetic fixed rates. 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.

The State was not exposed to credit risk because both swaps had a negative fair value at June 30, 2005. However, should interest rates change and the fair value of the swaps becomes positive, the State would be exposed to credit risk in the amount of the fair value of the derivatives.

These swaps expose the State to basis risk or a mismatch (shortfall) between the floating rate received on the swaps 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 swaps higher. Given that the variable swap receipt is based on a taxable index (LIBOR), the State assumes the risk of reductions in marginal federal tax rates or elimination of the tax preference for municipal securities. Those changes would increase the interest rates on the underlying variable rate debt but would not impact the variable rate swap receipt based on the LIBOR index.

Advance Refundings
During fiscal year 2005, there were three advance refundings of general obligation bonds as follows:

The State issued approximately $39.5 million in Infrastructure Improvements refunding bonds (Series 2004C) with a true interest cost rate of 3.4 percent to defease approximately $40.5 million (in substance). Net refunding bond proceeds of $43.4 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 $2.5 million over the next 11 years. The net economic gain from the refunding was $1.6 million.

The State issued approximately $18.9 million in Common Schools refunding bonds (Series 2004C) with a true interest cost rate of 3.4 percent to defease approximately $20 million (in substance). Net refunding bond proceeds of $20.9 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 $1.7 million over the next 11 years. The net economic gain from the refunding was $1 million.

The State issued approximately $47.4 million in Natural Resources refunding bonds (Series J) with a true interest cost rate of 3.3 percent to defease approximately $45.2 million (in substance). Net refunding bond proceeds of $48.8 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 $3.3 million over the next 11 years. The net economic gain from the refunding was $2.1 million.

Proceeds of the new bonds are placed in irrevocable trusts to provide for all future debt service payments of the old bonds. These amounts are considered defeased and no longer outstanding. The various trust accounts' assets and liabilities for the defeased bonds are not included in the State's financial statements.

In addition to the general obligation bonds defeased during fiscal year 2005, the Treasurer of State has defeased other Infrastructure Improvement Bonds, Natural Resources Bonds, Common Schools Bonds, and Higher Education Bonds in prior years and placed the proceeds in irrevocable trusts. As of June 30, 2005, the balances in these trusts for bonds defeased in prior years were $442.2 million for Infrastructure Improvement Bonds, $8.4 million for Natural Resources Bonds, $57.6 million for Common Schools Bonds, and $56.2 million for Higher Education Bonds.

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 Financial Incentives, 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 Financial Incentive'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. During fiscal year 2005, the Treasurer of State issued $50 million in Economic Development bonds.

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. The Revitalization Project bonds 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, 2005, are presented in the table below.

For the year ended June 30, 2005, NOTE 15 summarizes changes in revenue bonds.

Future bond service requirements for revenue bonds of the primary government, as of June 30, 2005, are presented in the table at the top of the following page.

In December 1998, the Treasurer of State entered into a forward purchase refunding agreement to advance refund approximately $102 million in Series

Primary Government
Revenue Bonds
As of June 30, 2005
(dollars in thousands)

	Fiscal Year Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Governmental Activities:				
Treasurer of State:				
Economic Development	1997-05	3.8%-7.8%	2025	$278,974
State Infrastructure Bank	1998-04	2.0%-5.0%	2011	264,375
Revitalization Project	2003	3.0%-5.0%	2018	48,539
Total Governmental Activities				591,888
Business-Type Activities:				
Bureau of Workers' Compensation	2003	1.6%-4.0%	2014	142,202
Ohio Building Authority	1997-04	2.0%-6.0%	2008	8,861
Total Business-Type Activities				151,063
Total Revenue Bonds				$742,951

NOTE 11 REVENUE BONDS AND NOTES (Continued)

Primary Government
Future Funding Requirements for Revenue Bonds
As of June 30, 2005
(dollars in thousands)

	Governmental Activities			Business-Type Activities			Total		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2006	$ 64,460	$ 31,462	$ 95,922	$ 15,237	$ 6,770	$ 22,007	$ 79,697	$ 38,232	$ 117,929
2007	65,605	28,325	93,930	18,803	6,050	24,853	84,408	34,375	118,783
2008	66,830	25,062	91,892	17,741	5,337	23,078	84,571	30,399	114,970
2009	59,310	21,861	81,171	16,005	4,606	20,611	75,315	26,467	101,782
2010	45,015	18,923	63,938	15,930	3,867	19,797	60,945	22,790	83,735
2011-2015	98,085	70,291	168,376	62,870	7,730	70,600	160,955	78,021	238,976
2016-2020	104,020	40,192	144,212	—	—	—	104,020	40,192	144,212
2021-2025	72,235	8,685	80,920	—	—	—	72,235	8,685	80,920
	575,560	244,801	820,361	146,586	34,360	180,946	722,146	279,161	1,001,307
Net Unamortized Premium/(Discount)	16,328	—	16,328	8,480	—	8,480	24,808	—	24,808
Deferred Refunding Loss	—	—	—	(4,003)	—	(4,003)	(4,003)	—	(4,003)
Total	$591,888	$244,801	$836,689	$151,063	$34,360	$185,423	$742,951	$279,161	$1,022,112

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, 2005, no obligation for the refunding bonds has been included in the financial statements.

In prior years, the OBA 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, 2005, $826 thousand of OBA revenue bonds are considered defeased and no longer outstanding.

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, 2004, approximately $1.2 billion in bonds were outstanding for this program.

Future bond service requirements for the Water Pollution Control Loan Program revenue bonds, as of December 31, 2004, were as follows (dollars in thousands):

Year Ending December 31,	Principal	Interest	Total
2005	$ 42,240	$ 60,658	$ 102,898
2006	49,560	58,335	107,895
2007	52,920	55,945	108,865
2008	61,080	53,606	114,686
2009	61,260	47,426	108,686
2010-2014	356,000	185,607	541,607
2015-2019	332,080	97,812	429,892
2020-2024	201,705	25,250	226,955
2025-2029	8,940	223	9,163
	1,165,785	584,862	1,750,647
Net Unamortized Premium/(Discount)	66,766	—	66,766
Deferred Refunding Loss	(23,200)	—	(23,200)
Total	$1,209,351	$584,862	$1,794,213

Generally, bonds and notes issued by the state universities and state community colleges are payable

NOTE 11 REVENUE BONDS AND NOTES (Continued)

Major Component Units
Future Funding Requirements for Revenue Bonds
As of June 30, 2005
(dollars in thousands)

Year Ending December 31 or June 30,	Ohio Water Development Authority (12/31/04) Principal	Interest	Total	Ohio State University Principal	Interest	Total	University of Cincinnati Principal	Interest	Total
2005	$ 111,700	$ 108,592	$220,292						
2006	144,350	102,801	247,151	$473,739	$ 24,139	$ 497,878	$ 44,611	$ 32,033	$ 76,644
2007	142,885	97,050	239,935	17,552	17,686	35,238	26,885	30,181	57,066
2008	96,060	91,445	187,505	19,588	17,118	36,706	32,420	29,061	61,481
2009	118,320	83,477	201,797	18,659	16,470	35,129	27,270	27,839	55,109
2010	—	—	—	19,145	15,762	34,907	27,540	26,742	54,282
2010-2014	621,150	385,313	1,006,463	—	—	—	—	—	—
2011-2015	—	—	—	96,208	66,627	162,835	150,225	115,326	265,551
2015-2019	536,130	190,759	726,889	—	—	—	—	—	—
2016-2020	—	—	—	78,865	45,889	124,754	173,120	78,993	252,113
2020-2024	353,195	59,658	412,853	—	—	—	—	—	—
2021-2025	—	—	—	60,585	26,216	86,801	142,070	42,758	184,828
2025-2029	55,350	9,837	65,187	—	—	—	—	—	—
2026-2030	—	—	—	49,565	12,800	62,365	106,235	15,114	121,349
2030-2034	17,800	2,107	19,907	—	—	—	—	—	—
2031-2035	—	—	—	21,996	1,810	23,806	17,825	652	18,477
	2,196,940	1,131,039	3,327,979	855,902	244,517	1,100,419	748,201	398,699	1,146,900
Net Unamortized Premium/(Discount)	86,141	—	86,141	—	—	—	1,804	—	1,804
Deferred Refunding Loss	(39,132)	—	(39,132)	—	—	—	—	—	—
Total	$2,243,949	$1,131,039	$3,374,988	$855,902	$244,517	$1,100,419	$750,005	$398,699	$1,148,704

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 $140.3 million in bonds had adjustable interest rates that are reset weekly at rates determined by the remarketing agency. As of December 31, 2004, the rate for the variable-rate bonds was 2 percent.

Future bond service requirements for revenue bonds and notes reported for the discretely presented major component units, as of June 30, 2005, are presented in the above table.

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.

NOTE 12 SPECIAL OBLIGATION BONDS (Continued)

Primary Government-Governmental Activities
Special Obligation Bonds
As of June 30, 2005
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Ohio Building Authority	1986-05	2.0%-9.8%	2025	$2,266,563	$261,910
Treasurer of State:					
Chapter 154 Bonds:					
Higher Education Facilities	1996-05	3.2%-5.6%	2014	964,186	—
Mental Health Facilities	1996-05	3.1%-5.3%	2019	255,059	72,915
Parks and Recreation Facilities	1998-05	2.5%-5.5%	2020	134,363	22,000
Elementary and Secondary Education	1997-99	3.5%-5.6%	2008	79,765	—
Total Special Obligation Bonds				$3,699,936	$356,825

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 reported in the fund financial statements as interfund transfers.

Special obligation bonds outstanding and bonds authorized but unissued, as of June 30, 2005, are presented in above table.

Future special obligation debt service requirements, as of June 30, 2005, were as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2006	$ 453,779	$ 176,517	$ 630,296
2007	451,957	149,961	601,918
2008	440,594	128,522	569,116
2009	332,565	108,778	441,343
2010	321,340	92,140	413,480
2011-2015	1,064,875	266,149	1,331,024
2016-2020	430,295	87,877	518,172
2021-2025	144,780	17,090	161,870
	3,640,185	1,027,034	4,667,219
Net Unamortized Premium/ (Discount)	150,232	—	150,232
Deferred Refunding Loss	(90,481)	—	(90,481)
Total	$3,699,936	$1,027,034	$4,726,970

For the year ended June 30, 2005, NOTE 15 summarizes changes in special obligation bonds.

During fiscal year 2005, 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 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 2005 are presented in the table on the following page.

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, 2005, $135 million and $351.7 million of OBA and Chapter 154 special obligation bonds, respectively, are considered defeased and no longer outstanding.

NOTE 12 SPECIAL OBLIGATION BONDS (Continued)

Primary Government — Governmental Activities
Special Obligation Bonds
Details of Advance Refundings
For the Year Ended June 30, 2005
(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 *(in substance)*	Refunding Bond Proceeds Placed in Escrow	Reduction in Debt Service Payments	Economic Gain Resulting from Refunding
Ohio Building Authority:							
State Facilities (Administrative Building), Series 2004B	10/21/04	$130,750	3.6%	$132,412	$142,615	$4,278 over next 15 years	$ 3,655
State Facilities (Adult Correctional Building), Series 2004C	10/21/04	225,350	3.6%	228,152	248,592	$11,232 over next 15 years	8,179
State Facilities (Administrative Building), Series 2005B	3/30/05	29,150	3.5%	29,644	31,172	$997 over next 7 years	895
Treasurer of State Chapter 154:							
Higher Education Facilities, Series II-2004A	10/5/04	173,975	3.5%	177,000	189,488	$9,913 over next 9 years	5,230
Mental Health Facilities, Series II- 2004A	10/5/04	30,035	3.5%	30,415	32,455	$1,808 over next 8 years	946
Parks and Recreation Facilities, Series II-2004B	10/5/04	11,740	3.5%	10,640	11,592	$693 over next 10 years	484
Total..		$601,000		$608,263	$655,914		$19,389

NOTE 13 CERTIFICATES OF PARTICIPATION

As of June 30, 2005, approximately $92.1 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. In fiscal year 2005, the Ohio Department of Administrative Services participated in the issuance of $79.2 million of COP obligations to finance the acquisition of the Ohio Administrative Knowledge System (OAKS), a statewide Enterprise Resource Planning (ERP) system.

Under the COP financing arrangements, the State is required to make rental payments from the Transportation Certificates of Participation Debt Service Fund, the OAKS 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, 2005, are presented in the table at the top of the following page.

As of June 30, 2005, the primary government's future commitments under the COP financing arrangements were as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2006	$ 1,005	$ 3,265	$ 4,270
2007	800	4,291	5,091
2008	6,780	4,101	10,881
2009	7,125	3,758	10,883
2010	7,495	3,387	10,882
2011-2015	42,300	10,597	52,897
2016-2017	19,215	1,022	20,237
	84,720	30,421	115,141
Net Unamortized Premium	7,422	—	7,422
Total	$92,142	$30,421	$122,563

NOTE 13 CERTIFICATES OF PARTICIPATION (Continued)

Primary Government — Governmental Activities
Certificate of Participation Obligations
As of June 30, 2005
(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	$ 4,675
Rickenbacker Port Authority Improvements	1996	6.1%	2007	860
Department of Administrative Services:				
Ohio Administrative Knowledge System (OAKS)	2005	3.8%	2017	86,607
Total Certificates of Participation				$92,142

For the year ended June 30, 2005, NOTE 15 summarizes changes in COP obligations.

For the State's component units, approximately $28.5 million in COP obligations are reported in the component unit funds. The obligations finance building construction costs at The Ohio State University, the University of Cincinnati, and the University of Akron.

As of June 30, 2005, 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, 2005
(dollars in thousands)

	Ohio State University			University of Cincinnati		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total
2006	$ 355	$ 294	$ 649	$ 30	$15	$ 45
2007	360	277	637	30	14	44
2008	390	260	650	35	11	46
2009	405	242	647	35	10	45
2010	425	222	647	35	7	42
2011-2015	2,455	773	3,228	105	11	116
2016-2020	1,790	136	1,926	—	—	—
2021-2025	—	—	—	—	—	—
2026-2030	—	—	—	—	—	—
2031-2035	—	—	—	—	—	—
Total	$6,180	$2,204	$8,384	$270	$68	$338

	University of Akron			Total Component Units		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total
2006	$ 140	$ 1,585	$ 1,725	$ 525	$ 1,894	$ 2,419
2007	275	1,450	1,725	665	1,741	2,406
2008	295	1,430	1,725	720	1,701	2,421
2009	315	1,410	1,725	755	1,662	2,417
2010	340	1,385	1,725	800	1,614	2,414
2011-2015	2,095	6,530	8,625	4,655	7,314	11,969
2016-2020	2,960	5,665	8,625	4,750	5,801	10,551
2021-2025	4,090	4,535	8,625	4,090	4,535	8,625
2026-2030	5,580	3,045	8,625	5,580	3,045	8,625
2031-2035	5,910	990	6,900	5,910	990	6,900
Total	$22,000	$28,025	$50,025	$28,450	$30,297	$58,747

NOTE 14 OTHER NONCURRENT LIABILITIES

As of June 30, 2005, 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):

Governmental Activities:	
Compensated Absences	$ 397,617
Capital Leases Payable	2,471
Estimated Claims Payable	6,623
Liability for Escheat Property	203,501
Total Governmental Activities	610,212
Business-Type Activities:	
Compensated Absences	35,683
Capital Leases Payable	205
Workers' Compensation:	
Unearned Revenue	389,332
Benefits Payable	15,116,014
Other	1,862,304
Deferred Prize Awards Payable	843,418
Tuition Benefits Payable	1,106,800
Workers Compensation Claims-Auditor of State's Office	9,528
Total Business-Type Activities	19,363,284
Total Primary Government	$19,973,496

For the year ended June 30, 2005, 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, 2005, was $433.3 million, of which $397.6 million is allocable to governmental activities and $35.7 million is allocable to business-type activities.

As of June 30, 2005, discretely presented major component units reported a total of $144.8 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 2005 were approximately $83.7 million.

Future minimum lease commitments for operating leases and capital leases judged to be noncancelable, as of June 30, 2005, were as follows (dollars in thousands):

Primary Government

Year Ending June 30,	Operating Leases
2006	$ 6,033
2007	2,518
2008	1,114
2009	970
2010	73
Total minimum lease payments	$10,708

	Capital Leases		
Year Ending June 30,	Governmental Activities	Business-Type Activities	Total
2006	$1,338	$ 82	$1,420
2007	877	81	958
2008	494	58	552
2009	64	10	74
2010	5	2	7
Total Minimum Lease Payments	2,778	233	3,011
Amount for interest	(307)	(28)	(335)
Present Value of Net Minimum Lease Payments	$2,471	$205	$2,676

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

As of June 30, 2005, the primary government had the following capital assets under capital leases (dollars in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Equipment	$5,572	$168	$5,740

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 and component unit funds.

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, 2005, are presented in the table below.

Major Component Units

	Capital Leases	
Year Ending June 30,	Ohio State University	University of Cincinnati
2006	$ 6,919	$ 11,042
2007	4,892	11,491
2008	2,146	11,694
2009	842	12,725
2010	650	12,551
2011-2015	1,006	52,521
2016-2020	—	42,012
2021-2025	—	34,414
2026-2030	—	9,380
Total Minimum Lease Payments	16,455	197,830
Amount for interest	(997)	(71,030)
Present Value of Net Minimum Lease Payments	$15,458	$126,800
Equipment & Vehicles.................	$46,955	$ —
Buildings................	—	141,909
Total	$46,955	$141,909

C. Estimated Claims Payable
For governmental activities, the State recognized $3.4 million in estimated claims liabilities, as of June 30, 2005, for damaged state vehicles covered under the State's self-insured program, which was established in the General Fund for this purpose at the Department of Administrative Services.

Additionally, the State reported $3.2 million in estimated claims for defaulted loans under the Ohio Enterprise Bond Program at the Ohio Department of Development, as of June 30, 2005. The program is included in governmental activities and is accounted for in the Community and Economic Development Special Revenue Fund.

D. 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, 2005, this liability totaled approximately $203.5 million.

E. Workers' Compensation

Unearned Revenue
Unearned revenue in the amount of $389.3 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, 2005, in the amount of approximately $15.12 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.

F. Deferred Prize Awards Payable
The deferred prize awards payable in installments over future years totaling approximately $843.4 million, as of June 30, 2005, is reported at present value based upon interest rates the Treasurer of State provides the Lottery Commission Enterprise Fund. The interest rates, ranging from four to 11.69 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

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

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.

Future payments of prize awards, stated at present value, as of June 30, 2005, follow (dollars in thousands):

Year Ending June 30,	
2006	$197,646
2007	116,373
2008	100,875
2009	85,453
2010	68,452
2011-2015	327,561
2016-2020	250,950
2021-2025	104,402
	1,251,712
Unamortized Discount	(408,294)
Net Prize Liability	$843,418

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

G. Tuition Benefits Payable

The actuarial present value of future tuition benefits payable from the Tuition Trust Authority Enterprise Fund were approximately $1.11 billion, as of June 30, 2005. 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: seven percent rate of return, compounded annually, on the investment of current and future assets; a projected annual tuition increase of eight percent for Fall 2006 and 10 percent 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, 2004	$(294.6)
Interest on the Deficit at 7.0 Percent	(20.6)
Investment Gain	11.0
Lower-Than-Assumed Tuition Increase	37.7
More Units/Credits Redeemed Than Expected	0.7
Lower-Than-Expected Credit Payouts	0.1
Interest Gain on Late Tuition Payouts	0.5
Change in Assumptions	19.0
Change in Credit Bias	.6
Other	(4.4)
	(250.0)
Value of Future Contingent Payments for Variable Investment Options	48.8
Actuarial Deficit, as of June 30, 2005	$(201.2)

As of June 30, 2005, the market value of actuarial net assets available for payment of the tuition benefits payable was $856.8 million.

H. Other Liabilities

The Workers' Compensation Enterprise Fund reports approximately $1.86 billion in other noncurrent liabilities, as of June 30, 2005, of which 1.) $1.71 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.) $87 million represents premium payment security deposits collected in advance from private employers to reduce credit risk for premiums collected in subsequent periods, and 3.) $67.6 million consists of other miscellaneous liabilities.

Additionally, the Office of the Auditor of State Enterprise Fund reports $9.5 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, 2005 (See NOTE 7A.).

NOTE 15 CHANGES IN NONCURRENT LIABILITIES

Primary Government
Changes in noncurrent liabilities, for the year ended June 30, 2005, are presented for the primary government in the following table.

Primary Government
Changes in Noncurrent Liabilities
For the Fiscal Year Ended June 30, 2005
(dollars in thousands)

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Amount Due Within One Year
Governmental Activities:					
Bonds and Notes Payable:					
General Obligation Bonds (NOTE 10)	$ 5,420,711	$1,171,222	$ (552,730)	$ 6,039,203	$ 422,591
Revenue Bonds (NOTE 11)..........................	607,958	50,784	(66,854)	591,888	65,124
Special Obligation Bonds (NOTE 12)	3,914,168	925,544	(1,139,776)	3,699,936	456,690
Total Bonds and Notes Payable	9,942,837	2,147,550	(1,759,360)	10,331,027	944,405
Certificates of Participation (NOTE 13)	6,480	86,607	(945)	92,142	1,005
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	382,208	347,668	(332,259)	397,617	44,433
Capital Leases Payable................................	3,460	334	(1,323)	2,471	1,199
Estimated Claims Payable............................	6,552	1,391	(1,320)	6,623	1,578
Liability for Escheat Property........................	173,935	77,843	(48,277)	203,501	65,446
Total Other Noncurrent Liabilities	566,155	427,236	(383,179)	610,212	112,656
Noncurrent Liabilities.......................................	10,515,472	$2,661,393	$(2,143,484)	$11,033,381	$1,058,066
Prior Period Adjustment::					
Estimated Claims Payable (NOTE 2)	(3,000)				
Account Reclassifications:					
Special Obligation Bonds Payable	(9,688)				
Estimated Claims Payable............................	(3,552)				
Noncurrent Liabilities, as previously reported for June 30, 2004	$10,499,232				
Business-Type Activities:					
Bonds and Notes Payable:					
Revenue Bonds (NOTE 11)..........................	$ 158,578	$ 1,326	$ (8,841)	$ 151,063	$ 15,237
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences..............................	34,563	30,780	(29,660)	35,683	1,331
Capital Leases Payable	30,368	168	(30,331)	205	66
Workers' Compensation:					
Unearned Revenue	394,319	11,348	(16,335)	389,332	17,181
Benefits Payable..	14,619,873	2,582,141	(2,086,000)	15,116,014	1,746,891
Other:					
Adjustment Expenses Liability	1,647,199	314,521	(254,000)	1,707,720	466,520
Premium Payment Security Deposits.......	85,679	3,516	(2,203)	86,992	—
Miscellaneous	17,142	70,786	(20,336)	67,592	11,506
Deferred Prize Awards Payable..................	856,903	159,730	(173,215)	843,418	148,402
Tuition Benefits Payable..............................	1,141,700	21,633	(56,533)	1,106,800	67,300
Workers' Compensation Claims- Auditor of State's Office............................	7,828	1,700	—	9,528	539
Total Other Noncurrent Liabilities	18,835,574	3,196,323	(2,668,613)	19,363,284	2,459,736
Noncurrent Liabilities.......................................	18,994,152	$3,197,649	$(2,677,454)	$19,514,347	$2,474,973
Account Reclassifications:					
Revenue Bonds Payable	(41)				
Noncurrent Liabilities, as previously reported for June 30, 2004	$18,994,111				

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 2005, 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.

	(in 000s)
Governmental Activities:	
Primary, Secondary and Other Education	$102,667
Higher Education Support	120,240
Environmental Protection and Natural Resources	597
Transportation	4
Community and Economic Development	112,609
Total Interest Expense Charged to Governmental Functions	$336,117

Component Units

Changes in noncurrent liabilities, for the year ended June 30, 2005 (December 31, 2004 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, 2005
(dollars in thousands)

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Amount Due Within One Year
School Facilities Commission:					
Intergovernmental Payable	$1,990,909	$ 816,408	$ (465,890)	$2,341,427	$784,640
Compensated Absences*	523	473	(441)	555	93
Total	$1,991,432	$ 816,881	$ (466,331)	$2,341,982	$784,733
Ohio Water Development Authority:					
Revenue Bonds & Notes Payable (NOTE 11)	$1,560,981	$ 886,347	$ (203,379)	$2,243,949	$111,554
Compensated Absences*	142	19	—	161	20
Total	$1,561,123	$ 886,366	$ (203,379)	$2,244,110	$111,574
Ohio State University:					
Unearned Revenue	$ 93,954	$1,694,584	$(1,687,868)	$ 100,670	$ 96,670
Compensated Absences*	70,518	13,802	(5,568)	78,752	5,568
Capital Leases Payable*	15,010	6,784	(6,336)	15,458	6,486
Other Liabilities*	115,969	7,696	(5,381)	118,284	4,572
Revenue Bonds & Notes Payable (NOTE 11)	792,696	163,403	(100,197)	855,902	473,739
Certificates of Participation (NOTE 13)	6,900	—	(720)	6,180	355
Total	$1,095,047	$1,886,269	$(1,806,070)	$1,175,246	$587,390
University of Cincinnati:					
Compensated Absences*	$ 62,471	$ 2,928	$ (110)	$ 65,289	$ 35,550
Capital Leases Payable*	131,151	52,816	(57,167)	126,800	4,659
Other Liabilities*	33,050	83,189	(80,435)	35,804	1,077
Revenue Bonds & Notes Payable (NOTE 11)	761,070	149,886	(160,951)	750,005	44,951
Certificates of Participation (NOTE 13)	840	—	(570)	270	30
Total	$ 988,582	$ 288,819	$ (299,233)	$ 978,168	$ 86,267

*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, 2005 (December 31, 2004 for component units), revenue bonds and notes outstanding that represent "no commitment" debt for the State were as follows (dollars in thousands):

	Outstanding Amount
Primary Government:	
Ohio Department of Development:	
Ohio Housing Finance Agency	$1,620,158
Ohio Enterprise Bond Program	163,560
Hospital Facilities Bonds	11,140
Total Primary Government	$1,794,858
Component Units (12/31/04):	
Ohio Water Development Authority	$2,132,300
Ohio Air Quality Development Authority	1,200,000
Total Component Units	$3,332,300

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, 2005 (dollars in thousands):

Primary Government:	
Major Governmental Funds:	
Job, Family and Other Human Services	$(114,508)
Nonmajor Governmental Funds:	
Mental Health and Retardation Special Revenue Fund	(9,119)
Total Governmental Funds	$(123,627)
Primary Government (Continued):	
Nonmajor Proprietary Funds:	
Tuition Trust Authority Enterprise Fund	$ (242,141)
Component Units:	
School Facilities Commission Fund	$(1,965,752)

B. "Other" Fund Balance Reserves and Designations

Details on the "Reserved for Other" account reported for the governmental funds, as of June 30, 2005, are presented below.

Primary Government
Governmental Funds — Reserved for Other
As of June 30, 2005
(dollars in thousands)

	General Fund	Job, Family and Other Human Services	Education	Highway Operating	Nonmajor Governmental Funds	Total Governmental Funds
Compensated Absences	$27,865	$3,625	$343	$5,125	$ 9,422	$46,380
Prepaids (included in "Other Assets")	10,726	1,357	107	2,294	3,776	18,260
Advances to Local Governments	4,729	—	—	—	—	4,729
Ohio Enterprise Bond Program	—	—	—	—	10,000	10,000
Loan Guarantee Programs	84	—	—	—	3,675	3,759
Assets in Excess of Debt Service Requirements	—	—	—	—	866	866
Total Reserved for Other	$43,404	$4,982	$450	$7,419	$27,739	$83,994

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

The unreserved fund balance for the General Fund, as of June 30, 2005, had been designated as follows, (dollars in thousands):

General Fund	
Budget Stabilization	$568,377
Public Assistance Reconciliation-	
Payment for Portion of Questioned Costs-Federal Temporary Assistance for Needy Families Program	60,000
Disaster Services	40,000
Public School Building Program	50,000
Total General Fund	$718,377

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 $63 thousand for the year ended December 31, 2004) 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, 2004 (the GLPF's year-end), were 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	$97,000	$81,000	100.0%

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

Summary financial information for the GLPF, for the fiscal year ended December 31, 2004, was as follows (dollars in thousands):

Cash and Investments	$119,641
Other Assets	258
Total Assets	$119,899
Total Liabilities	$ 695
Total Net Assets	119,204
Total Liabilities and Net Assets	$119,899
Total Revenues and Other Additions	$ 12,419
Total Expenditures	(4,094)
Net Increase in Net Assets	$ 8,325

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 2005 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
Local Community Colleges:			
Cuyahoga	$ 53,104	$ 3,468	$ 56,572
Jefferson	3,976	383	4,359
Lakeland	16,805	1,045	17,850
Lorain County	25,219	798	26,017
Rio Grande	4,647	82	4,729
Sinclair	48,355	1,385	49,740
Total Local Community Colleges	152,106	7,161	159,267
Technical Colleges:			
Belmont	5,382	80	5,462
Central Ohio	6,266	82	6,348
Hocking	16,026	521	16,547
James A. Rhodes	7,958	1,142	9,100
Marion	4,773	162	4,935
Zane	5,019	—	5,019
North Central	8,017	—	8,017
Stark	13,853	1,119	14,972
Total Technical Colleges	67,294	3,106	70,400
Total	$219,400	$10,267	$229,667

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 2005, the State had the following related-party transactions with its related organizations:

- In December 2004, the Ohio Turnpike Commission received a one-time payment of $23.4 million from the Highway Operating Fund at the Ohio Department of Transportation (ODOT) to help offset lost revenue expected to result from temporary toll rate reductions. As authorized under House Bill 406, the reductions apply to commercial trucks in certain weight classes (23,000 lbs to 90,000 lbs) for an 18-month period, which began January 1, 2005. Also, the Commission was refunded approximately $1.2 million from the Highway Operating Fund as a settlement for the difference between the estimated costs funded by the Commission for turnpike projects undertaken and completed by ODOT and the actual costs of the projects. Finally, the Ohio Department of Taxation paid the Commission $2.5 million from the Revenue Distribution Fund for the Commission's share of the State's motor vehicle fuel excise tax allocation.

- 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 the Ohio Legal Assistance Foundation approximately $680 thousand in compensation for administrative services performed under contract for the distribution of state funding to nonprofit legal aid societies and $692 thousand in state assistance.

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 is 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 appealed the trial court's decision and order. In June 2005, the Court of Appeals upheld the trial court's decision. The State has appealed the Court of Appeals decision to the Ohio Supreme Court and that appeal is currently pending. No liability has been reported in the financial statements for this matter.

A class action complaint pending in the Eight District Court of Appeals contends that subrogation allowed under Section 4123.931, Ohio Revised Code, is unconstitutional. The Ohio Supreme Court in Holeton v. Crouse Cartage declared the subrogation statute unconstitutional. The trial court certified the class, granted summary judgment to the plaintiffs, and awarded attorney fees. The Ohio Bureau of Workers' Compensation and the Ohio Industrial Commission have appealed the decision, and the appeal is currently pending. For this matter, a liability in the amount of $50 million, as of June 30, 2005, has been included in the "Other Noncurrent Liabilities-Due in More Than One Year" account for business-type activities in the government-wide Statement of Net Assets and in the "Refund and Other Liabilities" account for the Workers' Compensation Enterprise Fund in the proprietary fund financial statements.

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. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the spending 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 2004 State of Ohio Single Audit (completed in 2005), $155.6 million of federal expenditures, of which $129.5 million applied to the Temporary Assistance to Need Families (TANF) Program (CFDA# 93.558), were in question as not being appropriate under the terms of the respective grants.

For the TANF Program, corrective action was taken in August 2005 when the Ohio Department of Job and Family Services returned $38.5 million to the federal government and reduced its requests of funds from the federal government by $91 million for eligible TANF costs incurred. The reduction in the TANF draw requests allowed the Department to properly claim $91 million in administrative costs that were eligible for reimbursement under the Child Care Development Fund (CCDF) Program Cluster (CFDA# 93.575 and CFDA# 93.596); previously, these costs had been erroneously charged to the TANF Program. Consequently, the State has reflected the $129.5 million liability for the TANF Program in the unearned revenue account and the $91 million balance due for the CCDF Program Cluster in the intergovernmental receivable balance reported for governmental funds, as of June 30, 2005.

For the remaining $26.1 million balance of questioned costs reported in the fiscal year 2004 Single Audit Report, no provision for any liability or adjustments has been recognized in the State's financial statements, for the fiscal year ended June 30, 2005.

NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

C. Construction Commitments

As of June 30, 2005, the Ohio Department of Transportation had total contractual commitments of approximately $1.84 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 $1.21 billion, $298.8 million, $268.9 million, and $58.3 million, respectively.

As of June 30, 2005, other major non-highway construction commitments for the primary government's budgeted capital projects funds were as follows (dollars in thousands):

Primary Government	
Mental Health/Mental Retardation Facilities Improvements	$ 33,851
Parks and Recreation Improvements	9,347
Administrative Services Building Improvements	39,562
Youth Services Building Improvements	20,212
Adult Correctional Building Improvements	43,378
Highway Safety Building Improvements	1,880
Ohio Parks and Natural Resources	10,949
Total	$159,179

As of June 30, 2005, construction commitments for the State's discretely presented major component units were as follows (dollars in thousands):

Major Component Units	
Ohio State University	$209,674
University of Cincinnati	266,237

D. 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
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	359,829	23,950	383,779
2011-2015	1,799,147	119,750	1,918,897
2016-2020	1,929,265	47,900	1,977,165
2021-2025	2,016,011	—	2,016,011
Total	$7,529,564	$239,500	$7,769,064

During fiscal year 2005, Ohio received $321.1 million, which was approximately $31.7 million or nine percent less than the pre-adjusted base payment for the year. For the last six 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 $2.1 billion, which is approximately $232 million or 9.9 percent less than the total of the pre-adjusted base payments established for the last six 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.

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, 2005, in the amount of approximately $15.12 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 $1.71 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 expenses, future changes to the reserves for compensation and compensation adjustment expenses may be necessary based on claims experience and changing claims frequency and severity conditions. 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 5.25 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 $33.3 billion, as of June 30, 2005, and $33.1 billion, as of June 30, 2004. For additional information, refer to the Fund's separate audited financial report, for the fiscal year ended June 30, 2005.

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 2005	Fiscal Year 2004
Benefits Payable and Compensation Adjustment Expenses Liability, as of July 1	$16,267	$15,981
Incurred Compensation and Compensation Adjustment Benefits	2,947	2,549
Incurred Compensation and Compensation Adjustment Benefit Payments and Other Adjustments	(2,390)	(2,263)
Benefits Payable and Compensation Adjustment Expenses Liability, as of June 30	$16,824	$16,267

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, 2005, approximately $138 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 were as follows (dollars in thousands):

Ohio Med Health Plan

	Fiscal Year 2005	Fiscal Year 2004
Claims Liabilities, as of July 1	$ 40,917	$ 39,449
Incurred Claims	232,337	275,399
Claims Payments	(231,762)	(273,931)
Claims Liabilities, as of June 30	$ 41,492	$ 40,917

As of June 30, 2005, 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 $96.5 million, thereby resulting in a funding surplus. Ninety percent or $86.9 million of the surplus, representing the employer share, was reallocated back to the governmental and proprietary funds, with a resulting reduction in expenditures/expenses.

As of June 30, 2005, approximately $634 thousand 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 were as follows (dollars in thousands):

United Healthcare Plan

	Fiscal Year 2005	Fiscal Year 2004
Claims Liabilities, as of July 1	$ 7,544	$ 13,637
Incurred Claims	101,231	46,921
Claims Payments	(101,806)	(53,014)
Claims Liabilities, as of June 30	$ 6,969	$ 7,544

As of June 30, 2005, the estimated claims liability of the United Healthcare Plan did not significantly exceed the resources on deposit in the Payroll Withholding and Fringe Benefits Agency Fund for the payment of claims. Therefore, no net claims liability balance for the funding deficit was reported 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

Subsequent to June 30, 2005 (December 31, 2004 for the Ohio Water Development Authority), the State issued major debt as detailed in the table below.

Debt Issuances
Subsequent to June 30, 2005
(dollars in thousands)

	Date Issued	Net Interest Rate or True Interest Cost	Amount
Primary Government:			
Ohio Public Facilities Commission-General Obligation Bonds:			
Common Schools Capital Facilities, Series 2005C	07/27/05	4.20%	$ 200,000
Common Schools Capital Facilities Refunding, Series 2005D	07/28/05	3.93%	71,900
Higher Education Facilities, Series 2005B	09/08/05	4.14%	150,000
Higher Education Facilities Refunding, Series 2005C	09/13/05	3.65%	49,495
Conservation Projects, Series 2005A	10/13/05	4.24%	50,000
Infrastructure Improvements, Series 2005A	11/16/05	4.42%	120,000
Common Schools Capital Facilities, Series 2006A	01/18/06	4.09%	200,000
Higher Education Facilities, Series 2006A	04/05/06	4.43%	150,000
Treasurer of State-General Obligation Bonds:			
Highway Capital Improvement, Series J	02/27/06	3.78%	180,000
Total General Obligation Bonds			1,171,395
Treasurer of State-Revenue Bonds:			
Research & Development (Taxable), Series 2005A	10/19/05	5.45%	50,000
State Infrastructure Bank, Series 2005-1	12/14/05	3.96%	99,270
Total Revenue Bonds			149,270
Treasurer of State-Special Obligation Bonds:			
Mental Health Capital Facilities, Series II-2005A	08/17/05	3.99%	30,000
Cultural Facilities, Series 2005A	08/23/05	4.08%	30,000
Ohio Building Authority-Special Obligation Bonds:			
State Facilities (Juvenile Correctional Building), Series 2005A	09/27/05	3.70%	15,000
State Facilities Refunding (Juvenile Correctional Building), Series 2005B	09/27/05	4.01%	27,445
State Facilities Refunding (Transportation Building), Series 2005A	09/27/05	3.56%	7,400
Total Special Obligation Bonds			109,845
Total Primary Government			$1,430,510
Major Component Units:			
Ohio Water Development Authority Bonds:			
Fresh Water Refunding, Series 2005	04/05/05	3.00-5.50%*	$105,220
Water Pollution Control Loan Fund:			
Water Quality Refunding, Series 2005	04/14/05	3.00-5.50%*	219,580
Refunding State Match, Series 2005	05/19/05	3.00-5.25%*	18,670
Drinking Water Assistance Refunding, Leverage Series 2005	07/19/05	3.00-5.25%*	36,825
Community Assistance Refunding, Series 2005	07/21/05	3.00-5.25%*	37,355
Water Quality, Series 2005B	08/25/05	4.00-5.00%*	449,593
Drinking Water Assistance, Leverage Series 2005B	10/27/05	3.00-5.00%*	61,135
Total Ohio Water Development Authority			$928,378
Ohio State University Bonds:			
General Receipts, Series 2005A	08/10/05	3.25-5.25%*	$279,050
Variable Rate Demand General Receipts, Series 2005B	08/10/05	Variable	129,990
Total Ohio State University			$409,040

*Interest Coupon Rate

(Continued)

NOTE 21 SUBSEQUENT EVENTS (Continued)

Debt Issuances
Subsequent to June 30, 2005
(Continued)
(dollars in thousands)

	Date Issued	Net Interest Rate or True Interest Cost	Amount
Major Component Units *(Continued)*:			
University of Cincinnati Bonds:			
Bond Anticipation Notes, Series 2006B	01/26/06	3.30%	$ 40,000
General Receipts, Series 2006A	02/08/06	4.33%	54,870
Bond Anticipation Notes, Series 2006C	03/28/06	3.54%	41,065
Total University of Cincinnati			$135,935

B. State Issue 1
On November 8, 2005, Ohio voters approved State Issue 1, a constitutional amendment that authorizes the State to issue $2 billion in general obligation bonds to improve local government infrastructure, support research and development applicable to high-tech business, and enhance business site development.

For local government infrastructure improvements, the amendment limits bond issuance to $1.35 billion with no more than $120 million in each of the first five fiscal years and no more than $150 million in each of the next five fiscal years.

For research and development in support of Ohio industry, commerce, and business, including research and product innovation, development, and commercialization as provided for by law, the amendment limits bond issuances to $500 million with no more than $100 million in each of the first three fiscal years and no more than $50 million in any other fiscal year. It also authorizes state-supported and state-assisted institutions of higher education to issue obligations to pay costs of research and development.

For the development of sites and facilities (Job-Ready Sites) in Ohio for and in support of industry, commerce, distribution, and research and development, the amendment limits bond issuances to $150 million with no more than $30 million in each of the first three fiscal years and no more than $15 million in any other fiscal year.