Ohio Office of Budget and Management

State of Ohio

Ted Strickland

Governor

OHIO

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2006

BASIC FINANCIAL STATEMENTS

STATE OF OHIO
STATEMENT OF NET ASSETS
JUNE 30, 2006
(dollars in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS:				
Cash Equity with Treasurer	$ 6,789,609	$ 89,382	$ 6,878,991	$ 582,299
Cash and Cash Equivalents	104,753	207,112	311,865	699,997
Investments	891,754	16,105,147	16,996,901	5,815,309
Collateral on Lent Securities	3,857,013	44,698	3,901,711	323,246
Deposit with Federal Government	—	625,375	625,375	—
Taxes Receivable	1,527,630	—	1,527,630	—
Intergovernmental Receivable	1,351,168	12,317	1,363,485	43,385
Premiums and Assessments Receivable	—	2,148,529	2,148,529	—
Loans Receivable, Net	934,775	—	934,775	259,003
Receivable from Primary Government	—	—	—	47,582
Other Receivables	566,216	216,319	782,535	905,606
Inventories	54,887	36,414	91,301	52,056
Other Assets	90,988	18,554	109,542	522,948
Restricted Assets:				
Cash Equity with Treasurer	—	800	800	13,847
Cash and Cash Equivalents	—	1,540	1,540	479,264
Investments	—	1,577,356	1,577,356	2,052,554
Collateral on Lent Securities	—	351,854	351,854	7,832
Intergovernmental Receivable	—	—	—	288
Loans Receivable, Net	—	—	—	3,231,764
Other Receivables	—	13,843	13,843	—
Capital Assets Being Depreciated, Net	2,484,446	124,511	2,608,957	6,996,991
Capital Assets Not Being Depreciated	21,344,327	12,772	21,357,099	1,426,406
TOTAL ASSETS	**39,997,566**	**21,586,523**	**61,584,089**	**23,460,377**
LIABILITIES:				
Accounts Payable	625,602	47,917	673,519	427,863
Accrued Liabilities	326,283	4,761	331,044	512,700
Medicaid Claims Payable	996,080	—	996,080	—
Obligations Under Securities Lending	3,857,013	396,552	4,253,565	331,078
Intergovernmental Payable	1,474,164	1,362	1,475,526	402
Internal Balances	964,090	(964,090)	—	—
Payable to Component Units	47,617	—	47,617	—
Unearned Revenue	185,385	954	186,339	190,089
Benefits Payable	—	16,067	16,067	—
Refund and Other Liabilities	867,600	79,583	947,183	82,781
Noncurrent Liabilities:				
Bonds and Notes Payable:				
Due in One Year	1,019,930	18,803	1,038,733	812,632
Due in More Than One Year	9,911,591	116,412	10,028,003	5,296,245
Certificates of Participation:				
Due in One Year	800	—	800	725
Due in More Than One Year	89,589	—	89,589	27,140
Other Noncurrent Liabilities:				
Due in One Year	128,834	2,588,709	2,717,543	1,254,655
Due in More Than One Year	559,403	18,755,995	19,315,398	1,760,668
TOTAL LIABILITIES	**21,053,981**	**21,063,025**	**42,117,006**	**10,696,978**

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....................................	20,889,063	10,363	20,899,426	5,095,188
Restricted for:				
Primary, Secondary and Other Education	9,607	—	9,607	—
Transportation and Highway Safety..........	921,993	—	921,993	—
State and Local				
Highway Construction............................	127,121	—	127,121	—
Federal Programs......................................	75,776	—	75,776	19
Coal Research				
and Development Program....................	—	—	—	7,352
Clean Ohio Program..................................	93,682	—	93,682	—
Community and Economic Development				
and Capital Purposes.............................	883,385	—	883,385	13,847
Debt Service..	—	—	—	2,274,289
Enterprise Bond Program..........................	10,000	—	10,000	—
Workers' Compensation............................	—	—	—	—
Deferred Lottery Prizes.............................	—	56,669	56,669	—
Unemployment Compensation..................	—	675,666	675,666	—
Ohio Building Authority..............................	—	28,041	28,041	—
Nonexpendable for				
Colleges and Universities......................	—	—	—	3,070,470
Expendable for				
Colleges and Universities......................	—	—	—	1,742,318
Unrestricted (Deficits)....................................	(4,067,042)	(247,241)	(4,314,283)	559,916
TOTAL NET ASSETS................................	**$ 18,943,585**	**$ 523,498**	**$ 19,467,083**	**$ 12,763,399**

STATE OF OHIO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(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	$ 11,157,283	$ 35,497	$ 1,618,752	$ —	$ (9,503,034)
Higher Education Support	2,608,007	5,186	32,046	—	(2,570,775)
Public Assistance and Medicaid	14,909,149	639,821	9,517,548	—	(4,751,780)
Health and Human Services	3,526,763	236,049	1,998,901	1,889	(1,289,924)
Justice and Public Protection	3,111,577	912,421	315,031	2,704	(1,881,421)
Environmental Protection and Natural Resources	406,632	192,237	86,016	1,447	(126,932)
Transportation	1,925,841	25,581	84,148	1,262,319	(553,793)
General Government	952,248	474,975	296,540	19,741	(160,992)
Community and Economic Development	3,618,550	288,490	387,558	—	(2,942,502)
Interest on Long-Term Debt (excludes interest charged as program expense)	175,732	—	—	—	(175,732)
TOTAL GOVERNMENTAL ACTIVITIES	**42,391,782**	**2,810,257**	**14,336,540**	**1,288,100**	**(23,956,885)**
BUSINESS-TYPE ACTIVITIES:					
Workers' Compensation	2,011,480	2,118,571	763,812	—	870,903
Lottery Commission	1,625,309	2,227,386	22,258	—	624,335
Unemployment Compensation	1,161,776	1,163,397	25,414	—	27,035
Ohio Building Authority	25,797	26,239	1,741	—	2,183
Tuition Trust Authority	67,162	9,289	69,629	—	11,756
Liquor Control	423,373	606,905	—	—	183,532
Underground Parking Garage	2,993	2,590	42	—	(361)
Office of Auditor of State	71,729	43,437	107	—	(28,185)
TOTAL BUSINESS-TYPE ACTIVITIES	**5,389,619**	**6,197,814**	**883,003**	**—**	**1,691,198**
TOTAL PRIMARY GOVERNMENT	**$ 47,781,401**	**$ 9,008,071**	**$ 15,219,543**	**$ 1,288,100**	**$ (22,265,687)**
COMPONENT UNITS:					
School Facilities Commission	$ 555,648	$ 2,765	$ 19,850	$ —	$ (533,033)
Ohio Water Development Authority	122,637	133,014	136,944	—	147,321
Ohio State University	3,361,245	2,266,045	595,846	18,548	(480,806)
University of Cincinnati	985,018	366,466	403,975	7,587	(206,990)
Other Component Units	4,176,506	2,549,765	500,757	48,047	(1,077,937)
TOTAL COMPONENT UNITS	**$ 9,201,054**	**$ 5,318,055**	**$ 1,657,372**	**$ 74,182**	**$ (2,151,445)**

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	$ (23,956,885)	$ 1,691,198	$ (22,265,687)	$ (2,151,445)
General Revenues:				
Taxes:				
Income	9,854,803	—	9,854,803	—
Sales	7,623,513	—	7,623,513	—
Corporate and Public Utility	2,359,338	—	2,359,338	—
Cigarette	1,084,143	—	1,084,143	—
Other	645,856	—	645,856	—
Restricted for Transportation Purposes:				
Motor Vehicle Fuel Taxes	1,850,939	—	1,850,939	—
Total Taxes	23,418,592	—	23,418,592	—
Tobacco Settlement	336,044	—	336,044	—
Escheat Property	93,782	—	93,782	—
Unrestricted Investment Income	128,772	—	128,772	376,464
State Assistance	—	—	—	2,945,098
Other	295	932	1,227	44,561
Additions to Endowments and Permanent Fund Principal	—	—	—	83,114
Transfers-Internal Activities	818,636	(818,636)	—	—
TOTAL GENERAL REVENUES, CONTRIBUTIONS, AND TRANSFERS	**24,796,121**	**(817,704)**	**23,978,417**	**3,449,237**
CHANGE IN NET ASSETS	**839,236**	**873,494**	**1,712,730**	**1,297,792**
NET ASSETS, JULY 1 (as restated)	18,104,349	(349,996)	17,754,353	11,465,607
NET ASSETS, JUNE 30	**$ 18,943,585**	**$ 523,498**	**$ 19,467,083**	**$ 12,763,399**

STATE OF OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006
(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	EDUCATION
ASSETS:			
Cash Equity with Treasurer	$ 2,821,124	$ 216,807	$ 86,812
Cash and Cash Equivalents	12,294	1,940	60
Investments	459,646	9,327	2,885
Collateral on Lent Securities	1,611,799	122,620	49,099
Taxes Receivable	1,088,389	—	—
Intergovernmental Receivable	346,082	417,688	143,882
Loans Receivable, Net	244,202	—	44
Interfund Receivable	2,925	—	—
Other Receivables	267,998	71,813	308
Inventories	24,254	—	—
Other Assets	15,403	1,929	5,141
TOTAL ASSETS	**$ 6,894,116**	**$ 842,124**	**$ 288,231**
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts Payable	$ 176,138	$ 53,253	$ 13,587
Accrued Liabilities	119,791	15,630	1,728
Medicaid Claims Payable	880,091	—	—
Obligations Under Securities Lending	1,611,799	122,620	49,099
Intergovernmental Payable	377,211	230,590	59,946
Interfund Payable	701,130	21,011	2,466
Payable to Component Units	14,967	372	2,735
Deferred Revenue	314,209	162,275	10,389
Unearned Revenue	—	42,761	83,463
Refund and Other Liabilities	778,848	15,905	—
Liability for Escheat Property	10,249	—	—
TOTAL LIABILITIES	**4,984,433**	**664,417**	**223,413**
FUND BALANCES:			
Reserved for:			
Debt Service	—	—	—
Encumbrances	302,720	2,164,476	21,376
Noncurrent Portion of Loans Receivable	240,365	—	42
Loan Commitments	—	—	—
Inventories	24,254	—	—
State and Local Highway Construction	—	—	—
Federal Programs	—	5,479	6,060
Other	50,394	5,614	533
Unreserved/Designated	1,010,689	—	—
Unreserved/Undesignated (Deficits):			
General Fund	281,261	—	—
Special Revenue Funds	—	(1,997,862)	36,807
Capital Projects Funds	—	—	—
TOTAL FUND BALANCES	**1,909,683**	**177,707**	**64,818**
TOTAL LIABILITIES AND FUND BALANCES	**$ 6,894,116**	**$ 842,124**	**$ 288,231**

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

HIGHWAY OPERATING	REVENUE DISTRIBUTION	NONMAJOR GOVERNMENTAL FUNDS	TOTAL
$ 770,500	$ 360,051	$ 2,534,315	$ 6,789,609
754	7,900	81,805	104,753
—	—	419,896	891,754
436,126	203,636	1,433,733	3,857,013
65,238	369,171	4,832	1,527,630
118,770	—	324,746	1,351,168
82,263	—	608,266	934,775
—	—	3,798	6,723
2,655	—	223,442	566,216
30,633	—	—	54,887
2,965	—	13,699	39,137
$ 1,509,904	**$ 940,758**	**$ 5,648,532**	**$ 16,123,665**
$ 172,491	$ —	$ 210,133	$ 625,602
23,095	—	43,255	203,499
—	—	115,989	996,080
436,126	203,636	1,433,733	3,857,013
316	595,371	210,730	1,474,164
114,656	395	131,155	970,813
252	—	29,291	47,617
5,255	35,155	291,226	818,509
4,889	7,943	46,329	185,385
—	70,389	2,458	867,600
—	—	—	10,249
757,080	912,889	2,514,299	10,056,531
—	—	34,109	34,109
1,607,196	—	1,512,820	5,608,588
76,905	—	595,971	913,283
—	—	101,443	101,443
30,633	—	—	54,887
—	127,121	—	127,121
3,271	—	37,998	52,808
8,088	—	32,057	96,686
—	—	—	1,010,689
—	—	—	281,261
(973,269)	(99,252)	985,426	(2,048,150)
—	—	(165,591)	(165,591)
752,824	27,869	3,134,233	6,067,134
$ 1,509,904	**$ 940,758**	**$ 5,648,532**	**$ 16,123,665**

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STATE OF OHIO
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006
(dollars in thousands)

Total Fund Balances for Governmental Funds	***$ 6,067,134***
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:	
Land	*1,736,463*
Buildings and Improvements, net of $1,388,541 accumulated depreciation	*1,995,971*
Land Improvements, net of $153,331 accumulated depreciation	*186,105*
Machinery and Equipment, net of $401,398 accumulated depreciation	*191,668*
Vehicles, net of $118,893 accumulated depreciation	*132,658*
Infrastructure, net of $3,278 accumulated depreciation	*18,004,410*
Construction-in-Progress	*1,581,498*
	23,828,773
Some of the State's revenues are collected after year-end but are not available soon enough to pay for the current period's (within 60 days of year-end) expenditures, and therefore, are deferred in the funds.	
Taxes Receivable	*334,805*
Intergovernmental Receivable	*250,009*
Other Receivables	*220,556*
Other Assets	*13,139*
	818,509
Unamortized bond issue costs are not financial resources, and therefore, are not reported in the funds.	*51,851*
The following liabilities are not due and payable in the current period, and therefore, are not reported in the funds.	
Accrued Liabilities:	
Interest Payable	*(122,784)*
Bonds and Notes Payable:	
General Obligation Bonds	*(6,893,521)*
Revenue Bonds	*(720,675)*
Special Obligation Bonds	*(3,317,325)*
Certificates of Participation	*(90,389)*
Other Noncurrent Liabilities:	
Compensated Absences	*(420,673)*
Capital Leases Payable	*(3,366)*
Estimated Claims Payable	*(8,398)*
Liability for Escheat Property	*(245,551)*
	(11,822,682)
Total Net Assets of Governmental Activities	***$ 18,943,585***

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, 2006

(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	EDUCATION
REVENUES:			
Income Taxes	$ 8,889,463	$ —	$ —
Sales Taxes	7,302,441	—	—
Corporate and Public Utility Taxes	1,774,113	—	—
Motor Vehicle Fuel Taxes	—	—	—
Cigarette Taxes	1,084,142	—	—
Other Taxes	584,689	3,720	—
Licenses, Permits and Fees	209,054	516,615	1,236
Sales, Services and Charges	46,067	—	347
Federal Government	5,526,049	4,803,642	1,615,052
Tobacco Settlement	—	—	—
Escheat Property	145,695	—	—
Investment Income	305,425	18,475	4,076
Other	177,066	110,713	23,078
TOTAL REVENUES	**26,044,204**	**5,453,165**	**1,643,789**
EXPENDITURES:			
CURRENT OPERATING:			
Primary, Secondary and Other Education	8,235,782	5,876	2,217,629
Higher Education Support	2,183,324	3,161	31,630
Public Assistance and Medicaid	10,360,892	4,543,579	—
Health and Human Services	1,200,155	545,277	1,871
Justice and Public Protection	1,969,847	40,287	21,162
Environmental Protection and Natural Resources	96,969	—	—
Transportation	24,727	—	—
General Government	520,217	2,050	—
Community and Economic Development	623,300	60,199	—
CAPITAL OUTLAY	204	1,888	—
DEBT SERVICE	536	—	—
TOTAL EXPENDITURES	**25,215,953**	**5,202,317**	**2,272,292**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	**828,251**	**250,848**	**(628,503)**
OTHER FINANCING SOURCES (USES):			
Bonds and Certificates of Participation Issued	629,392	—	—
Refunding Bonds Issued	—	—	—
Payment to Refunded Bond Escrow Agents	—	—	—
Premiums	921	—	—
Capital Leases	4,959	—	—
Transfers-in	365,326	95,827	658,548
Transfers-out	(1,201,618)	(52,547)	(31,817)
TOTAL OTHER FINANCING SOURCES (USES)	**(201,020)**	**43,280**	**626,731**
NET CHANGE IN FUND BALANCES	**627,231**	**294,128**	**(1,772)**
FUND BALANCES (DEFICITS), JULY 1 (as restated)	1,276,815	(116,421)	66,590
Increase for Changes in Inventories	5,637	—	—
FUND BALANCES, JUNE 30	**$ 1,909,683**	**$ 177,707**	**$ 64,818**

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

HIGHWAY OPERATING	REVENUE DISTRIBUTION	NONMAJOR GOVERNMENTAL FUNDS	TOTAL
$ —	$ 829,300	$ 7,505	$ 9,726,268
—	301,264	19,808	7,623,513
—	581,705	3,519	2,359,337
672,563	1,154,244	24,133	1,850,940
—	—	1	1,084,143
—	16,599	40,849	645,857
70,665	365,461	974,518	2,137,549
2,224	—	28,433	77,071
1,322,053	—	2,154,299	15,421,095
—	—	294,725	294,725
—	—	—	145,695
20,317	1,929	90,401	440,623
18,204	79	298,172	627,312
2,106,026	**3,250,581**	**3,936,363**	**42,434,128**
—	338,017	228,781	11,026,085
—	—	280,959	2,499,074
—	—	3,040	14,907,511
—	1,925	1,712,343	3,461,571
—	327,107	696,721	3,055,124
—	—	298,047	395,016
2,160,630	—	571	2,185,928
—	—	270,378	792,645
—	1,969,882	895,684	3,549,065
—	—	483,812	485,904
—	—	1,458,729	1,459,265
2,160,630	**2,636,931**	**6,329,065**	**43,817,188**
(54,604)	**613,650**	**(2,392,702)**	**(1,383,060)**
—	—	894,877	1,524,269
—	—	156,240	156,240
—	—	(172,770)	(172,770)
—	—	70,554	71,475
—	—	—	4,959
513,766	144,532	1,541,822	3,319,821
(294,405)	(844,876)	(75,922)	(2,501,185)
219,361	**(700,344)**	**2,414,801**	**2,402,809**
164,757	**(86,694)**	**22,099**	**1,019,749**
581,068	114,563	3,112,134	5,034,749
6,999	—	—	12,636
$ 752,824	**$ 27,869**	**$ 3,134,233**	**$ 6,067,134**

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, 2006
(dollars in thousands)

Net Change in Fund Balances -- Total Governmental Funds		**$ 1,019,749**
Change in Inventories		*12,636*
		1,032,385
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	*762,809*	
Depreciation Expense	*(236,632)*	
Excess of Capital Outlay Over Depreciation Expense		*526,177*
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. In the current period, proceeds were received from:		
General Obligation Bonds	*(1,250,000)*	
Revenue Bonds	*(199,270)*	
Special Obligation Bonds	*(74,999)*	
Refunding Bonds, including Bond Premium/Discount, Net	*(173,664)*	
Premiums and Discounts, Net:		
General Obligation Bonds	*(45,876)*	
Revenue Bonds	*(5,702)*	
Special Obligation Bonds	*(2,473)*	
Deferred Refunding Loss	*8,413*	
Capital Leases	*(4,959)*	
Total Debt Proceeds		*(1,748,530)*
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	*565,105*	
Revenue Bonds	*71,790*	
Special Obligation Bonds	*488,743*	
Certificates of Participation	*1,005*	
Capital Lease Payments	*4,064*	
Total Long-Term Debt Repayment		*1,130,707*
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the governmental funds. Deferred revenues decreased by this amount this year.		*(40,509)*

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....................................	*4,078*	
Increase in Accrued Interest and Other Accrued Liabilities..............................	*(9,655)*	
Amortization of Bond Premiums/Accretion of Bond Discount, Net.....................	*43,674*	
Amortization of Deferred Refunding Loss..	*(25,487)*	
Increase in Compensated Absences...	*(23,056)*	
Decrease in Refund and Other Liabilities...	*3,140*	
Increase in Estimated Claims Payable...	*(1,775)*	
Increase in Liability for Escheat Property..	*(51,913)*	
Total additional expenditures..		*(60,994)*
Change in Net Assets of Governmental Activities...		***$ 839,236***

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, 2006

(dollars in thousands)

	GENERAL			
	BUDGET			VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES:				
Income Taxes	$ 8,673,900	$ 8,673,900	$ 8,786,388	$ 112,488
Sales Taxes	7,480,900	7,480,900	7,368,244	(112,656)
Corporate and Public Utility Taxes	1,558,400	1,558,400	1,741,463	183,063
Motor Vehicle Fuel Taxes	—	—	—	—
Cigarette Taxes	1,013,200	1,013,200	1,084,142	70,942
Other Taxes	597,382	597,382	585,482	(11,900)
Licenses, Permits and Fees	179,173	179,173	183,877	4,704
Sales, Services and Charges	51,136	51,136	51,934	798
Federal Government	5,799,284	5,799,284	5,670,074	(129,210)
Investment Income	68,558	68,558	110,839	42,281
Other	1,706,115	1,706,115	1,709,145	3,030
TOTAL REVENUES	**27,128,048**	**27,128,048**	**27,291,588**	**163,540**
BUDGETARY EXPENDITURES:				
CURRENT OPERATING:				
Primary, Secondary and Other Education	7,714,620	7,748,542	7,672,196	76,346
Higher Education Support	2,157,722	2,187,321	2,183,525	3,796
Public Assistance and Medicaid	11,697,135	11,704,083	11,316,661	387,422
Health and Human Services	1,391,429	1,393,058	1,372,595	20,463
Justice and Public Protection	2,119,499	2,142,246	2,103,956	38,290
Environmental Protection and Natural Resources	132,011	135,067	129,912	5,155
Transportation	40,613	40,672	40,406	266
General Government	729,848	763,195	662,717	100,478
Community and Economic Development	690,020	716,841	702,088	14,753
CAPITAL OUTLAY	353	353	318	35
DEBT SERVICE	1,139,408	1,119,213	1,062,943	56,270
TOTAL BUDGETARY EXPENDITURES	**27,812,658**	**27,950,591**	**27,247,317**	**703,274**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES	**(684,610)**	**(822,543)**	**44,271**	**866,814**
OTHER FINANCING SOURCES (USES):				
Transfers-in	369,734	369,734	425,645	55,911
Transfers-out	(246,745)	(246,745)	(273,411)	(26,666)
TOTAL OTHER FINANCING SOURCES (USES)	**122,989**	**122,989**	**152,234**	**29,245**
NET CHANGE IN FUND BALANCES	**$ (561,621)**	**$ (699,554)**	**196,505**	**$ 896,059**
BUDGETARY FUND BALANCES (DEFICITS), JULY 1			1,229,692	
Outstanding Encumbrances at Beginning of Fiscal Year			643,476	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30			**$ 2,069,673**	

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	BUDGET			VARIANCE WITH FINAL BUDGET
ORIGINAL	FINAL	ACTUAL	POSITIVE/ (NEGATIVE)	ORIGINAL	FINAL	ACTUAL	POSITIVE/ (NEGATIVE)
		$ —				$ —	
		—				—	
		—				—	
		—				—	
		—				—	
		3,720				—	
		491,135				1,236	
		—				347	
		3,466,430				1,655,491	
		18,146				3,384	
		174,892				31,588	
		4,154,323				**1,692,046**	
$ 178,850	$ 84,470	13,432	$ 71,038	$ 2,435,562	$ 2,444,980	2,312,029	$ 132,951
8,784	8,784	4,840	3,944	22,019	41,266	29,299	11,967
6,380,367	6,622,139	5,960,052	662,087	—	—	—	—
654,967	660,216	601,563	58,653	1,942	3,442	2,217	1,225
58,098	64,605	37,050	27,555	29,255	31,158	25,161	5,997
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
1,258	2,484	1,521	963	—	—	—	—
—	75,000	60,199	14,801	—	—	—	—
22,866	25,564	3,441	22,123	—	—	—	—
—	—	—	—	—	—	—	—
$ 7,305,190	**$ 7,543,262**	**6,682,098**	**$ 861,164**	**$ 2,488,778**	**$ 2,520,846**	**2,368,706**	**$ 152,140**
		(2,527,775)				**(676,660)**	
		62,300				655,496	
		(44,134)				(8,583)	
		18,166				**646,913**	
		(2,509,609)				**(29,747)**	
		(2,173,412)				51,146	
		2,384,746				30,090	
		$ (2,298,275)				**$ 51,489**	

(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, 2006

(dollars in thousands)

(continued)

	HIGHWAY OPERATING			
	BUDGET			VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL	ACTUAL	POSITIVE/ (NEGATIVE)
REVENUES:				
Income Taxes			$ —	
Sales Taxes			—	
Corporate and Public Utility Taxes			—	
Motor Vehicle Fuel Taxes			667,566	
Cigarette Taxes			—	
Other Taxes			—	
Licenses, Permits and Fees			70,675	
Sales, Services and Charges			2,224	
Federal Government			1,310,915	
Investment Income			19,973	
Other			77,591	
TOTAL REVENUES			**2,148,944**	
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	4,041,007	4,945,802	3,991,653	954,149
General Government	—	—	—	—
Community and Economic Development	—	—	—	—
CAPITAL OUTLAY	—	—	—	—
DEBT SERVICE	96,757	89,947	86,337	3,610
TOTAL BUDGETARY EXPENDITURES	**$ 4,137,764**	**$ 5,035,749**	**4,077,990**	**$ 957,759**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES			**(1,929,046)**	
OTHER FINANCING SOURCES (USES):				
Transfers-in			596,931	
Transfers-out			(290,528)	
TOTAL OTHER FINANCING SOURCES (USES)			**306,403**	
NET CHANGE IN FUND BALANCES			**(1,622,643)**	
BUDGETARY FUND BALANCES (DEFICITS), JULY 1			(1,095,790)	
Outstanding Encumbrances at Beginning of Fiscal Year			1,696,712	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30			**$ (1,021,721)**	

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	
		447,721	
		1,155,853	
		—	
		16,599	
		532,304	
		—	
		—	
		1,929	
		80	
		3,285,050	
$ 165,998	$ 193,328	193,121	$ 207
—	—	—	—
—	—	—	—
1,865	1,865	1,545	320
530,000	530,305	516,775	13,530
—	—	—	—
—	—	—	—
—	—	—	—
1,899,359	2,048,415	1,896,135	152,280
—	—	—	—
—	—	—	—
$ 2,597,222	**$ 2,773,913**	**2,607,576**	**$ 166,337**
		677,474	
		144,532	
		(820,921)	
		(676,389)	
		1,085	
		350,840	
		—	
		$ 351,925	

STATE OF OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS -- ENTERPRISE
JUNE 30, 2006
(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer	$ 11,113	$ 51,752	$ —
Cash and Cash Equivalents	182,493	11,641	1,338
Collateral on Lent Securities	6,285	29,270	—
Restricted Assets:			
Cash Equity with Treasurer	—	800	—
Investments	—	91,334	—
Collateral on Lent Securities	—	351,854	—
Other Receivables	—	13,843	—
Deposit with Federal Government	—	—	625,375
Intergovernmental Receivable	—	—	3,351
Premiums and Assessments Receivable	873,835	—	25,053
Interfund Receivable	77,015	—	—
Other Receivables	153,631	40,054	8,927
Inventories	—	—	—
Other Assets	3,163	6,809	7,320
TOTAL CURRENT ASSETS	**1,307,535**	**597,357**	**671,364**
NONCURRENT ASSETS:			
Restricted Assets:			
Cash and Cash Equivalents	1,540	—	—
Investments	—	674,223	—
Investments	16,029,479	—	—
Premiums and Assessments Receivable	1,215,678	—	33,963
Interfund Receivable	887,677	—	—
Other Receivables	—	—	—
Other Assets	—	—	—
Capital Assets Being Depreciated, Net	110,948	2,866	—
Capital Assets Not Being Depreciated	11,994	—	—
TOTAL NONCURRENT ASSETS	**18,257,316**	**677,089**	**33,963**
TOTAL ASSETS	**19,564,851**	**1,274,446**	**705,327**
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable	8,808	11,890	—
Accrued Liabilities	—	—	—
Obligations Under Securities Lending	6,285	381,124	—
Intergovermental Payable	—	—	928
Deferred Prize Awards Payable	—	94,484	—
Interfund Payable	—	497	—
Unearned Revenue	39,396	943	—
Benefits Payable	1,886,938	—	16,067
Refund and Other Liabilities	529,478	20,164	12,666
Bonds and Notes Payable	14,150	—	—
TOTAL CURRENT LIABILITIES	**2,485,055**	**509,102**	**29,661**
NONCURRENT LIABILITIES:			
Deferred Prize Awards Payable	—	629,047	—
Interfund Payable	—	3,832	—
Unearned Revenue	360,598	—	—
Benefits Payable	15,363,740	—	—
Refund and Other Liabilities	1,368,177	2,826	—
Bonds and Notes Payable	113,902	—	—
TOTAL NONCURRENT LIABILITIES	**17,206,417**	**635,705**	**—**
TOTAL LIABILITIES	**19,691,472**	**1,144,807**	**29,661**
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	(3,965)	2,866	—
Restricted for Deferred Lottery Prizes	—	56,669	—
Unrestricted (Deficits)	(122,656)	70,104	675,666
TOTAL NET ASSETS (DEFICITS)	**$ (126,621)**	**$ 129,639**	**$ 675,666**

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 26,517	$ 89,382
11,640	207,112
9,143	44,698
—	800
109,540	200,874
—	351,854
—	13,843
—	625,375
8,966	12,317
—	898,888
1,911	78,926
10,463	213,075
36,414	36,414
1,255	18,547
215,849	**2,792,105**
—	1,540
702,259	1,376,482
75,668	16,105,147
—	1,249,641
7,374	895,051
3,244	3,244
7	7
10,697	124,511
778	12,772
800,027	**19,768,395**
1,015,876	**22,560,500**
27,219	47,917
4,761	4,761
9,143	396,552
434	1,362
—	94,484
3,110	3,607
11	40,350
81,200	1,984,205
3,966	566,274
4,653	18,803
134,497	**3,158,315**
—	629,047
2,448	6,280
—	360,598
1,014,700	16,378,440
16,907	1,387,910
2,510	116,412
1,036,565	**18,878,687**
1,171,062	**22,037,002**
11,462	10,363
—	56,669
(166,648)	456,466
$ (155,186)	**$ 523,498**

STATE OF OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
OPERATING REVENUES:			
Charges for Sales and Services	$ —	$ 2,220,927	$ 13,593
Premium and Assessment Income	2,103,289	—	1,116,290
Federal Government	—	—	21,327
Investment Income	—	—	25,060
Other	15,282	6,459	12,251
TOTAL OPERATING REVENUES	**2,118,571**	**2,227,386**	**1,188,521**
OPERATING EXPENSES:			
Costs of Sales and Services	—	—	—
Administration	44,586	94,601	—
Bonuses and Commissions	—	139,841	—
Prizes	—	1,311,142	—
Benefits and Claims	1,933,813	—	1,161,444
Depreciation	8,758	14,596	—
Other	24,323	30	332
TOTAL OPERATING EXPENSES	**2,011,480**	**1,560,210**	**1,161,776**
OPERATING INCOME (LOSS)	**107,091**	**667,176**	**26,745**
NONOPERATING REVENUES (EXPENSES):			
Investment Income	763,812	22,258	290
Interest Expense	—	(20,615)	—
Federal Grants	—	—	—
Other	—	(44,484)	932
TOTAL NONOPERATING REVENUES (EXPENSES)	**763,812**	**(42,841)**	**1,222**
INCOME (LOSS) BEFORE TRANSFERS	**870,903**	**624,335**	**27,967**
TRANSFERS:			
Transfers-in	44	—	9,144
Transfers-out	(7,724)	(646,748)	(25,366)
TOTAL TRANSFERS	**(7,680)**	**(646,748)**	**(16,222)**
NET INCOME (LOSS)	**863,223**	**(22,413)**	**11,745**
NET ASSETS (DEFICITS), JULY 1 (as restated)	(989,844)	152,052	663,921
NET ASSETS (DEFICITS), JUNE 30	**$ (126,621)**	**$ 129,639**	**$ 675,666**

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 683,943	$ 2,918,463
—	3,219,579
—	21,327
69,629	94,689
4,517	38,509
758,089	**6,292,567**
447,399	447,399
80,447	219,634
—	139,841
—	1,311,142
56,847	3,152,104
2,841	26,195
2,497	27,182
590,031	**5,323,497**
168,058	**969,070**
1,783	788,143
(673)	(21,288)
107	107
(350)	(43,902)
867	**723,060**
168,925	**1,692,130**
53,223	62,411
(201,209)	(881,047)
(147,986)	**(818,636)**
20,939	**873,494**
(176,125)	(349,996)
$ (155,186)	**$ 523,498**

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	$ —	$ 2,215,064	$ —
Cash Received from Premiums and Assessments	2,256,238	—	1,097,338
Cash Received from Multi-State Lottery for Grand Prize Winner	—	390,064	—
Cash Received from Interfund Services Provided	58,869	1,396	—
Other Operating Cash Receipts	27,230	5,063	13,182
Cash Payments to Suppliers for Goods and Services	(68,444)	(65,386)	(332)
Cash Payments to Employees for Services	(242,185)	(23,655)	—
Cash Payments for Benefits and Claims	(2,105,501)	—	(1,034,214)
Cash Payments for Lottery Prizes	—	(1,892,649)	—
Cash Payments for Bonuses and Commissions	—	(139,649)	—
Cash Payments for Premium Reductions and Refunds	(85,127)	—	—
Cash Payments for Interfund Services Used	(12,703)	(2,941)	—
Other Operating Cash Payments	—	(30)	(43,466)
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	**(171,623)**	**487,277**	**32,508**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers-in	44	—	9,144
Transfers-out	(7,724)	(646,748)	(25,365)
Federal Grants	—	—	—
NET CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	**(7,680)**	**(646,748)**	**(16,221)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal Payments on Bonds and Capital Leases	(13,190)	(15,596)	—
Interest Paid	(6,472)	(511)	—
Acquisition and Construction of Capital Assets	(3,739)	(1,318)	—
Principal Receipts on Capital Leases Receivable	—	—	—
Proceeds from Sales of Capital Assets	108	190	—
NET CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(23,293)**	**(17,235)**	**—**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Investments	(64,014,458)	(2,565,065)	(1,084,751)
Proceeds from the Sales and Maturities of Investments	62,399,345	2,656,653	1,052,101
Investment Income Received	813,246	46,042	288
Borrower Rebates and Agent Fees	(84,707)	(20,211)	—
NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES	**(886,574)**	**117,419**	**(32,362)**
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	**(1,089,170)**	**(59,287)**	**(16,075)**
CASH AND CASH EQUIVALENTS, JULY 1 (as restated)	1,284,316	123,480	17,413
CASH AND CASH EQUIVALENTS, JUNE 30	**$ 195,146**	**$ 64,193**	**$ 1,338**

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 666,902	$ 2,881,966
—	3,353,576
—	390,064
11,437	71,702
11,444	56,919
(443,833)	(577,995)
(89,609)	(355,449)
—	(3,139,715)
—	(1,892,649)
—	(139,649)
—	(85,127)
(2,053)	(17,697)
(69,151)	(112,647)
85,137	**433,299**
55,785	64,973
(201,209)	(881,046)
104	104
(145,320)	**(815,969)**
(2,233)	(31,019)
(339)	(7,322)
(4,835)	(9,892)
2,047	2,047
107	405
(5,253)	**(45,781)**
(1,740,444)	(69,404,718)
1,779,682	67,887,781
31,897	891,473
—	(104,918)
71,135	**(730,382)**
5,699	**(1,158,833)**
32,458	1,457,667
$ 38,157	**$ 298,834**

(continued)

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(dollars in thousands)
(continued)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	$ 107,091	$ 667,176	$ 26,745
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Investment Income	—	—	(25,060)
Depreciation	8,758	14,596	—
Provision for Uncollectible Accounts	70,038	—	—
Amortization of Premiums and Discounts	(960)	—	—
Interest on Bonds, Notes and Capital Leases	6,472	—	—
Decrease (Increase) in Assets:			
Deposit with Federal Government	—	—	57,140
Intergovernmental Receivable	—	—	(36)
Premiums and Assessments Receivable	133,257	—	(36,185)
Interfund Receivable	(83,313)	—	—
Other Receivables	(49,327)	(5,097)	865
Inventories	—	—	—
Other Assets	(1,021)	(14,683)	(118)
Increase (Decrease) in Liabilities:			
Accounts Payable	(1,880)	3,505	—
Accrued Liabilities	—	—	—
Intergovernmental Payable	—	—	882
Deferred Prize Awards Payable	—	(164,264)	—
Interfund Payable	—	855	—
Unearned Revenue	10,662	(767)	—
Benefits Payable	(248,464)	—	4,165
Refund and Other Liabilities	(122,936)	(14,044)	4,110
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	**$ (171,623)**	**$ 487,277**	**$ 32,508**

	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Change in Fair Value of Investments	$ 104,946	$ 31,784	$ —
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
$ 168,058	$ 969,070
(69,629)	(94,689)
2,841	26,195
—	70,038
1,098	138
—	6,472
—	57,140
116	80
—	97,072
10	(83,303)
6	(53,553)
(1,343)	(1,343)
(338)	(16,160)
(3,585)	(1,960)
215	215
20	902
—	(164,264)
(31)	824
1	9,896
(10,900)	(255,199)
(1,402)	(134,272)
$ 85,137	**$ 433,299**
$ (3,251)	$ 133,479
86	86
12	12

STATE OF OHIO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006
(dollars in thousands)

	PENSION TRUST	PRIVATE-PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (as of 12/31/05)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ASSETS:			
Cash Equity with Treasurer	$ —	$ —	$ —
Cash and Cash Equivalents	8,573	15,657	—
Investments (at fair value):			
U.S. Government and Agency Obligations	35,198	—	2,540,582
Common and Preferred Stock	304,132	—	—
Corporate Bonds and Notes	17,770	—	—
Foreign Stocks and Bonds	115,105	—	—
Commercial Paper	—	—	830,871
Repurchase Agreements	—	—	2,408
Mutual Funds	179,181	4,394,729	—
Real Estate	37,247	—	—
Venture Capital	—	—	—
Direct Mortgage Loans	13,628	—	—
Investment Contracts	—	—	—
State Treasury Asset Reserve of Ohio (STAR Ohio)	—	—	—
Collateral on Lent Securities	186,625	—	—
Employer Contributions Receivable	1,266	—	—
Employee Contributions Receivable	1,122	—	—
Other Receivables	1,165	7,982	880
Other Assets	—	—	—
Capital Assets, Net	31	—	—
TOTAL ASSETS	**901,043**	**4,418,368**	**3,374,741**
LIABILITIES:			
Accounts Payable	1,235	—	—
Accrued Liabilities	1,417	5,857	—
Obligations Under Securities Lending	186,625	—	—
Intergovernmental Payable	—	—	—
Refund and Other Liabilities	47	4,452	735
TOTAL LIABILITIES	**189,324**	**10,309**	**735**
NET ASSETS:			
Held in Trust for:			
Employees' Pension Benefits	612,497	—	—
Employees' Postemployment Healthcare Benefits	99,222	—	—
Individuals, Organizations and Other Governments	—	4,408,059	—
Pool Participants	—	—	3,374,006
TOTAL NET ASSETS	**$ 711,719**	**$ 4,408,059**	**$ 3,374,006**

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

AGENCY
$ 241,155
110,041
10,520,492
65,730,034
11,915,607
33,753,554
1,915,908
456,053
1,381,156
13,553,388
3,161,428
14,773,140
10,746
33,796
136,392
—
—
11,961
424,722
—
158,129,573
—
—
136,392
105,621
157,887,560
158,129,573
—
—
—
—
$ —

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STATE OF OHIO

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(dollars in thousands)

	PENSION TRUST	PRIVATE-PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (for the fiscal year ended 12/31/05)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ADDITIONS:			
Contributions from:			
Employer	$ 21,474	$ —	$ —
Employees	8,582	—	—
Plan Participants	—	892,468	—
Other	1,181	—	—
Total Contributions	31,237	892,468	—
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	38,315	156,220	—
Interest, Dividends and Other	18,165	157,326	141,775
Total Investment Income	56,480	313,546	141,775
Less: Investment Expense	9,591	31,509	3,456
Net Investment Income	46,889	282,037	138,319
Capital Share and Individual Account Transactions:			
Shares Sold	—	—	12,569,018
Reinvested Distributions	—	—	138,319
Shares Redeemed	—	—	(12,479,365)
Net Capital Share and Individual Account Transactions	—	—	227,972
TOTAL ADDITIONS	**78,126**	**1,174,505**	**366,291**
DEDUCTIONS:			
Pension Benefits Paid to Participants or Beneficiaries	37,716	—	—
Healthcare Benefits Paid to Participants or Beneficiaries	8,932	—	—
Refunds of Employee Contributions	496	—	—
Administrative Expense	654	—	—
Transfers to Other Retirement Systems	404	—	—
Distributions to Shareholders and Plan Participants	—	490,978	138,319
TOTAL DEDUCTIONS	**48,202**	**490,978**	**138,319**
CHANGE IN NET ASSETS HELD FOR:			
Employees' Pension Benefits	26,944	—	—
Employees' Postemployment Healthcare Benefits	2,980	—	—
Individuals, Organizations and Other Governments	—	683,527	—
Pool Participants	—	—	227,972
TOTAL CHANGE IN NET ASSETS	29,924	683,527	227,972
NET ASSETS, JULY 1 (restated)	681,795	3,724,532	3,146,034
NET ASSETS, JUNE 30	**$ 711,719**	**$ 4,408,059**	**$ 3,374,006**

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, 2006
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (as of 12/31/05)	OHIO STATE UNIVERSITY
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer	$ 561,843	$ —	$ —
Cash and Cash Equivalents	—	25,365	192,174
Investments	—	75,895	581,544
Collateral on Lent Securities	317,763	—	—
Intergovernmental Receivable	757	396	2,726
Loans Receivable, Net	1,393	1,218	8,429
Receivable from Primary Government	—	—	11,412
Other Receivables	—	323	374,461
Inventories	—	—	21,842
Other Assets	30	—	34,550
TOTAL CURRENT ASSETS	**881,786**	**103,197**	**1,227,138**
NONCURRENT ASSETS:			
Restricted Assets:			
Cash Equity with Treasurer	—	—	—
Cash and Cash Equivalents	—	390,398	25,992
Investments	—	1,311,502	—
Collateral on Lent Securities	—	—	—
Intergovernmental Receivable	—	288	—
Loans Receivable, Net	—	3,231,764	—
Investments	—	11,713	2,010,771
Loans Receivable, Net	6,576	21,843	61,444
Other Receivables	—	4,691	14,218
Other Assets	—	42,331	—
Capital Assets Being Depreciated, Net	35	1,525	2,209,748
Capital Assets Not Being Depreciated	—	539	485,900
TOTAL NONCURRENT ASSETS	**6,611**	**5,016,594**	**4,808,073**
TOTAL ASSETS	**888,397**	**5,119,791**	**6,035,211**
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable	10,753	64,182	129,408
Accrued Liabilities	259	10,235	265,724
Obligations Under Securities Lending	317,763	—	—
Intergovernmental Payable	990,280	24	—
Unearned Revenue	—	—	136,904
Refund and Other Liabilities	386	—	43,414
Bonds and Notes Payable	—	141,798	485,599
Certificates of Participation	—	—	360
TOTAL CURRENT LIABILITIES	**1,319,441**	**216,239**	**1,061,409**
NONCURRENT LIABILITIES:			
Intergovernmental Payable	1,155,733	—	—
Unearned Revenue	—	—	2,000
Refund and Other Liabilities	583	168	204,428
Bonds and Notes Payable	—	2,481,619	599,696
Certificates of Participation	—	—	5,465
TOTAL NONCURRENT LIABILITIES	**1,156,316**	**2,481,787**	**811,589**
TOTAL LIABILITIES	**2,475,757**	**2,698,026**	**1,872,998**
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	35	2,063	1,589,420
Restricted for:			
Federal Programs	—	—	—
Coal Research and Development Program	—	—	—
Community and Economic Development and Capital Purposes	—	—	—
Debt Service	—	2,274,289	—
Nonexpendable:			
Scholarships and Fellowships	—	—	—
Research	—	—	—
Endowments and Quasi-Endowments	—	—	1,189,475
Loans, Grants and Other College and University Purposes	—	—	—
Expendable:			
Scholarships and Fellowships	—	—	—
Research	—	—	—
Instructional Department Uses	—	—	—
Student and Public Services	—	—	—
Academic Support	—	—	—
Debt Service	—	—	—
Capital Purposes	—	—	8,695
Endowments and Quasi-Endowments	—	—	148,182
Current Operations	—	—	287,914
Loans, Grants and Other College and University Purposes	—	—	41,304
Unrestricted (Deficits)	(1,587,395)	145,413	897,223
TOTAL NET ASSETS (DEFICITS)	**$ (1,587,360)**	**$ 2,421,765**	**$ 4,162,213**

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
$ —	$ 20,456	$ 582,299
69,606	412,852	699,997
10,969	903,698	1,572,106
—	5,483	323,246
—	39,506	43,385
2,994	28,887	42,921
1,517	34,653	47,582
81,175	273,687	729,646
1,481	28,733	52,056
23,505	55,647	113,732
191,247	**1,803,602**	**4,206,970**
—	13,847	13,847
—	62,874	479,264
—	741,052	2,052,554
—	7,832	7,832
—	—	288
—	—	3,231,764
1,130,425	1,090,294	4,243,203
30,345	95,874	216,082
39,299	117,752	175,960
332,343	34,542	409,216
1,253,427	3,532,256	6,996,991
167,574	772,393	1,426,406
2,953,413	**6,468,716**	**19,253,407**
3,144,660	**8,272,318**	**23,460,377**
77,588	145,932	427,863
56,209	180,273	512,700
—	13,315	331,078
—	378	990,682
23,977	196,525	357,406
42,158	93,881	179,839
109,608	75,627	812,632
90	275	725
309,630	**706,206**	**3,612,925**
—	9,115	1,164,848
—	5,213	7,213
188,631	194,797	588,607
732,923	1,482,007	5,296,245
90	21,585	27,140
921,644	**1,712,717**	**7,084,053**
1,231,274	**2,418,923**	**10,696,978**
517,514	2,986,156	5,095,188
—	19	19
—	7,352	7,352
—	13,847	13,847
—	—	2,274,289
132,721	101,867	234,588
81,457	4,631	86,088
599,595	549,393	2,338,463
324,639	86,692	411,331
38,113	123,763	161,876
111,327	16,850	128,177
33,472	113,577	147,049
29,634	10,665	40,299
32,968	105,676	138,644
4	7,702	7,706
34,638	64,069	107,402
131,557	66,145	345,884
9,715	111,472	409,101
16,759	198,117	256,180
(180,727)	1,285,402	559,916
$ 1,913,386	**$ 5,853,395**	**$ 12,763,399**

STATE OF OHIO

COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (for the year ended 12/31/05)	OHIO STATE UNIVERSITY
EXPENSES:			
Primary, Secondary and Other Education	$ 555,648	$ —	$ —
Community and Economic Development	—	—	—
Cost of Services	—	106,701	—
Administration	—	9,757	—
Education and General:			
Instruction and Departmental Research	—	—	647,940
Separately Budgeted Research	—	—	368,920
Public Service	—	—	117,250
Academic Support	—	—	120,969
Student Services	—	—	73,060
Institutional Support	—	—	125,620
Operation and Maintenance of Plant	—	—	94,774
Scholarships and Fellowships	—	—	60,577
Auxiliary Enterprises	—	—	189,283
Hospitals	—	—	1,322,879
Interest on Long-Term Debt	—	—	42,313
Depreciation	—	192	191,991
Other	—	5,987	5,669
TOTAL EXPENSES	**555,648**	**122,637**	**3,361,245**
PROGRAM REVENUES:			
Charges for Services, Fees, Fines and Forfeitures	2,765	133,014	2,266,045
Operating Grants, Contributions and Restricted Investment Income	19,850	136,944	595,846
Capital Grants, Contributions and Restricted Investment Income	—	—	18,548
TOTAL PROGRAM REVENUES	**22,615**	**269,958**	**2,880,439**
NET PROGRAM (EXPENSE) REVENUE	**(533,033)**	**147,321**	**(480,806)**
GENERAL REVENUES:			
Unrestricted Investment Income	—	3,276	220,313
State Assistance	911,425	—	593,694
Other	—	396	2,508
TOTAL GENERAL REVENUES	**911,425**	**3,672**	**816,515**
ADDITIONS (DEDUCTIONS) TO ENDOWMENTS AND PERMANENT FUND PRINCIPAL	**—**	**—**	**47,423**
CHANGE IN NET ASSETS	**378,392**	**150,993**	**383,132**
NET ASSETS, JULY 1 (as restated)	(1,965,752)	2,270,772	3,779,081
NET ASSETS (DEFICITS), JUNE 30	**$ (1,587,360)**	**$ 2,421,765**	**$ 4,162,213**

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
$ —	$ 34,874	$ 590,522
—	23,679	23,679
—	—	106,701
—	—	9,757
281,857	1,357,451	2,287,248
144,764	172,321	686,005
55,566	126,011	298,827
67,501	382,503	570,973
38,041	204,747	315,848
90,724	382,674	599,018
88,322	269,949	453,045
17,892	157,789	236,258
80,397	553,110	822,790
—	196,372	1,519,251
31,005	56,768	130,086
79,366	227,636	499,185
9,583	30,622	51,861
985,018	**4,176,506**	**9,201,054**
366,466	2,549,765	5,318,055
403,975	500,757	1,657,372
7,587	48,047	74,182
778,028	**3,098,569**	**7,049,609**
(206,990)	**(1,077,937)**	**(2,151,445)**
—	152,875	376,464
210,065	1,229,914	2,945,098
3,795	37,862	44,561
213,860	**1,420,651**	**3,366,123**
13,414	**22,277**	**83,114**
20,284	**364,991**	**1,297,792**
1,893,102	5,488,404	11,465,607
$ 1,913,386	**$ 5,853,395**	**$ 12,763,399**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Ohio, as of June 30, 2006, 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
eTech Ohio 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 eTech Ohio 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.

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, 2005.

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, 2005. 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, and 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
Chapter 154 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* is available for public inspection at the Ohio Office of Budget and Management and on its web site at www.obm.ohio.gov/finrep. This Summary 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, including easements	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, 2005, for the primary government and component units that resulted from prior period adjustments for corrections of errors and from changes in the reporting entity are presented in the following tables (dollars in thousands).

Government-wide Financial Statements:

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units
Net Assets, as of June 30, 2005, As Previously Reported	$18,469,461	$1,360,149	$19,829,610	$11,465,788
Corrections that Increased/(Decreased) Net Assets:				
Cash Equity with Treasurer	(3,365)	—	(3,365)	—
Cash and Cash Equivalents	—	—	—	(849)
Investments	—	—	—	689
Premiums and Assessments Receivable	—	672,453	672,453	—
Other Receivables-Accounts	—	—	—	21
Other Receivables-Interest	—	(259)	(259)	—
Restricted Investments	—	1,806	1,806	—
Capital Assets Being Depreciated, Net	7,557	—	7,557	—
Capital Assets Not Being Depreciated	(176,818)	—	(176,818)	—
Accounts Payable	—	—	—	(21)
Internal Balances	(91,949)	91,949	—	—
Benefits Payable	—	(2,383,128)	(2,383,128)	—
Refund and Other Liabilities	—	(92,820)	(92,820)	—
Accrued Liabilities (Interest Payable)	—	—	—	(21)
Total Corrections, Net	(264,575)	(1,709,999)	(1,974,574)	(181)
Change in Reporting Entity:				
Reclassification of Assets from Business-Type Activities to Governmental Activities:				
Investments	105	(105)	—	—
Other Assets-Prepaid Expense	41	(41)	—	—
Total Reclassifications, Net	146	(146)	—	—
Net Assets-Ohio Housing Finance Agency	(100,683)	—	(100,683)	—
Net Assets, July 1, 2005, As Restated	$18,104,349	$(349,996)	$17,754,353	$11,465,607

Governmental Fund Financial Statements:

	General Fund	Job, Family and Other Human Services	Education	Highway Operating	Revenue Distribution	Nonmajor Governmental Funds	Total
Fund Balances (Deficits), as of June 30, 2005, As Previously Reported	$1,345,772	$(114,508)	$66,837	$592,160	$114,563	$3,225,776	$5,230,600
Corrections that Increased/ (Decreased) Fund Balance:							
Cash Equity with Treasurer	(3,365)	—	—	—	—	—	(3,365)
Interfund Payable	(65,592)	(1,913)	(247)	(11,092)	—	(13,105)	(91,949)
Total Corrections, Net	(68,957))	(1,913)	(247)	(11,092)	—	(13,105)	(95,314)
Change in Reporting Entity: Reclassification of Assets from Nonmajor Proprietary Funds to Nonmajor Governmental Funds:							
Investments	—	—	—	—	—	105	105
Other Assets-Prepaid Expense	—	—	—	—	—	41	41
Total Reclassifications, Net	—	—	—	—	—	146	146
Ohio Housing Finance Agency	—	—	—	—	—	(100,683)	(100,683)
Fund Balances (Deficits), July 1, 2005, As Restated	$1,276,815	$(116,421)	$66,590	$581,068	$114,563	$3,112,134	$5,034,749

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

Proprietary Fund Financial Statements:

	Workers' Compensation	Other Major Proprietary Funds	Nonmajor Proprietary Funds	Total
Net Assets (Deficits), as of June 30, 2005, As Previously Reported	$721,702	$815,973	$(177,526)	$1,360,149
Corrections that Increased/(Decreased) Net Assets:				
Premiums and Assessments Receivable	672,453	—	—	672,453
Interfund Receivable	91,949	—	—	91,949
Other Receivables-Interest	—	—	(259)	(259)
Restricted Investments	—	—	1,806	1,806
Benefits Payable	(2,383,128)	—	—	(2,383,128)
Refund and Other Liabilities	(92,820)	—	—	(92,820)
Total Corrections, Net	(1,711,546)	—	1,547	(1,709,999)
Change in Reporting Entity:				
Reclassification of Assets from				
Nonmajor Proprietary Funds to Nonmajor Governmental Funds:				
Investments	—	—	(105)	(105)
Other Assets-Prepaid Expense	—	—	(41)	(41)
Total Reclassifications, Net	—	—	(146)	(146)
Net Assets (Deficits), July 1, 2005, As Restated	$(989,844)	$815,973	$(176,125)	$(349,996)

Fiduciary Fund Financial Statements:

	Pension Trust	Investment Trust
Net Assets, as of June 30, 2005, As Previously Reported	$684,569	$3,087,817
Corrections that Increased/(Decreased) Net Assets:		
Cash and Cash Equivalents	(1,361)	—
Other Receivables-Interest	(1,413)	—
Total Corrections, Net	(2,774)	—
Change in Reporting Entity:		
Ohio Housing Finance Agency	—	58,217
Net Assets, 07/01/05, As Restated	$681,795	$3,146,034

Discretely Presented Component Units Fund Financial Statements:

	Major Component Units	Nonmajor Component Units	Total
Net Assets, as of 6/30/05, As Previously Reported	$5,977,203	$5,488,585	$11,465,788
Corrections that Increased/(Decreased) Net Assets:			
Cash and Cash Equivalents	—	(849)	(849)
Investments	—	689	689
Other Receivables-Accounts	—	21	21
Accounts Payable	—	(21)	(21)
Accrued Liabilities (Interest Payable)	—	(21)	(21)
Total Corrections, Net	—	(181)	(181)
Net Assets, 07/01/05, As Restated	$5,977,203	$5,488,404	11,465,607

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

Effective July 1, 2005, the Ohio Housing Finance Agency became legally separate from the primary government. As a result of its change in legal status, the Agency is considered to be a related organization of the primary government and is excluded from the Net Assets/Fund Balances at July 1, 2005. In addition, its investment previously accounted for as part of the internal portion of the STAR Ohio investment pool has been reclassified and is accounted for in the STAR Ohio Investment Trust Fund. The Investment Trust Fund accounts for the external portion of the STAR Ohio investment pool and includes accounts belonging to organizations outside of the primary government's reporting entity.

B. Implementation of Recently Issued Accounting Pronouncements

For the fiscal year ended June 30, 2006, the State implemented the provisions of

- Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,*
- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation — an amendment of GASB Statement No. 34*, and
- GASB Statement No. 47, *Accounting for Termination Benefits* (only those provisions applicable to termination benefits unrelated to defined benefit postemployment benefits, excluding pensions, were implemented).

GASB 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

GASB 46 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.

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. 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.*

C. Recently Issued GASB Pronouncements

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 September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.* This Statement establishes the criteria for reporting transactions as revenue or as a

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

liability, whereby an interest in the government's expected cash flows from collecting specific receivables or specific revenues are exchanged for immediate cash payments, generally a single lump sum. This Statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. The requirements of GASB 48 are effective for financial statements for periods beginning after December 15, 2006.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The requirements of GASB 49 are effective for financial statements for periods beginning after December 15, 2007. This Statement addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

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 2006. 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 2006, whenever signed into law or otherwise legally authorized.

For fiscal year 2006, 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, 2006
(dollars in thousands)

		Major Special Revenue Funds			
	General	Job, Family, and Other Human Services	Education	Highway Operating	Revenue Distribution
Total Fund Balances - GAAP Basis	$1,909,683	$ 177,707	$64,818	$ 752,824	$ 27,869
Less: Reserved Fund Balances	617,733	2,175,569	28,011	1,726,093	127,121
Less: Designated Fund Balances	1,010,689	—	—	—	—
Unreserved/Undesignated Fund Balances — GAAP Basis	281,261	(1,997,862)	36,807	(973,269)	(99,252)
BASIS DIFFERENCES					
Revenue Accruals/Adjustments:					
Cash Equity with Treasurer	(12,756)	(9,275)	—	(1,323)	(8,126)
Taxes Receivable	(1,088,389)	—	—	(65,238)	(369,171)
Intergovernmental Receivable	(346,082)	(417,688)	(143,882)	(118,770)	—
Loans Receivable, Net	(244,202)	—	(44)	(82,263)	—
Interfund Receivable	(2,925)	—	—	—	—
Other Receivables	(267,998)	(71,813)	(308)	(2,655)	—
Deferred Revenue	314,209	162,275	10,389	5,255	35,155
Unearned Revenue	—	42,761	83,463	4,889	7,943
Total Revenue Accruals/Adjustments	(1,648,143)	(293,740)	(50,382)	(260,105)	(334,199)
Expenditure Accruals/Adjustments:					
Cash Equity with Treasurer	(77,321)	(10,005)	(878)	(16,334)	—
Inventories	(24,254)	—	—	(30,633)	—
Other Assets	(15,403)	(1,929)	(5,141)	(2,965)	—
Accounts Payable	176,138	53,253	13,587	172,491	—
Accrued Liabilities	119,791	15,630	1,728	23,095	—
Medicaid Claims Payable	880,091	—	—	—	—
Intergovernmental Payable	377,211	230,590	59,946	316	595,371
Interfund Payable	701,130	21,011	2,466	114,656	395
Payable to Component Units	14,967	372	2,735	252	—
Refund and Other Liabilities	778,848	15,905	—	—	70,389
Liability for Escheat Property	10,249	—	—	—	—
Total Expenditure Accruals/Adjustments	2,941,447	324,827	74,443	260,878	666,155
Other Adjustments:					
Fund Balance Reclassifications:					
From Unreserved (Non-GAAP Budgetary Basis) to Reserved for:					
Noncurrent Portion of Loans Receivable	240,365	—	42	76,905	—
Inventories	24,254	—	—	30,633	—
State and Local Highway Construction	—	—	—	—	127,121
Federal Programs	—	5,479	6,060	3,271	—
Other	50,394	5,614	533	8,088	—
From Undesignated (Non-GAAP Budgetary Basis) to Designated	1,010,689	—	—	—	—
Cash and Investments Held Outside of State Treasury	(471,940)	(11,267)	(2,945)	(754)	(7,900)
Other	(1)	—	—	—	—
Total Other Adjustments	853,761	(174)	3,690	118,143	119,221
Total Basis Differences	2,147,065	30,913	27,751	118,916	451,177
TIMING DIFFERENCES					
Encumbrances	(358,653)	(331,326)	(13,069)	(167,368)	—
Budgetary Fund Balances (Deficits) — Non-GAAP Basis	$2,069,673	$(2,298,275)	$51,489	$(1,021,721)	$351,925

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 any 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 exposure to risks is 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. The State's reporting entity has not established specific policies for managing custodial credit risk exposure for deposits.

The table below reports the carrying amount of deposits, as of June 30, 2006, held by the primary government, including fiduciary activities, and its component units and the extent of exposure to custodial credit risk.

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.

The State's reporting entity has not established specific policies for managing custodial credit risk exposure for investments.

Primary Government (including Fiduciary Activities) and Component Units
Deposits—Custodial Credit Risk
As of June 30, 2006
(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......................	$ 580,953	$ 672,666	$ —	$144,258	$ —
Component Units...........................	601,732	694,132	71,166	555,390	19,174
Total Deposits — Reporting Entity..	$1,182,685	$1,366,798	$71,166	$699,648	$19,174

*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, as of June 30, 2006, of investments by type for the primary government, including fiduciary activities, and its component units, and the extent of exposure to custodial credit risk (dollars in thousands).

Primary Government (including Fiduciary Activities) and Component Units
Investments—Custodial Credit Risk
As of June 30, 2006
(dollars in thousands)

Investments for the Primary Government (including Fiduciary Activities), as of June 30, 2006	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	$16,704,394	$150,447
U.S. Government Obligations—Strips	343,327	—
U.S. Agency Obligations	14,241,264	—
U.S. Agency Obligations—Strips	303,131	—
Common and Preferred Stock	65,237,631	—
Corporate Bonds and Notes	12,928,705	—
Corporate Bonds and Notes—Strips	744	—
Commercial Paper	4,647,180	—
Repurchase Agreements	472,573	312
Mortgage and Asset-Backed Securities	9,075,544	—
Municipal Obligations	3,822	—
International Investments:		
Foreign Stocks	32,148,752	—
Foreign Bonds	1,473,937	—
High-Yield and Emerging Markets Fixed Income	1,051,293	—
Securities Lending Collateral:		
Commercial Paper	32,976	—
Repurchase Agreements	2,594,130	50,000
Mortgage and Asset-Backed Securities	48,211	—
Variable Rate Notes	1,683,656	—
Master Notes	555,132	—
		$200,759
Investments Not Subject to Custodial Credit Risk Exposure:		
Investments Held by Broker-Dealers under Securities Loans with Cash Collateral:		
U.S. Government Obligations	2,321,564	
U.S. Government Obligations—Strips	11,830	
U.S. Agency Obligations	3,863,700	
U.S. Agency Obligations—Strips	260,744	
Common and Preferred Stock	1,054,601	
Corporate Bonds and Notes	134,428	
Mortgage and Asset-Backed Securities	969	
International Investments:		
Foreign Stocks	881,543	
Foreign Bonds	1,032	
High-Yield and Emerging Markets Fixed Income	90,149	
International Investments-Commingled Equity Funds	711,130	
Equity Mutual Funds	5,169,763	
Bond Mutual Funds	2,042,002	
Real Estate	13,591,703	
Venture Capital	3,161,428	
Limited Partnerships	427,339	
Investment Contracts	944	
Deposit with Federal Government	625,375	
Component Units' Equity in State Treasurer's Cash and Investment Pool	(927,224)	
Component Units' Equity in the State Treasury Asset Reserve of Ohio	(381,158)	
Total Investments — Primary Government	$196,588,264	

(Continued)

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Investments for Component Units, as of June 30, 2006	Total Fair Value	Uninsured, Unregistered, and Held by the Counterparty's Trust Department or Agent but not in the Component Unit's Name	Uninsured, Unregistered, and Held by the Counterparty but not in the Component Unit's Name
Investments Subject to Custodial Credit Risk Exposure:			
U.S. Government Obligations	$ 240,244	$ 79,158	$ 76,633
U.S. Government Obligations—Strips	13,382	3,686	—
U.S. Agency Obligations	918,025	387,509	293,629
Common and Preferred Stock	1,726,206	343,593	654,394
Corporate Bonds and Notes	244,291	54,861	111,584
Commercial Paper	14,488	3,875	—
Repurchase Agreements	323,257	160,967	136,873
Mortgage and Asset-Backed Securities	8,568	—	—
Negotiable Certificates of Deposit	405	—	—
Municipal Obligations	817	293	60
Other Investments	5,225	3,935	—
		$1,037,877	$1,273,173
Investments Not Subject to Custodial Credit Risk Exposure:			
Equity Mutual Funds	1,980,764		
Bond Mutual Funds	934,787		
International Investments:			
Foreign Stocks	102,997		
Foreign Bonds	20,414		
Equity Mutual Funds	7,977		
Real Estate	157,746		
Direct Mortgages	105,011		
Life Insurance	17,057		
Investment Contracts	916,773		
Charitable Remainder Trusts	9,762		
Partnerships and Hedge Funds	316,038		
Investment in State Treasurer's Cash and Investment Pool	927,224		
Investment in the State Treasury Asset Reserve of Ohio (STAR Ohio)	381,158		
Total Investments — Component Units	9,372,616		
Total Investments — Reporting Entity	$205,960,880		

Reconciliation of Deposits and Investments Disclosures with Financial Statements
As of June 30, 2006
(dollars in thousands)

	Government-Wide Statement of Net Assets: Governmental Activities	Government-Wide Statement of Net Assets: Business-Type Activities	Government-Wide Statement of Net Assets: Component Units	Fiduciary Funds Statement of Net Assets	Total
Cash Equity with Treasurer	$ 6,789,609	$ 89,382	$ 582,299	$ 241,155	$ 7,702,445
Cash and Cash Equivalents	104,753	207,112	699,997	134,271	1,146,133
Investments	891,754	16,105,147	5,815,309	165,676,153	188,488,363
Collateral on Lent Securities	3,857,013	44,698	323,246	323,017	4,547,974
Deposit with Federal Government	—	625,375	—	—	625,375
Restricted Assets:					
Cash Equity with Treasurer	—	800	13,847	—	14,647
Cash and Cash Equivalents	—	1,540	479,264	—	480,804
Investments	—	1,577,356	2,052,554	—	3,629,910
Collateral on Lent Securities	—	351,854	7,832	—	359,686
Total Reporting Entity	$11,643,129	$19,003,264	$9,974,348	$166,374,596	$206,995,337

Total Carrying Amount of Deposits and Investments per Financial Statements	$206,995,337
Outstanding Warrants and Other Reconciling Items	193,850
Differences Resulting from Component Units with December 31 Year-Ends	(45,622)
Total Carrying Amount of Deposits and Investments Disclosed in Note 4	$207,143,565

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The total carrying amount of deposits and investments, as of June 30, 2006, reported for the primary government and its component units is (dollars in thousands) $206,995,337. The total of the carrying amounts of both deposits in the amount of $1,182,685 and investments in the amount of $205,960,880 that has been categorized and disclosed in this note is $207,143,565. A reconciliation of the difference is presented in the table on the previous page.

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 one of 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 be rated in one of the three highest categories by at least two rating agencies, and
- 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 in 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
When purchased, bond investments must be rated within the four highest classifications of at least two rating agencies.

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" or higher, 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. Under the Cash Management Policy, issues rated in the A2/P2 category are limited to five percent of the portfolio and one percent per issuer. Those rated in the A3/P3 category are limited to two percent of the portfolio (one-half percent per issuer) with a final maturity of the next business day.

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, and
- Investment managers may hold no more than 15 percent of their entire portfolio in convertible bonds with no minimum credit rating specified.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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.

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.

Primary Government (including Fiduciary Activities)
Investment Credit Ratings
As of June 30, 2006
(dollars in thousands)

	Credit Rating					
Investment Type	AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations*	$ 9,851,501	$2,981,384	$ 10,779	$ —	$ —	$ —
U.S. Agency Obligations—Strips	63,449	500,426	—	—	—	—
Corporate Bonds and Notes	1,074,868	2,331,903	4,516,149	3,025,293	528,172	799,209
Corporate Bonds and Notes—Strips	744	—	—	—	—	—
Commercial Paper	1,666,449	399,469	857,642	—	—	—
Repurchase Agreements	9,723	201,017	—	—	—	—
Mortgage and Asset-Backed Securities	7,792,316	172,555	66,169	129,836	—	528
Municipal Obligations	3,300	—	522	—	—	—
Foreign Bonds	132,495	137,969	233,173	419,662	363,459	69,896
High-Yield & Emerging Markets Fixed Income	—	—	—	122,187	314,772	482,223
Bond Mutual Funds	1,286,519	304,586	—	12,134	53,152	12,518
Investment Contracts	—	—	—	—	—	—
Securities Lending Collateral:						
Commercial Paper	—	—	32,976	—	—	—
Repurchase Agreements	42,357	—	947,330	1,568,413	25,000	1,955
Mortgage and Asset-Backed Securities	48,211	—	—	—	—	—
Variable Rate Notes	—	545,000	1,138,656	—	—	—
Master Notes	—	460,132	95,000	—	—	—
Total Primary Government	$21,971,932	$8,034,441	$7,898,396	$5,277,525	$ 1,284,555	$ 1,366,329

	Credit Rating					
Investment Type	CCC/Caa	CC/Ca	C	D	Unrated	Total
U.S. Agency Obligations*	$ —	$ —	$ —	$ —	$ 5,255,659	$18,099,323
U.S. Agency Obligations—Strips	—	—	—	—	—	563,875
Corporate Bonds and Notes	96,520	40,384	168	3,945	646,522	13,063,133
Corporate Bonds and Notes—Strips	—	—	—	—	—	744
Commercial Paper	—	—	—	—	1,723,620	4,647,180
Repurchase Agreements	—	—	—	—	261,833	472,573
Mortgage and Asset-Backed Securities	—	—	—	—	915,109	9,076,513
Municipal Obligations	—	—	—	—	—	3,822
Foreign Bonds	9,122	—	—	3,576	105,617	1,474,969
High-Yield & Emerging Markets Fixed Income	104,504	429	—	6,386	110,941	1,141,442
Bond Mutual Funds	—	—	—	—	373,093	2,042,002
Investment Contracts	—	—	—	—	944	944
Securities Lending Collateral:						
Commercial Paper	—	—	—	—	—	32,976
Repurchase Agreements	—	—	—	—	9,075	2,594,130
Mortgage and Asset-Backed Securities	—	—	—	—	—	48,211
Variable Rate Notes	—	—	—	—	—	1,683,656
Master Notes	—	—	—	—	—	555,132
Total Primary Government	$ 210,146	$ 40,813	$ 168	$ 13,907	$9,402,413	$55,500,625

* *The portion of U.S. Agency Obligations that are explicitly guaranteed by the U.S. government have been excluded from this table since these investments are not exposed to credit risk.*

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Component Units
Investment Credit Ratings
As of June 30, 2006
(dollars in thousands)

	Credit Rating					
Investment Type	AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations*	$ 867,686	$ —	$ —	$ —	$ —	$ —
Corporate Bonds and Notes	69,105	34,441	74,765	30,658	6,817	21,106
Commercial Paper	—	248	8,854	—	—	—
Repurchase Agreements	162,290	—	—	—	—	—
Mortgage and Asset-Backed Securities	8,568	—	—	—	—	—
Negotiable Certificates of Deposit	—	—	—	—	—	—
Municipal Obligations	475	32	10	—	—	—
Bond Mutual Funds	584,709	119,349	71,072	44,051	20,119	37,210
Foreign Bonds	283	16	1,726	2,694	11,295	3,208
Direct Mortgages	—	—	—	—	—	—
Investment Contracts	—	—	—	—	—	—
Other Investments	21	—	—	—	—	—
Total Component Units	$1,693,137	$ 154,086	$ 156,427	$ 77,403	$ 38,231	$ 61,524

	Credit Rating			
Investment Type	CCC/Caa	C	Unrated	Total
U.S. Agency Obligations*	$ —	$ —	$ 44,926	$ 912,612
Corporate Bonds and Notes	5,471	—	1,928	244,291
Commercial Paper	—	—	5,386	14,488
Repurchase Agreements	—	—	160,967	323,257
Mortgage and Asset-Backed Securities	—	—	—	8,568
Negotiable Certificates of Deposit	—	—	405	405
Municipal Obligations	—	—	300	817
Bond Mutual Funds	5,384	551	52,342	934,787
Foreign Bonds	207	—	985	20,414
Direct Mortgages	—	—	105,011	105,011
Investment Contracts	—	—	916,773	916,773
Other Investments	—	—	3,935	3,956
Total Component Units	$ 11,062	$ 551	$1,292,958	$3,485,379

* *The portion of U.S. Agency Obligations that are explicitly guaranteed by the U.S. government have been excluded from this table since these investments are not exposed to credit risk.*

All investments, as categorized by credit ratings in the tables above and on the previous page, 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)
D	Currently highly vulnerable to nonpayment for failure to pay by due date

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,

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

- Debt interests in foreign nations may not exceed one percent of the State's total average portfolio, and
- 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	25
Corporate Notes	5
Foreign Notes	1
Certificates of Deposit	20
Municipal Obligations	10
STAR Ohio	25
Mutual Funds	25

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 the U.S. Equity Portfolio of the Workers' Compensation Enterprise Fund, no single holding is to be more than five percent of the entire portfolio at market, or five 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 prohibits the investment of more than 10 percent of its fixed income portfolio in securities of any one issuer with the exception of U.S. government securities, or the investment of 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, 2006, 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	$4,577,437	13%
Federal Home Loan Bank	2,147,985	6%
Federal Home Loan Mortgage Corporation	3,970,246	11%
STAR Ohio Investment Trust Fund:		
Federal National Mortgage Association	1,288,228	31%
Federal Home Loan Bank	901,888	22%
Federal Home Loan Mortgage Corporation	936,262	23%
School Facilities Commission Component Unit Fund:		
Federal National Mortgage Association	67,556	8%
Federal Home Loan Bank	143,491	17%
Federal Home Loan Mortgage Corporation	112,350	13%
Ohio Water Development Authority Component Unit Fund (12/31/05):		
Federal Home Loan Bank	128,165	9%
AIGMFC	386,479	26%
Citigroup	323,173	22%
Goldman Sachs	81,140	5%
Nonmajor Component Units:		
Federal National Mortgage Association	149,244	5%
Federal Home Loan Mortgage Corporation	158,104	6%

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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.

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 the Fund's fixed income portfolio has 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.

Investments purchased under the Cash Management Policy of the Ohio Public Employees Retirement System are limited to a weighted average maturity of 90 days. Fixed rate notes are required to have an average maturity of 14 months. Floating rate notes, with a rating of AA and higher, are limited to an average maturity of three years. All other issues are limited to a two-year average maturity.

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, 2006, 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 $146.2 million of investments with call dates during fiscal year 2007. Investments of $4.9 million callable in fiscal year 2007 also have scheduled maturities during fiscal year 2007 and are reported in the table on the following page as maturing in less than one year. Investments of $141.3 million callable in fiscal year 2007 have maturities during fiscal years 2008 and 2009 and are reported in the table on the following page as maturing in one to five years.

Several investments reported as "Collateral on Lent Securities" have terms that make them highly sensitive to interest rate changes as of June 30, 2006. Master Notes of $200 million and variable rate notes of $310 million have daily reset dates. Mortgage and asset-backed securities of $48.4 million and variable rate notes of $350 million have monthly reset dates. Variable rate notes of $810.6 million have quarterly reset dates.

As of June 30, 2006, the Workers' Compensation Enterprise Fund held approximately $748 million in certain mortgage and asset-backed securities (primarily classified under the "Corporate Bonds and Notes" investment type). 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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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 investments with call dates and collateral on lent securities with reset dates. U.S. agency obligations of $3.5 million that are callable in fiscal year 2007 have a scheduled maturity during fiscal year 2012. An additional $3 million that are callable in fiscal year 2007 have 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 below. Master notes and variable rate notes with reset dates are reported as collateral on lent securities. Master notes of $30 million have daily reset dates. Variable rate notes of $97.7 million, $50 million, and $65.6 million, respectively have daily, monthly, and quarterly reset dates.

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 $2.7 million that include floating interest rates and adjustable coupons. The corporate bonds and notes investment type also include $1 million of investments with coupon step-ups. The U.S agency obligations, mortgage and asset-backed securities, and corporate bonds and notes investment types contain call provisions of $5.7 million, $7.4 million, and $2 million, respectively. The investments with call provisions are listed in the table below based on these terms.

Also during fiscal year 2006, 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, 2006, 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, 2006
(dollars in thousands)

	Investment Maturities (in years)				
Investment Type	Less than 1	1-5	6-10	More than 10	Total
U.S. Government Obligations	$ 951,509	$ 4,883,983	$3,419,832	$ 9,770,634	$19,025,958
U.S. Government Obligations—Strips	2,326	13,213	89,633	249,985	355,157
U.S. Agency Obligations	7,604,097	3,921,202	711,935	5,867,730	18,104,964
U.S. Agency Obligations—Strips	99,443	243,917	134,839	85,676	563,875
Corporate Bonds and Notes	1,727,296	5,232,044	3,730,951	2,372,842	13,063,133
Corporate Bonds and Notes—Strips	—	—	—	744	744
Commercial Paper	4,647,180	—	—	—	4,647,180
Repurchase Agreements	472,573	—	—	—	472,573
Mortgage and Asset-Backed Securities	—	399,533	176,113	8,500,867	9,076,513
Municipal Obligations	—	—	3,300	522	3,822
Foreign Bonds	12,813	450,935	417,364	593,857	1,474,969
High-Yield & Emerging Markets Fixed Income	41,264	185,653	599,341	315,184	1,141,442
Bond Mutual Funds	1,301,741	256,164	440,182	43,915	2,042,002
Investment Contracts	—	944	—	—	944
Securities Lending Collateral:					
Commercial Paper	32,976	—	—	—	32,976
Repurchase Agreements	2,594,130	—	—	—	2,594,130
Mortgage and Asset-Backed Securities	48,211	—	—	—	48,211
Variable Rate Notes	1,683,656	—	—	—	1,683,656
Master Notes	555,132	—	—	—	555,132
Total Primary Government	$21,774,347	$15,587,588	$9,723,490	$27,801,956	$74,887,381

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Component Units
Investments Subject to Interest Rate Risk
As of June 30, 2006
(dollars in thousands)

Investment Type	Investment Maturities (in years) Less than 1	1-5	6-10	More than 10	Total
U.S. Government Obligations	$ 99,574	$ 87,492	$ 31,832	$ 21,346	$ 240,244
U.S. Government Obligations—Strips	2,590	6,222	3,461	1,109	13,382
U.S. Agency Obligations	441,215	334,199	56,006	86,605	918,025
Corporate Bonds and Notes	41,428	106,310	55,013	41,540	244,291
Commercial Paper	14,488	—	—	—	14,488
Repurchase Agreements	321,172	2,085	—	—	323,257
Mortgage and Asset-Backed Securities	—	801	6,624	1,143	8,568
Negotiable Certificates of Deposit	405	—	—	—	405
Municipal Obligations	90	152	164	411	817
Bond Mutual Funds	302,314	375,090	175,965	81,418	934,787
Foreign Bonds	375	1,064	8,111	10,864	20,414
Direct Mortgages	—	540	—	104,471	105,011
Investment Contracts	—	857,926	—	58,847	916,773
Other Investments	388	1,468	1,285	815	3,956
Total Component Units	$1,224,039	$1,773,349	$ 338,461	$408,569	$3,744,418

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 managed by the Treasurer of State's Office, and reported as "Cash Equity with Treasurer", are limited to the debt of nations diplomatically recognized by the United States and 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 U.S. dollars. 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 five percent of the total value of all the investments in international equity securities, and
- equity securities of any one international company shall not exceed five percent of the company's outstanding equity securities.

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.

As of June 30, 2006, 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.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Primary Government (including Fiduciary Activities)
International Investments—Foreign Currency Risk
As of June 30, 2006
(dollars in thousands)

	Fiduciary Activities			
Currency	Stocks	Bonds	High-Yield & Emerging Markets Fixed Income	Total
Argentinean Peso	$ 43,509	$ —	$ 421	$ 43,930
Australian Dollar	412,323	—	—	412,323
Bahamian Dollar	26	—	—	26
Belize Dollar	2	—	—	2
Bermudian Dollar	309	—	—	309
Brazilian Real	380,771	—	1,174	381,945
British Pound	2,158,055	—	—	2,158,055
Bulgarian Lev	41	—	—	41
Canadian Dollar	699,920	—	—	699,920
Caymanian Dollar	53	—	2,286	2,339
Chilean Peso	28,237	—	—	28,237
Chinese Yuan	54,200	—	—	54,200
Colombian Peso	6,656	—	4,561	11,217
Czech Koruna	21,823	—	—	21,823
Danish Krone	67,546	—	—	67,546
Egyptian Pound	39,947	—	1,764	41,711
Euro	3,824,840	165	7,485	3,832,490
Hong Kong Dollar	645,503	—	—	645,503
Hungarian Forint	57,351	—	—	57,351
Icelandic Krona	2	—	—	2
Indian Rupee	90,296	—	—	90,296
Indonesian Rupiah	104,623	—	453	105,076
Israeli Shekel	135,083	—	—	135,083
Japanese Yen	3,055,577	—	1	3,055,578
Jordanian Dollar	1	—	—	1
Lithuanian Litas	23	—	—	23
Malaysian Ringgit	158,529	—	—	158,529
Mexican Peso	168,715	23	1,127	169,865
Netherlands Antilles Guilder	2	—	—	2
New Zealand Dollar	11,318	—	—	11,318
Norwegian Kroner	157,067	—	—	157,067
Pakistani Rupee	8,474	—	—	8,474
Panamanian Balboa	4	—	—	4
Peruvian New Sol	30	—	—	30
Philippines Peso	38,460	—	—	38,460
Polish Zloty	31,938	—	—	31,938
Romanian Leu	1,177	—	—	1,177
Russian Ruble	15,718	—	655	16,373
Singapore Dollar	144,896	—	—	144,896
South African Rand	470,455	—	—	470,455
South Korean Won	905,937	—	—	905,937
Sri Lankan Rupee	17,267	—	—	17,267
Swedish Krona	175,930	—	—	175,930
Swiss Franc	766,894	—	—	766,894
Taiwan Dollar	620,480	—	—	620,480
Thailand Baht	139,932	—	—	139,932
Turkish Lira	166,690	—	2,957	169,647
Venezuelan Bolivar	6	—	—	6
Zimbabwean Dollar	3,926	—	—	3,926
Investments Held in Foreign Currency	$15,830,562	$188	$22,884	15,853,634
Foreign Investments Held in U.S. Dollars				20,504,202
Total Foreign Investments-Primary Government, including Fiduciary Activities				$36,357,836

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Component Units
International Investments—Foreign Currency Risk
As of June 30, 2006
(dollars in thousands)

Ohio State University:

Currency	Included in the Balance Reported for: Common & Preferred Stock	Corporate Bonds	Total
Argentinean Peso	$ —	$ 962	$ 962
Australian Dollar	2,061	—	2,061
Brazilian Real	894	1,583	2,477
British Pound	18,141	—	18,141
Canadian Dollar	4,300	—	4,300
Danish Krone	400	—	400
Euro	31,683	226	31,909
Hong Kong Dollar	2,963	—	2,963
Israeli Shekel	532	23	555
Japanese Yen	23,301	—	23,301
Malaysian Ringgit	409	—	409
Mexican Peso	542	610	1,152
New Zealand Dollar	159	—	159
Norwegian Krone	4,169	—	4,169
Singapore Dollar	676	—	676
South African Rand	3,228	—	3,228
South Korean Won	1,926	—	1,926
Swedish Krona	2,776	—	2,776
Swiss Franc	3,849	—	3,849
Thailand Baht	789	—	789
Investments Held in Foreign Currency	102,798	3,404	106,202
Foreign Investments Held in U.S. Dollars	—	16,206	16,206
Total Ohio State University	$102,798	$19,610	$122,408

Nonmajor Component Units:

Currency	Included in the Balance Reported for: Common & Preferred Stock	Corporate Bonds	Total
Bermudian Dollar	$ 69	$ —	$ 69
Canadian Dollar	33	30	63
Euro	97	333	430
Israeli Shekel	—	382	382
Sri Lankan Rupee	—	59	59
Total Nonmajor Component Units	$199	$804	$1,003

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

D. Securities Lending Transactions

The Treasurer of State 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. 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.

The SHPRS also requires 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, 2006, 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.

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 Enterprise Fund'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.

The State invests cash collateral in short-term obligations, which have a weighted average maturity of 13 days or less while the weighted average maturity of securities loans is two days or less.

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 Enterprise Fund, 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.

During fiscal year 2006, the State had not experienced any losses due to credit or market risk on securities lending activities.

In fiscal year 2006, the Treasurer lent U.S. government and agency obligations in exchange for cash collateral while the SHPRS lent fixed maturities and equity securities in exchange for cash collateral.

NOTE 5 RECEIVABLES

A. Taxes Receivable — 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, 2006, approximately $334.8 million of the net taxes receivable balance is also reported as deferred revenue on the governmental funds' balance sheet, of which $299.7 million is reported in the General Fund and $35.1 million is reported in the Revenue Distribution Special Revenue Fund.

Refund liabilities for income and corporation franchise taxes, totaling approximately $849.2 million, are reported for governmental activities as "Refunds and Other Liabilities" on the Statement of Net Assets, of which, $778.8 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:					
Income Taxes	$ 585,809	$ —	$ 64,869	$ 165	$ 650,843
Sales Taxes	371,343	—	28,655	724	400,722
Motor Vehicle Fuel Taxes	—	65,238	103,793	2,269	171,300
Commercial Activity Taxes	—	—	136,335	—	136,335
Public Utility Taxes	73,040	—	28,692	—	101,732
Severance Taxes	—	—	—	1,674	1,674
	1,030,192	65,238	362,344	4,832	1,462,606
Noncurrent-Due in More Than One Year:					
Income Taxes	58,197	—	6,827	—	65,024
Taxes Receivable, Net	$1,088,389	$65,238	$369,171	$4,832	$1,527,630

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, 2006 (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	$ 333,665	$ 7,756	$ —	$ 4,661	$ 346,082
Job, Family and Other Human Services	332,350	85,338	—	—	417,688
Education	46,243	97,639	—	—	143,882
Highway Operating	118,770	—	—	—	118,770
Nonmajor Governmental Funds	269,673	16,431	—	38,642	324,746
Total Governmental Activities	1,100,701	207,164	—	43,303	1,351,168
Business-Type Activities:					
Major Proprietary Funds:					
Unemployment Compensation	—	—	3,351	—	3,351
Nonmajor Proprietary Funds	33	—	—	8,933	8,966
Total Business-Type Activities	33	—	3,351	8,933	12,317
Intergovernmental Receivable	$1,100,734	$207,164	$3,351	$52,236	$1,363,485

NOTE 5 RECEIVABLES (Continued)

C. Loans Receivable

Loans receivable for the primary government and its discretely presented major component units, as of June 30, 2006, 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
Housing Finance	$225,001	$ —	$ —	$ —	$225,001
School District Solvency Assistance	7,641	—	—	—	7,641
Wayne Trace Local School District	4,327	—	—	—	4,327
State Workforce Development	3,678	—	—	—	3,678
Office of Minority Financial Incentives	1,283	—	—	—	1,283
Professional Development	958	—	—	—	958
Columbiana County Economic Stabilization	858	—	—	—	858
Small Government Fire Departments	507	—	—	—	507
Nurses Education Assistance	—	44	—	—	44
Highway, Transit, & Aviation Infrastructure Bank	—	—	82,263	—	82,263
Economic Development					
Office of Financial Incentives	—	—	—	311,336	311,336
Rail Development	—	—	—	4,107	4,107
Brownfield Revolving Loan	—	—	—	502	502
Local Infrastructure Improvements	—	—	—	292,319	292,319
Natural Resources	—	—	—	2	2
Loans Receivable, Gross	244,253	44	82,263	608,266	934,826
Estimated Uncollectible	(51)	—	—	—	(51)
Loans Receivable, Net	$244,202	$44	$ 82,263	$608,266	$934,775
Current-Due Within One Year	$ 12,801	$34	$ 11,056	$ 31,392	$ 55,283
Noncurrent-Due in More Than One Year	231,401	10	71,207	576,874	879,492
Loans Receivable, Net	$244,202	$44	$ 82,263	$608,266	$934,775

Major Component Units — Loans Receivable

Loan Program	Ohio Water Development Authority (12/31/05)	Ohio State University	University of Cincinnati
Water and Wastewater Treatment			
(including restricted portion)	$3,254,825	$ —	$ —
Student	—	83,673	37,398
Other	—	—	690
Loans Receivable, Gross	3,254,825	83,673	38,088
Estimated Uncollectible	—	(13,800)	(4,749)
Loans Receivable, Net	$3,254,825	$ 69,873	$ 33,339
Current-Due Within One Year	$ 1,218	$ 8,429	$ 2,994
Noncurrent-Due in More Than One Year	3,253,607	61,444	30,345
Loans Receivable, Net	$3,254,825	$ 69,873	$ 33,339

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, 2006, 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	$213,929	$ 13,198	$ —	$ —	$ 12,548	$239,675
Tobacco Settlement	—	—	—	—	200,242	200,242
Health Facility Bed Assessments	—	54,455	—	—	—	54,455
Interest	19,709	—	—	2,035	2,572	24,316
Accounts	20,089	—	308	620	3,404	24,421
Environmental Legal Settlements	—	—	—	—	4,676	4,676
Miscellaneous	14,271	4,160	—	—	—	18,431
Other Receivables, Net-Due Within One Year	$267,998	$ 71,813	$ 308	$ 2,655	$223,442	$566,216

	Business-Type Activities				
	Major Proprietary Funds				
Type of Receivable	Workers' Compen-sation	Lottery Com-mission	Unemploy-ment Compen-sation	Nonmajor Proprietary Funds	Total
Accounts	$962,709	$ —	$68,088	$ 870	$1,031,667
Interest and Dividends (including restricted portion)	2,421	2,350	—	4,940	9,711
Leases	—	—	—	7,897	7,897
Lottery Sales Agents	—	51,769	—	—	51,769
Other Receivables, Gross	965,130	54,119	68,088	13,707	1,101,044
Estimated Uncollectible	(811,499)	(222)	(59,161)	—	(870,882)
Other Receivables, Net	$153,631	$53,897	$ 8,927	$13,707	$ 230,162
Current-Due Within One Year	$153,631	$53,897	$ 8,927	$10,463	$ 226,918
Noncurrent-Due in More Than One Year	—	—	—	3,244	3,244
Other Receivables, Net	$153,631	$53,897	$ 8,927	$13,707	$ 230,162
Total Primary Government					$ 796,378

Major Component Units — Other Receivables

Type of Receivable	Ohio State University	University of Cincinnati
Accounts	$769,123	$ 27,940
Interest	15,127	14,733
Investment Trade Receivable (Stock Proceeds)	—	10,255
Pledges	39,156	44,222
Unbilled Charges	—	32,238
Other Receivables, Gross	823,406	129,388
Estimated Uncollectible	(434,727)	(8,914)
Other Receivables, Net	$388,679	$120,474
Current-Due Within One Year	$374,461	$ 81,175
Noncurrent-Due in More Than One Year	14,218	39,299
Other Receivables, Net	$388,679	$120,474

NOTE 5 RECEIVABLES (Continued)

The "Other Receivables" balance reported in the fiduciary funds as of June 30, 2006, is comprised of interest due of approximately $6 million, investment trade receivable of $3.1 million, and miscellaneous receivables of $12.9 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, 2006, 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
2007	$4,803
2008	2,716
Total Minimum Lease Payments	7,519
Amount for interest	(180)
Present Value of Net Minimum Lease Payments	7,339
Unearned Income	558
Net Leases Receivable	$7,897

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, 2006, follow (dollars in thousands).

Primary Government — Accrued Liabilities

	Wages and Employee Benefits	Accrued Interest	Other	Total Accrued Liabilities
Governmental Activities:				
Major Governmental Funds:				
General	$119,791	$ —	$ —	$119,791
Job, Family and Other Human Services	15,630	—	—	15,630
Education	1,728	—	—	1,728
Highway Operating	23,095	—	—	23,095
Nonmajor Governmental Funds	43,233	—	22	43,255
	203,477	—	22	203,499
Reconciliation of balances in fund financial statements to government-wide financial statements due to basis differences	—	122,784	—	122,784
Total Governmental Activities	203,477	122,784	22	326,283
Business-Type Activities:				
Nonmajor Proprietary Funds	4,594	59	108	4,761
Total Primary Government	$208,071	$122,843	$ 130	$331,044

	Wages and Employee Benefits	Health Benefit Claims	Management and Administrative Expenses	Total Accrued Liabilities
Fiduciary Activities:				
State Highway Patrol Retirement System Pension Trust (12/31/05)	$ 151	$ 1,266	$ —	$ 1,417
Variable College Savings Plan Private-Purpose Trust	—	—	5,857	5,857
Total Fiduciary Activities	$ 151	$ 1,266	$5,857	$ 7,274

NOTE 6 PAYABLES (Continued)

Major Component Units — Accrued Liabilities

	Wages and Employee Benefits	Self-Insurance	Accrued Interest	Other	Total Accrued Liabilities
Ohio State University	$123,299	$109,747	$4,864	$27,814	$265,724
University of Cincinnati	30,358	—	4,355	21,496	56,209

B. Intergovernmental Payable

The intergovernmental payable balances for the primary government, as of June 30, 2006, are comprised of the following (dollars in thousands).

Primary Government — Intergovernmental Payable

	Local Government				
	Shared Revenue and Local Permissive Taxes	Subsidies and Other	Federal Government	Other States	Total
Governmental Activities:					
Major Governmental Funds:					
General	$267,049	$ 88,603	$21,559	$ —	$ 377,211
Job, Family and Other Human Services	—	230,590	—	—	230,590
Education	—	59,936	10	—	59,946
Highway Operating	—	316	—	—	316
Revenue Distribution	592,439	—	—	2,932	595,371
Nonmajor Governmental Funds	—	210,730	—	—	210,730
Total Governmental Activities	859,488	590,175	21,569	2,932	1,474,164
Business-Type Activities:					
Major Proprietary Funds:					
Unemployment Compensation	—	287	641	—	928
Nonmajor Proprietary Funds	434	—	—	—	434
Total Business-Type Activities	434	287	641	—	1,362
Total Primary Government	$859,922	$590,462	$22,210	$2,932	$1,475,526
Fiduciary Activities:					
Holding and Distribution Agency Fund	$ —	$ —	$ 2,839	$3,167	$ 6,006
Payroll Withholding and Fringe Benefits Agency Fund	—	357	—	—	357
Other Agency Fund	96,483	2,775	—	—	99,258
Total Fiduciary Activities	$ 96,483	$ 3,132	$ 2,839	$3,167	$ 105,621

As of June 30, 2006, the School Facilities Commission Component Unit Fund reported an intergovernmental payable balance totaling approximately $2.15 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, 2006, 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

	Estimated Tax Refund Claims					
Governmental Activities:	Personal Income Tax	Corporation Franchise Tax	Total Tax Refund Liabilities	Interest on Lawyers' Trust Accounts	Other	Total
Major Governmental Funds:						
General	$ 609,151	$169,688	$778,839	$ —	$ 9	$ 778,848
Job, Family and Other Human Services	—	—	—	14,569	1,336	15,905
Revenue Distribution	64,766	5,623	70,389	—	—	70,389
Nonmajor Governmental Funds	—	—	—	—	2,458	2,458
Total Governmental Activities	$ 673,917	$175,311	$849,228	$ 14,569	$ 3,803	$ 867,600

	Reserve for Compensation Adjustment	Refund and Security Deposits	Compensated Absences	Capital Leases	Other	Total
Business-Type Activities:						
Major Proprietary Funds:						
Workers' Compensation	$1,676,498	$ 87,693	$ 20,620	$ —	$112,844	$1,897,655
Lottery Commission	—	18,336	3,055	—	1,599	22,990
Unemployment Compensation	—	12,666	—	—	—	12,666
Nonmajor Proprietary Funds	—	2,432	10,901	12	7,528	20,873
	1,676,498	121,127	34,576	12	121,971	1,954,184
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-wide financial statements	(1,676,498)	(87,693)	(34,454)	(12)	(75,944)	(1,874,601)
Total Business-Type Activities	$ —	$ 33,434	$ 122	$ —	$ 46,027	$ 79,583
Total Primary Government						$ 947,183

	Child Support Collections	Refund and Security Deposits	Payroll Withholdings	Retirement Systems' Assets	Other	Total
Fiduciary Activities:						
State Highway Patrol Retirement System Pension Trust (12/31/05)	$ —	$ —	$ —	$ —	$ 47	$ 47
Variable College Savings Plan Private-Purpose Trust	—	—	—	—	4,452	4,452
STAR Ohio Investment Trust	—	—	—	—	735	735
Agency Funds:						
Holding and Distribution	—	10,026	—	—	—	10,026
Centralized Child Support Collections	70,670	—	—	—	—	70,670
Retirement Systems	—	—	—	157,171,453	—	157,171,453
Payroll Withholding and Fringe Benefits	—	—	138,429	—	—	138,429
Other	—	388,345	—	10,453	98,184	496,982
Total Fiduciary Activities	$ 70,670	$398,371	$138,429	$157,181,906	$103,418	$157,892,794

Major Component Units — Refund and Other Liabilities

	Refund and Security Deposits	Compensated Absences	Capital Leases	Obligations Under Annuity Life Agreements	Other	Total
Ohio State University	$ 58,209	$ 85,054	$ 15,107	$ 49,473	$ 39,999	$ 247,842
University of Cincinnati	35,927	66,292	122,140	—	6,430	230,789

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

A. Interfund Balances

Interfund balances, as of June 30, 2006, consist of the following (dollars in thousands):

	Due To		
	Governmental Activities		
Due from	General	Nonmajor Governmental Funds	Total
Major Governmental Funds:			
General	$ —	$3,054	$ 3,054
Job, Family and Other Human Services	—	—	—
Education	—	—	—
Highway Operating	—	—	—
Revenue Distribution	—	395	395
Nonmajor Governmental Funds	—	349	349
Total Governmental Activities	—	3,798	3,798
Major Proprietary Funds:			
Lottery Commission	—	—	—
Nonmajor Proprietary Funds	2,925	—	2,925
Total Business-Type Activities	2,925	—	2,925
Total Primary Government	$ 2,925	$3,798	$ 6,723

	Business-Type Activities			
	Major Proprietary Fund			
	Workers' Compensation	Nonmajor Proprietary Funds	Total	Total Primary Government
Major Governmental Funds:				
General	$688,792	$9,284	$698,076	$701,130
Job, Family and Other Human Services	21,011	—	21,011	21,011
Education	2,466	—	2,466	2,466
Highway Operating	114,656	—	114,656	114,656
Revenue Distribution	—	—	—	395
Nonmajor Governmental Funds	130,805	1	130,806	131,155
Total Governmental Activities	957,730	9,285	967,015	970,813
Major Proprietary Funds:				
Lottery Commission	4,329	—	4,329	4,329
Nonmajor Proprietary Funds	2,633	—	2,633	5,558
Total Business-Type Activities	6,962	—	6,962	9,887
Total Primary Government	$964,692	$9,285	$973,977	$980,700

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.

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 $964.7 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 $957.7 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, 2006, 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 Govern-mental Funds	Total
Major Governmental Funds:							
General	$ —	$68,319	$ 10,515	$ 85	$ 9,253	$1,060,223	$1,148,395
Job, Family and Other Human Services	41,854	—	1,500	—	—	5	43,359
Education	31,717	—	—	—	—	100	31,817
Highway Operating	703	—	—	—	135,279	158,423	294,405
Revenue Distribution	90,270	—	—	513,681	—	240,925	844,876
Nonmajor Governmental Funds	54,577	2,142	257	—	—	18,946	75,922
Total Governmental Activities	219,121	70,461	12,272	513,766	144,532	1,478,622	2,438,774
Major Proprietary Funds:							
Workers' Compensation	7,724	—	—	—	—	—	7,724
Lottery Commission	472	—	646,276	—	—	—	646,748
Unemployment Compensation	—	25,366	—	—	—	—	25,366
Nonmajor Proprietary Funds	138,009	—	—	—	—	63,200	201,209
Total Business-Type Activities	146,205	25,366	646,276	—	—	63,200	881,047
Total Primary Government	$365,326	$95,827	$658,548	$513,766	$ 144,532	$1,541,822	$3,319,821

	Business-Type Activities				
	Major Proprietary Funds				
	Workers' Compen-sation	Unemploy-ment Compen-sation	Nonmajor Proprietary Funds	Total	Total Primary Government
Major Governmental Funds:					
General	$ —	$ —	$ 53,223	$ 53,223	$1,201,618
Job, Family and Other Human Services	44	9,144	—	9,188	52,547
Education	—	—	—	—	31,817
Highway Operating	—	—	—	—	294,405
Revenue Distribution	—	—	—	—	844,876
Nonmajor Governmental Funds	—	—	—	—	75,922
Total Governmental Activities	44	9,144	53,223	62,411	2,501,185
Major Proprietary Funds:					
Workers' Compensation	—	—	—	—	7,724
Lottery Commission	—	—	—	—	646,748
Unemployment Compensation	—	—	—	—	25,366
Nonmajor Proprietary Funds	—	—	—	—	201,209
Total Business-Type Activities	—	—	—	—	881,047
Total Primary Government	$ 44	$ 9,144	$ 53,223	$ 62,411	$3,382,232

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 2006, the component units reported $2.95 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 eTech Ohio 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	$14,967	$706,434	$1,745,614	$30,921	$2,482,969
Job, Family and Other Human Services	372	—	—	—	—
Education	2,735	10,598	—	—	10,598
Highway Operating	252	—	—	—	—
Nonmajor Governmental Funds	29,291	228,228	223,303	—	451,531
Total Primary Government	$47,617	$945,260	$1,968,917	$30,921	$2,945,098

Component Units
(dollars in thousands)

	Receivable from the Primary Government	Total State Assistance from the Primary Government
Major Component Units:		
School Facilities Commission	$ —	$ 911,425
Ohio State University	11,412	593,694
University of Cincinnati	1,517	210,065
Nonmajor Component Units	34,653	1,229,914
Variance Due to Year-End Differences (June 30 versus December 31)	35	—
Total Component Units	$47,617	$2,945,098

NOTE 8 CAPITAL ASSETS

A. Primary Government

Capital asset activity, for the year ended June 30, 2006, reported for the primary government was as follows (dollars in thousands):

	Primary Government			
	Balance July 1, 2005 *(as restated)*	Increases	Decreases	Balance June 30, 2006
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	$ 1,632,382	$ 106,365	$ (2,284)	$ 1,736,463
Buildings	59,135	925	—	60,060
Land Improvements	930	—	—	930
Construction-in-Progress	1,700,690	493,177	(612,369)	1,581,498
Infrastructure:				
Highway Network:				
General Subsystem	8,315,025	38,917	(16,174)	8,337,768
Priority Subsystem	6,823,023	394,349	(20,393)	7,196,979
Bridge Network	2,332,077	110,522	(11,970)	2,430,629
Total Capital Assets Not Being Depreciated	20,863,262	1,144,255	(663,190)	21,344,327
Other Capital Assets:				
Buildings	3,239,994	121,534	(37,076)	3,324,452
Land Improvements	306,536	34,892	(2,922)	338,506
Machinery and Equipment	523,953	101,643	(32,530)	593,066
Vehicles	243,663	30,229	(22,341)	251,551
Infrastructure:				
Parks, Recreation and Natural Resources Network	33,332	8,980	—	42,312
Total Other Capital Assets at historical cost	4,347,478	297,278	(94,869)	4,549,887
Less Accumulated Depreciation for:				
Buildings	1,303,023	110,940	(25,422)	1,388,541
Land Improvements	137,080	18,461	(2,210)	153,331
Machinery and Equipment	352,425	78,227	(29,254)	401,398
Vehicles	113,613	21,454	(16,174)	118,893
Infrastructure:				
Parks, Recreation and Natural Resources Network	2,003	1,281	(6)	3,278
Total Accumulated Depreciation	1,908,144	230,363	(73,066)	2,065,441
Other Capital Assets, Net	2,439,334	66,915	(21,803)	2,484,446
Governmental Activities-Capital Assets, Net	$23,302,596	$1,211,170	$(684,993)	$23,828,773

For fiscal year 2006, the State charged depreciation expense to the following governmental functions:

Governmental Activities:	***(in 000s)***
Primary, Secondary and Other Education	$ 1,313
Higher Education Support	6
Public Assistance and Medicaid	17,407
Health and Human Services	20,778
Justice and Public Protection	102,787
Environmental Protection and Natural Resources	16,358
Transportation	25,970
General Government	47,919
Community and Economic Development	4,094
Total Depreciation Expense for Governmental Activities	236,632
Gains (Losses) on Capital Asset Disposals Included in Depreciation	(6,269)
Fiscal Year 2006 Increases to Accumulated Depreciation	$230,363

NOTE 8 CAPITAL ASSETS (Continued)

As of June 30, 2006, the State considered the following governmental capital asset balances as being temporarily or permanently impaired and removed from service.

Governmental Activities:	***(in 000s)***
Temporarily Impaired Assets Removed from Service:	
Buildings	$13,198
Land Improvements	225
Total	$13,423
Permanently Impaired Assets Removed from Service:	
Buildings	$ 6,072
Land Improvements	429
Total	$ 6,501

	Primary Government *(Continued)*			
	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land	$ 11,994	$ —	$ —	$ 11,994
Construction-in-Progress	71	707	—	778
Total Capital Assets Not Being Depreciated	12,065	707	—	12,772
Other Capital Assets:				
Buildings	222,038	116	—	222,154
Land Improvements	66	—	—	66
Machinery and Equipment	145,176	6,910	(9,216)	142,870
Vehicles	4,287	1,218	(876)	4,629
Total Other Capital Assets at historical cost	371,567	8,244	(10,092)	369,719
Less Accumulated Depreciation for:				
Buildings	108,207	7,340	—	115,547
Land Improvements	50	1	—	51
Machinery and Equipment	117,844	18,037	(8,820)	127,061
Vehicles	2,356	949	(756)	2,549
Total Accumulated Depreciation	228,457	26,327	(9,576)	245,208
Other Capital Assets, Net	143,110	(18,083)	(516)	124,511
Business-Type Activities- Capital Assets, Net	$155,175	$(17,376)	$(516)	$137,283

For fiscal year 2006, the State charged depreciation expense to the following business-type functions:

Business-Type Activities:	***(in 000s)***
Workers' Compensation	$ 8,758
Lottery Commission	14,596
Tuition Trust Authority	10
Liquor Control	796
Underground Parking Garage	567
Office of Auditor of State	1,468
Total Depreciation Expense for Business-Type Activities	26,195
Gains (Losses) on Capital Asset Disposals Included in Depreciation	132
Fiscal Year 2006 Increases to Accumulated Depreciation	$26,327

NOTE 8 CAPITAL ASSETS (Continued)

B. Major Component Units

Capital asset activity, for the year ended June 30, 2006, 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, 2005	Increases	Decreases	Balance June 30, 2006
Capital Assets Not Being Depreciated:				
Land	$ 44,016	$ 8,962	$ (435)	$ 52,543
Construction-in-Progress	370,753	62,604	—	433,357
Total Capital Assets Not Being Depreciated	414,769	71,566	(435)	485,900
Other Capital Assets:				
Buildings	2,670,413	225,815	(18,554)	2,877,674
Land Improvements	217,841	23,421	(53)	241,209
Machinery, Equipment and Vehicles	748,383	98,029	(39,651)	806,761
Library Books and Publications	161,043	3,857	(1,976)	162,924
Total Other Capital Assets at historical cost	3,797,680	351,122	(60,234)	4,088,568
Less Accumulated Depreciation for:				
Buildings	998,354	98,892	(14,605)	1,082,641
Land Improvements	118,894	10,116	(54)	128,956
Machinery, Equipment and Vehicles	488,941	77,058	(40,209)	525,790
Library Books and Publications	137,484	5,925	(1,976)	141,433
Total Accumulated Depreciation	1,743,673	191,991	(56,844)	1,878,820
Other Capital Assets, Net	2,054,007	159,131	(3,390)	2,209,748
Total Capital Assets, Net	$2,468,776	$230,697	$(3,825)	$2,695,648
University of Cincinnati:				
Capital Assets Not Being Depreciated:				
Land	$ 21,305	$ 618	$ —	$ 21,923
Construction-in-Progress	295,625	158,037	(312,367)	141,295
Collections of Works of Art and Historical Treasures	4,469	30	(143)	4,356
Total Capital Assets Not Being Depreciated	321,399	158,685	(312,510)	167,574
Other Capital Assets:				
Buildings	1,314,398	217,888	—	1,532,286
Land Improvements	34,752	43,262	—	78,014
Machinery, Equipment and Vehicles	154,029	37,621	—	191,650
Library Books and Publications	133,718	9,087	(11,121)	131,684
Infrastructure	78,399	11,269	—	89,668
Total Other Capital Assets at historical cost	1,715,296	319,127	(11,121)	2,023,302
Less Accumulated Depreciation for:				
Buildings	469,603	51,963	(3,879)	517,687
Land Improvements	8,040	2,733	—	10,773
Machinery, Equipment and Vehicles	101,105	14,532	(5,212)	110,425
Library Books and Publications	85,656	6,842	(6,258)	86,240
Infrastructure	41,454	3,296	—	44,750
Total Accumulated Depreciation	705,858	79,366	(15,349)	769,875
Other Capital Assets, Net	1,009,438	239,761	4,228	1,253,427
Total Capital Assets, Net	$1,330,837	$398,446	$(308,282)	$1,421,001

For fiscal year 2006, Ohio State University and the University of Cincinnati reported approximately $192 million and $79.4 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 one 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 unreduced monthly pension benefit, and is capped at no more than 50 percent of the retirement benefit amount.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Employer and employee required contributions to OPERS are established under the Ohio Revised Code and are based on percentages of covered employees' gross salaries, which are calculated annually by the retirement system's actuaries. Contribution rates for fiscal year 2006, which are the same for the defined benefit, defined contribution, and combined plans, were as follows:

	Contribution Rates	
	Employee Share	Employer Share
Regular Employees:		
July 1, 2005 through December 31, 2005	8.50%	13.31%
January 1, 2006 through June 30, 2006	9.00%	13.54%
Law Enforcement Employees:		
July 1, 2005 through December 31, 2005	10.10%	16.70%
January 1, 2006 through June 30, 2006	10.10%	16.93%

The employer rate for regular employees is scheduled to increase to 13.77 percent and 14 percent, respectively, beginning January 1, 2007, and January 1, 2008. The employer rate for law enforcement employees is scheduled to increase to 17.17 percent, beginning January 1, 2007, and thereafter annually, until reaching 18.1 percent on January 1, 2011. The employee rate for regular employees is scheduled to increase to 9.5 percent beginning January 1, 2007, and to ten percent beginning January 1, 2008.

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 plan and the defined benefit part of the combined plan follow (dollars in thousands):

	2006	2005	2004
Primary Government:			
Regular Employees	$253,259	$248,032	$235,634
Law Enforcement Employees..............	3,988	3,946	3,763
Total	$257,247	$251,978	$239,397
Major Component Units:			
School Facilities Commission	$ 297	$ 283	$ 346
Ohio Water Development Authority	82	83	83
Ohio State University	62,108	63,044	54,280
University of Cincinnati...	13,285	14,070	12,596

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):

	2006	2005	2004
Primary Government:			
Employer Contributions	$2,598	$2,054	$1,593
Employee Contributions	5,828	4,375	3,322
Major Component Units:			
Ohio State University:			
Employer Contributions	1,185	1,002	720
Employee Contributions	2,494	2,032	1,437
University of Cincinnati:			
Employer Contributions	236	200	150
Employee Contributions	460	403	291

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) 222-6701 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 2006, employers paid 4.81 percent of their share into members' accounts for the period covering July 1, 2005 through December 31, 2005, and 4.5 percent for the period covering January 1, 2006 through June 30, 2006. An employee's interest in the medical account for qualifying healthcare expenses vests on the basis of length of service, with 100 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, 2006, were as follows (dollars in thousands):

	2006
Primary Government....................................	$1,423
Major Component Units:	
Ohio State University	629
University of Cincinnati	125

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

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

attain a 100 percent vested interest after reaching 30 years of service credit. Members hired after January 1, 2003 can also choose various coverage options.

Healthcare coverage for disability recipients and primary survivor recipients is also available to members of the defined benefit and combined plans. Chapter 145, Ohio Revised Code, provides the statutory authority for employer contributions. For law enforcement and regular employees, the portion of the employer rate used to fund healthcare was four percent of covered payroll for the period, July 1, 2005 through December 31, 2006, and 4.5 percent for the period, January 1, 2006 through June 30, 2006. 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 actuarial cost method of valuation. Significant actuarial assumptions, based on the latest actuarial review performed as of December 31, 2005 (the latest information available), include a rate of return on investments of 6.5 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 6.3 percent based on additional annual pay increases. Healthcare costs were assumed to increase between 4.5 percent and ten percent annually for the next nine years, and at an annual rate of four percent thereafter.

Net assets available for payment of benefits at December 31, 2005 were $11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $31.3 billion and $20.2 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 2006, 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):

	2006
Primary Government:	
Regular Employees	$117,294
Law Enforcement Employees	1,349
Total	$118,643
Major Component Units:	
School Facilities Commission	$ 137
Ohio Water Development Authority	38
Ohio State University	28,752
University of Cincinnati	6,151

The number of active contributing participants for the primary government was 58,073, as of June 30, 2006.

Early Retirement Incentives
State agencies, or departments within agencies, may offer voluntary early retirement incentives (ERI) under Section 145.297, Ohio Revised Code. Through the ERI Program, the State can offer to purchase up to a maximum of five years worth of service credit from OPERS on behalf of employees who would then meet the age and service requirements to qualify for retirement. Qualifying employees have a minimum of one year to decide whether to accept the offer.

State agencies are also required under Section 145.298, Ohio Revised Code, to offer a generally similar ERI when terminating a number of employees that equals or exceeds the lesser of 50 employees or ten percent of the agency's workforce, as a result of a closure of the agency or a lay-off within a six-month period. Under these circumstances, qualifying employees must decide whether to accept the offer in the time between the announcement of the layoffs and their effective date, and the amount of service credit offered must be at least three years and not more than five years.

The ERI agreements establish an obligation to pay specific amounts on fixed dates. State agencies that implement an ERI must pay their obligation to OPERS within a maximum of two years after the agreement is finalized, so the State does not discount the amount of the liability incurred under the agreement.

As of June 30, 2006, the State had no significant liability balances relative to existing ERI agreements with state employees covered by OPERS. During fiscal year 2006, the State incurred expenditures/expenses totaling $21.1 million for 613 employees who entered into ERI agreements with the State.

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

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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.

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 various 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, while employee contributions vest immediately.

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 one 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. Alternatively, the retiree may receive a refund of member contributions with interest before age 65, once employment is terminated.

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 percent and ten 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 2006 were 14 percent for employers and ten 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

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 the defined benefit portion of the combined plans follow (dollars in thousands):

	2006	2005	2004
Primary Government	$ 7,162	$ 6,893	$ 6,966
Major Component Units:			
Ohio State University	34,038	33,075	31,995
University of Cincinnati	14,188	13,551	13,043

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):

	2006	2005	2004
Primary Government:			
Employer Contributions	$ 101	$ 129	$111
Employee Contributions	166	184	161
Major Component Units:			
Ohio State University:			
Employer Contributions	1,438	1,018	634
Employee Contributions	1,719	1,283	819
University of Cincinnati:			
Employer Contributions	789	651	480
Employee Contributions	970	770	547

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, Attention: Chief Financial Officer, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling 1-888-227-7877.

Other Postemployment Benefits
The STRS plan provides comprehensive healthcare benefits to retirees and their dependents that are enrolled in the defined benefit and combined plans.

Retirees are required to make healthcare premium payments at amounts that vary according to each retiree's years of credited service and choice of healthcare provider. Retirees must pay additional premiums for covered spouses and dependents. Chapter 3307, Ohio Revised Code, gives the STRS board discretionary authority over how much, if any, of associated healthcare costs are absorbed by the plan. Currently, employer contributions equal to one 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, 2005 (the most recent information available), net assets available for future healthcare benefits were $3.3 billion. Net healthcare costs paid by the primary government and its discretely presented major component units, for the year ended June 30, 2006, were as follows (dollars in thousands):

	2006
Primary Government	$ 551
Major Component Units:	
Ohio State University	2,618
University of Cincinnati	1,091

The number of eligible benefit recipients for STRS as a whole was 152,576, as of June 30, 2005; a breakout of the number of eligible recipients for the primary government and its component units, as of June 30, 2006, is unavailable.

C. State Highway Patrol Retirement System (SHPRS)

Pension Benefits
SHPRS, a component unit of the State, was established in 1941 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 Blvd., Suite 119, Columbus, Ohio 43229, or by calling (614) 431-0781.

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.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

The employer and employee contribution rates, as of December 31, 2005, were 25.5 percent and ten percent, respectively. Effective July 1, 2005, the employer rate increased from 24.5 percent to 25 percent.

During calendar year 2005, all of the employees' contributions funded pension benefits while 21 percent of the employer's contributions funded pension benefits from January 1, 2005 through June 30, 2005 and 22 percent from July 1, 2005 through December 31, 2005. 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.

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 the differences between actual and assumed return over a closed, four-year period.

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
2005	$18,048	100%
2004	17,870	100%
2003	16,307	100%

SHPRS used the entry-age, normal actuarial cost method for the Schedule of Funding Progress for the actuarial valuation, dated December 31, 2005. 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 ten 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 35 years.

The Schedule of Funding Progress for the last three years is presented in the table at the top of the following 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, 2005, was 1,573. The cost of retiree healthcare benefits is recognized as claims are incurred and premiums are paid. The calendar year 2005 expense was $9.9 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, 2005 were $95.9 million, and included investments carried at fair value, as previously described.

As of December 31, 2005, 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 $185.2 million; the actuarial accrued liability for healthcare benefits at that date was $281.1 million.

Employer contributions are made in accordance with actuarially determined requirements. For calendar year 2005, the employer contribution requirement was approximately $2.9 million or 3.5 percent of active member payroll.

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)
2005 (b)	$773,856	$591,922	$181,934	76.5%	$83,408	218.1%
2005	766,741	591,922	174,819	77.2	83,408	209.6
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

(a) Plan Amendment
(b) Assumption or method change

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 hired on or after August 1, 2005 are also 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 the companies that are 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. Employees may also voluntarily make additional contributions to the ARP.

Ohio law also requires each public institution of higher education to contribute 3.5 percent of a participating employee's gross salary, for the year ended June 30, 2006, to STRS in cases when the employee would have otherwise been enrolled in STRS.

For the year ended June 30, 2006, 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 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, 2006, for the ARP follow (dollars in thousands):

	2006	
Major Component Units:	OPERS	STRS
Ohio State University:		
Employer Contributions	$17,899	$12,151
Employee Contributions	11,666	11,572
University of Cincinnati:		
Employer Contributions	6,062	5,249
Employee Contributions	4,420	4,999

NOTE 10 GENERAL OBLIGATION BONDS

At various times since 1921, Ohio voters, by 18 constitutional amendments (the last adopted in November 2005 for local government infrastructure improvements, high-tech business research and development support, and business site development enhancements), 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, natural resources, research and development support for high-tech business, and business site development. 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, 2006, the General Assembly had authorized the issuance of $3.62 billion in Common Schools Capital Facilities Bonds, of which $2.79 billion had been issued. As of June 30, 2006, the General Assembly had also authorized the issuance of $2.38 billion in Higher Education Capital Facilities Bonds, of which $1.85 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, 2006, the General Assembly had authorized the issuance of approximately $2.13 billion in Highway Capital Improvements Bonds, of which $1.62 billion had been issued.

Constitutional amendments in 1995 and 2005 allowed for the issuance of $2.55 billion of general obligation bonds for infrastructure improvements (Infrastructure Bonds). Issuances are limited to $120 million in any fiscal year through fiscal year 2013, with an increase in the annual issuance amount to $150 million for fiscal years 2014 through 2018. As of June 30, 2006, the General Assembly had authorized $2.4 billion of these bonds to be sold (excluding any amounts for unaccreted discount on capital appreciation bonds at issuance), of which $2.16 billion had been issued (net of $214 million in unaccreted discounts at issuance).

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, 2006, 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 $306 million, as of June 30, 2006, 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, 2006, the General Assembly had authorized the issuance of approximately $200 million in Conservation Projects Bonds of which $150 million had been issued.

Through approval of the November 2005 amendment, voters authorized the issuance of $500 million of Third Frontier Research and Development Bonds. Not more than $100 million may be issued in each of the first three years and not more than $50 million may be issued in any of the subsequent fiscal years. As of June 30, 2006, the General Assembly had authorized the issuance of $200 million in Third Frontier Research and Development Bonds. No bonds had been issued as of June 30, 2006.

The issuance of $150 million of Site Development Bonds was also authorized through the approval of the November 2005 amendment. Not more than $30 million may be issued in each of the first three years and not more than $15 million may be issued in any of the subsequent fiscal years. The General Assembly had authorized the issuance of $60 million in Site Development Bonds as of June 30, 2006, although no bonds had been issued as of that date.

General obligation bonds outstanding and future general obligation debt service requirements, as of June 30, 2006, are presented in the table on the following page.

For the year ended June 30, 2006, 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, 2006
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Common Schools Capital Facilities	2000-06	3.2%-5.4%	2026	$2,596,788	$ 825,000
Higher Education Capital Facilities	2000-06	3.6%-5.4%	2026	1,658,712	531,000
Highway Capital Improvements	1997-06	2.9%-5.0%	2015	859,762	515,000
Infrastructure Improvements	1990-06	3.3%-6.6%	2026	1,442,738	240,014
Coal Research and Development	2000-04	2.4%-5.0%	2013	36,085	15,000
Natural Resources Capital Facilities	1997-05	3.0%-5.2%	2020	161,221	41,000
Conservation Projects	2002-06	3.6%-4.3%	2020	138,215	50,000
Total General Obligation Bonds				$6,893,521	$2,217,014

Future Funding of Current Interest and Capital Appreciation Bonds:

Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2007	$ 464,970	$ 274,482	$ 293	$ 739,745
2008	460,375	253,009	222	713,606
2009	451,215	233,959	150	685,324
2010	441,760	214,382	76	656,218
2011	416,605	194,805	—	611,410
2012-2016	1,785,465	708,779	—	2,494,244
2017-2021	1,292,305	349,805	—	1,642,110
2022-2026	701,030	68,390	—	769,420
Total Current Interest and Capital Appreciation Bonds	$6,013,725	$2,297,611	$ 741	$8,312,077

Future Funding of Variable-Rate Bonds:

Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2007	$ 16,830	$ 28,450	$(1,148)	$ 44,132
2008	17,015	28,293	(1,587)	43,721
2009	17,235	28,124	(1,431)	43,928
2010	19,345	27,390	(871)	45,864
2011	21,125	26,620	(295)	47,450
2012-2016	187,705	117,704	(1,035)	304,374
2017-2021	283,155	65,733	(1,064)	347,824
2022-2026	179,855	17,192	(851)	196,196
Total Variable-Rate Bonds	$ 742,265	$ 339,506	$(8,282)	$1,073,489
Total General Obligation Bonds	6,755,990			
Unamortized Premium/ (Discount), Net	197,857			
Deferred Refunding Loss	(60,326)			
Total Carrying Amount	$6,893,521			

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, 2006. 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, 2006, approximately $762.8 million of issued Infrastructure Improvement Bonds and Common Schools Bonds include associated interest-rate swaps. Terms of the swap agreements are provided below. Fair value has been determined using the zero-coupon method.

Primary Government-Governmental Activities
Interest Rate Swaps
As of June 30, 2006
(dollars in thousands)

Issue	Type of Swap	Original Notional Amount	Underlying Index	Counterparty's Swap Rate at 06/30/06	State's Swap Rate at 06/30/06	Effective Date	Termination (Maturity) Date	Fair Value
Infrastructure Improvements, Series 2001B	Floating to fixed knock-out	$63,900	BMA Index	3.97%	4.63%	11/29/01	08/01/21	$(2,308)
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	3.97%	2.96%	02/26/03	08/01/08	$1,717
Credit Quality Ratings of Counterparty: Aa3/A+ Morgan Stanley Capital Services								
Infrastructure Improvements, Refunding Series 2003D	Floating to fixed	$58,085	Actual Bond Rate	3.97%	3.04%	03/20/03	02/01/10	$1,585
Credit Quality Ratings of Counterparty: Aa3/A+ Morgan Stanley Capital Services								
Infrastructure Improvements, Series 2003F	Fixed to floating	$30,115	BMA Index	2.54%	3.97%	12/04/03	02/01/10	$(523)
Credit Quality Ratings of Counterparty: Aa2/AA- JP Morgan Chase								
Infrastructure Improvements, Refunding Series 2004A	Floating to fixed Enhanced LIBOR	$58,725	LIBOR (see terms below)	3.53%	3.51%	03/03/04	02/01/23	$1,455
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%	3.97%	12/15/03	09/01/07	$(866)
Credit Quality Ratings of Counterparties: 50% Aa2/AA- JP Morgan Chase; 50% Aa3/A+ Morgan Stanley Capital Services								
Common Schools, Series 2003D	Floating to fixed LIBOR	$67,000	LIBOR (see terms below)	N/A	N/A	09/14/07	03/15/24	$3,498
Credit Quality Ratings of Counterparties: 50% Aa2/AA- JP Morgan Chase; 50% Aa3/A+ Morgan Stanley Capital Services Terms: 65% of 1-month LIBOR + 25 basis points								
Common Schools, Series 2005A	Floating to fixed	$100,000	BMA Index	3.97%	4.08%	04/01/05	03/15/25	$974
Credit Quality Ratings of Counterparties: 50% Aaa/AAA Bear Stearns Financial Products; 50% Aa2/AA- JP Morgan Chase								
Common Schools, Series 2005B	Floating to fixed	$100,000	BMA Index	3.97%	4.08%	04/01/05	03/15/25	$974
Credit Quality Ratings of Counterparties: 50% Aaa/AAA Bear Stearns Financial Products; 50% Aa2/AA- JP Morgan Chase								
Common Schools, Series 2006B	Floating to fixed LIBOR	$100,000	LIBOR (see terms below)	3.73%	3.20%	06/15/06	06/15/26	$5,887
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, Series 2006C	Floating to fixed LIBOR	$100,000	LIBOR (see terms below)	3.73%	3.20%	06/15/06	06/15/26	$5,887
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.

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2006. 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. The BMA municipal swap index has proven to be a good proxy for the State's variable-rate debt and substantially mitigates basis risk.

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 of the refunded bonds. 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 from the refunding.

The swap matures on August 1, 2008, and the Series 2003B 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 has credit risk exposure equal to the swap's fair value of $1,717 at June 30, 2006.

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 of the refunded bonds. 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 from the refunding.

The swap matures on February 1, 2010, and the Series 2003D 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.

The State has credit risk exposure equal to the swap's fair value of $1,585 at June 30, 2006.

Infrastructure Improvements-Series 2003F
The State entered into an interest rate swap to convert a portion of the Series 2003F fixed-rate bonds

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

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.

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2006. 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 has credit risk exposure equal to the swap's fair value of $1,455 at June 30, 2006.

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.

Common Schools-Series 2003D
The State entered into a fixed-to-floating interest rate swap to convert its Common Schools, Series 2003D fixed-rate bonds into a synthetic variable rate through September 1, 2007. The swap allows the State to achieve variable rate exposure synthetically at a rate equal to the BMA index less 21.5 basis points. The synthetic variable rate created under this swap exposes the State to the risk of rising interest rates.

The fixed-to-floating 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, 2006. 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.

On August 25, 2005, the State entered into a forward starting floating-to-fixed swap effective September 14, 2007, in connection with the Common Schools, Series 2003D bonds. This swap enabled the State to lock in a low borrowing cost on its variable-rate bonds.

The State has credit risk exposure on the floating-to-fixed swap equal to the swap's fair value of $3,498 at June 30, 2006.

The floating-to-fixed 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.

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 has credit risk exposure equal to the swap's fair value of $974 at June 30, 2006.

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. The BMA municipal swap index has proven to be a good proxy for the State's variable-rate debt and substantially mitigates basis risk.

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 combina-

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

tion 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 has credit risk exposure equal to the swap's fair value of $974 at June 30, 2006.

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. The BMA municipal swap index has proven to be a good proxy for the State's variable-rate debt and substantially mitigates basis risk.

Common Schools-Series 2006B

The State entered into an interest rate swap to convert its Common Schools, Series 2006B 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 has credit risk exposure equal to the swap's fair value of $5,887 at June 30, 2006.

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.

Common Schools-Series 2006C

The State entered into an interest rate swap to convert its Common Schools, Series 2006C 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 has credit risk exposure equal to the swap's fair value of $5,887 at June 30, 2006.

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.

Advance Refundings

During fiscal year 2006, there were two advance refundings of general obligation bonds as follows:

The State issued approximately $71.9 million in Common Schools refunding bonds (Series 2005D) with a true interest cost rate of 3.9 percent to defease approximately $79.4 million (in substance). Net refunding bond proceeds of $82.4 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 $7.8 million over the next 15 years. The net economic gain from the refunding was $3.2 million.

The State issued approximately $49.5 million in Higher Education refunding bonds (Series 2005C) with a true interest cost rate of 3.6 percent to defease approximately $49.8 million (in substance). Net refunding bond proceeds of $53.9 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 $4.3 million over the next 12 years. The net economic gain from the refunding was $2.8 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 2006, the Treasurer of State has defeased other general obligation bonds in prior years and placed the proceeds in irrevocable trusts. As of June 30, 2006, the balances in these trusts for bonds defeased in prior years were $375.1 million for Infrastructure Improvement Bonds, $53.5 million for Natural Resources Bonds, $206.1 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 Treasurer of State for the Ohio Department of Development and its Office of Financial Incentives; the Ohio Building Authority (OBA), which has issued revenue bonds on its own behalf and for the Ohio Bureau of Workers' Compensation; 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 2006, 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. During fiscal year 2006, the Treasurer of State issued $50 million in Revitalization Project bonds.

Since fiscal year 1998, the Treasurer of State has issued a total of $538 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 office buildings and related facilities constructed by the OBA for shared use by local governments and the William Green Building, which houses the main operations of the Ohio Bureau of Workers' Compensation in Columbus. 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, 2006, are presented in the table below.

For the year ended June 30, 2006, NOTE 15 summarizes changes in revenue bonds.

Future bond service requirements for revenue bonds of the primary government, as of June 30, 2006, are presented in the table at the top of the following page.

Primary Government
Revenue Bonds
As of June 30, 2006
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Governmental Activities:				
Treasurer of State:				
Economic Development	1997-06	3.8%-7.7%	2026	$320,430
Revitalization Project	2003-06	3.0%-5.0%	2021	97,054
State Infrastructure Bank	1998-06	2.0%-5.0%	2016	303,191
Total Governmental Activities				720,675
Business-Type Activities:				
Ohio Building Authority	1997-04	2.0%-4.0%	2008	7,163
Bureau of Workers' Compensation	2003	1.6%-4.0%	2014	128,052
Total Business-Type Activities				135,215
Total Revenue Bonds				$855,890

NOTE 11 REVENUE BONDS AND NOTES (Continued)

Primary Government
Future Funding Requirements for Revenue Bonds
As of June 30, 2006
(dollars in thousands)

	Governmental Activities			Business-Type Activities			Total		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	$ 77,015	$ 35,449	$ 112,464	$ 18,803	$ 6,051	$ 24,854	$ 95,818	$ 41,500	$ 137,318
2008	78,900	33,392	112,292	17,741	5,337	23,078	96,641	38,729	135,370
2009	71,870	29,701	101,571	16,005	4,606	20,611	87,875	34,307	122,182
2010	58,075	26,255	84,330	15,930	3,867	19,797	74,005	30,122	104,127
2011	42,565	23,370	65,935	15,865	3,109	18,974	58,430	26,479	84,909
2012-2016	166,800	88,658	255,458	47,005	4,621	51,626	213,805	93,279	307,084
2017-2021	139,805	44,184	183,989	—	—	—	139,805	44,184	183,989
2022-2026	68,010	8,363	76,373	—	—	—	68,010	8,363	76,373
	703,040	289,372	992,412	131,349	27,591	158,940	834,389	316,963	1,151,352
Net Unamortized Premium/(Discount)	17,635	—	17,635	6,614	—	6,614	24,249	—	24,249
Deferred Refunding Loss	—	—	—	(2,748)	—	(2,748)	(2,748)	—	(2,748)
Total	$720,675	$289,372	$1,010,047	$135,215	$27,591	$162,806	$855,890	$316,963	$1,172,853

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

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, 2005, approximately $1.54 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, 2005, were as follows (dollars in thousands):

Year Ending December 31,	Principal	Interest	Total
2006	$ 49,610	$ 71,940	$ 121,550
2007	52,965	69,552	122,517
2008	70,285	67,155	137,440
2009	80,420	63,927	144,347
2010	86,190	59,916	146,106
2011-2015	382,390	229,704	612,094
2016-2020	410,750	143,864	554,614
2021-2025	338,700	39,116	377,816
	1,471,310	745,174	2,216,484
Net Unamortized Premium/(Discount)	106,532	—	106,532
Deferred Refunding Loss	(37,114)	—	(37,114)
Total	$1,540,728	$745,174	$2,285,902

Of the outstanding revenue bonds and notes reported for the OWDA component unit fund, approximately $116.6 million in bonds had adjustable interest rates that are reset weekly at rates determined by the remarketing agency. As of December 31,

NOTE 11 REVENUE BONDS AND NOTES (Continued)

Major Component Units
Future Funding Requirements for Revenue Bonds
As of June 30, 2006
(dollars in thousands)

Year Ending December 31 or June 30,	Ohio Water Development Authority (12/31/05) Principal	Interest	Total	Ohio State University Principal	Interest	Total	University of Cincinnati Principal	Interest	Total
2006	$ 141,802	$ 117,650	$ 259,452						
2007	130,148	111,583	241,731	$ 485,599	$ 42,700	$ 528,299	$108,745	$ 38,408	$ 147,153
2008	107,210	106,170	213,380	33,010	27,470	60,480	34,460	33,575	68,035
2009	133,470	101,208	234,678	32,020	26,211	58,231	29,390	32,229	61,619
2010	139,465	94,868	234,333	33,168	24,930	58,098	29,725	31,001	60,726
2011	—	—	—	43,858	23,535	67,393	29,925	29,685	59,610
2011-2015	732,660	376,417	1,109,077	—	—	—	—	—	—
2012-2016	—	—	—	153,975	89,133	243,108	167,135	127,205	294,340
2016-2020	660,580	222,556	883,136	—	—	—	—	—	—
2017-2021	—	—	—	126,033	57,844	183,877	185,100	84,977	270,077
2021-2025	486,205	72,151	558,356	—	—	—	—	—	—
2022-2026	—	—	—	95,852	29,679	125,531	148,750	44,604	193,354
2026-2030	38,610	7,552	46,162	—	—	—	—	—	—
2027-2031	—	—	—	56,875	11,590	68,465	106,350	14,024	120,374
2031-2035	12,270	1,285	13,555	—	—	—	—	—	—
2032-2036	—	—	—	24,905	1,082	25,987	—	—	—
	2,582,420	1,211,440	3,793,860	1,085,295	334,174	1,419,469	839,580	435,708	1,275,288
Net Unamortized Premium/(Discount)	102,881	—	102,881	—	—	—	2,951	—	2,951
Deferred Refunding Loss	(61,884)	—	(61,884)	—	—	—	—	—	—
Total	$2,623,417	$1,211,440	$3,834,857	$1,085,295	$334,174	$1,419,469	$842,531	$435,708	$1,278,239

2005, the rate for the variable-rate bonds was approximately 3.5 percent.

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

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

Future bond service requirements for revenue bonds and notes reported for the discretely presented major component units, as of June 30, 2006, 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, parks and recreation, and cultural and sports facilities.

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, 2006
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Ohio Building Authority	1993-06	2.0%-6.1%	2025	$1,896,861	$231,600
Treasurer of State:					
Chapter 154 Bonds	1993-06	2.5%-5.4%	2020	1,368,904	118,225
Elementary and Secondary Education	1997-99	4.0%-5.6%	2008	51,560	—
Total Special Obligation Bonds				$3,317,325	$349,825

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, 2006, are presented in the above table.

Future special obligation debt service requirements, as of June 30, 2006, were as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2007	$ 456,117	$152,791	$ 608,908
2008	445,484	131,238	576,722
2009	337,570	111,372	448,942
2010	326,485	94,602	421,087
2011	297,745	78,715	376,460
2012-2016	919,190	225,990	1,145,180
2017-2021	380,065	68,939	449,004
2022-2026	98,630	10,209	108,839
	3,261,286	873,856	4,135,142
Net Unamortized Premium/ (Discount)	129,776	—	129,776
Deferred Refunding Loss	(73,737)	—	(73,737)
Total	$3,317,325	$873,856	$4,191,181

For the year ended June 30, 2006, NOTE 15 summarizes changes in special obligation bonds.

During fiscal year 2006, the OBA defeased two 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.

OBA issued approximately $7.4 million in State Facilities Transportation Building refunding bonds (Series 2005A) with a true interest cost rate of 3.4 percent to defease approximately $7.1 million (in substance). Net refunding bond proceeds of $7.3 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 $260 thousand over the next 6 years. The net economic gain from the refunding was $239 thousand.

OBA also issued approximately $27.4 million in State Facilities Juvenile Correctional Building refunding bonds (Series 2005B) with a true interest cost rate of 4 percent to defease approximately $27.8 million (in substance). Net refunding bond proceeds of $29.1 million were deposited with escrow agents to provide for all future principal and interest payments on the old bonds. As a result of the refunding, the State's debt service payments will be reduced by $1.1 million over the next 14 years. The net economic gain from the refunding was $857 thousand.

In prior years, the OBA and the Treasurer of State defeased certain bond issues by placing the

NOTE 12 SPECIAL OBLIGATION BONDS (Continued)

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, 2006, $463.7 million and $428.2 million of OBA and Chapter 154 special obligation bonds, respectively, are considered defeased and no longer outstanding.

NOTE 13 CERTIFICATES OF PARTICIPATION

A. Primary Government

As of June 30, 2006, approximately $90.4 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, 2006, are presented in the table below.

As of June 30, 2006, the primary government's future commitments under the COP financing arrangements were as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
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	7,890	2,994	10,884
2012-2016	43,765	8,366	52,131
2017	9,860	259	10,119
	83,715	27,156	110,871
Net Unamortized Premium	6,674	—	6,674
Total	$90,389	$27,156	$117,545

For the year ended June 30, 2006, NOTE 15 summarizes changes in COP obligations.

Primary Government — Governmental Activities
Certificate of Participation Obligations
As of June 30, 2006
(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	$ 4,220
Rickenbacker Port Authority Improvements	1996	6.1%	2007	310
Department of Administrative Services:				
Ohio Administrative Knowledge System (OAKS)	2005	3.8%	2017	85,859
Total Certificates of Participation				$90,389

NOTE 13 CERTIFICATES OF PARTICIPATION (Continued)

B. Component Units

For the State's component units, approximately $27.9 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, 2006, 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, 2006
(dollars in thousands)

	Ohio State University			University of Cincinnati		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total
2007	$ 360	$ 277	$ 637	$ 90	$10	$100
2008	390	260	650	90	5	95
2009	405	242	647	—	—	—
2010	425	222	647	—	—	—
2011	445	202	647	—	—	—
2012-2016	2,580	646	3,226	—	—	—
2017-2021	1,220	62	1,282	—	—	—
2022-2026	—	—	—	—	—	—
2027-2031	—	—	—	—	—	—
2032-2036	—	—	—	—	—	—
Total	$5,825	$1,911	$7,736	$180	$15	$195

	University of Akron			Total Component Units		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total
2007	$ 275	$ 1,450	$ 1,725	$ 725	$ 1,737	$ 2,462
2008	295	1,430	1,725	775	1,695	2,470
2009	315	1,410	1,725	720	1,652	2,372
2010	340	1,385	1,725	765	1,607	2,372
2011	365	1,360	1,725	810	1,562	2,372
2012-2016	2,245	6,380	8,625	4,825	7,026	11,851
2017-2021	3,175	5,450	8,625	4,395	5,512	9,907
2022-2026	4,340	4,285	8,625	4,340	4,285	8,625
2027-2031	5,940	2,685	8,625	5,940	2,685	8,625
2032-2036	4,570	605	5,175	4,570	605	5,175
Total	$21,860	$26,440	$48,300	$27,865	$28,366	$56,231

NOTE 14 OTHER NONCURRENT LIABILITIES

As of June 30, 2006, 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	$ 420,673
Capital Leases Payable	3,366
Estimated Claims Payable	8,398
Liability for Escheat Property	255,800
Total Governmental Activities	688,237
Business-Type Activities:	
Compensated Absences	34,454
Capital Leases Payable	12
Workers' Compensation:	
Unearned Revenue	399,994
Benefits Payable	17,250,678
Other	1,832,645
Deferred Prize Awards Payable	723,531
Tuition Benefits Payable	1,095,900
Workers Compensation Claims-Auditor of State's Office	7,490
Total Business-Type Activities	21,344,704
Total Primary Government	$22,032,941

For the year ended June 30, 2006, 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, 2006, was $455.1 million, of which $420.7 million is allocable to governmental activities and $34.4 million is allocable to business-type activities.

As of June 30, 2006, discretely presented major component units reported a total of $152.2 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 2006 were approximately $89.3 million.

Future minimum lease commitments for operating leases and capital leases judged to be noncancelable, as of June 30, 2006, were as follows (dollars in thousands):

Primary Government

Year Ending June 30,	Operating Leases
2007	$4,326
2008	561
2009	176
2010	78
Total minimum lease payments	$5,141

	Capital Leases		
Year Ending June 30,	Governmental Activities	Business-Type Activities	Total
2007	$1,940	$ 5	$1,945
2008	1,576	3	1,579
2009	70	3	73
2010	13	2	15
2011	—	1	1
Total Minimum Lease Payments	3,599	14	3,613
Amount for interest	(233)	(2)	(235)
Present Value of Net Minimum Lease Payments	$3,366	$12	$3,378

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

As of June 30, 2006, the primary government had the following capital assets under capital leases (dollars in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Equipment	$10,098	$12	$10,110

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, 2006, are presented in the table below.

Major Component Units

	Capital Leases	
Year Ending June 30,	Ohio State University	University of Cincinnati
2007	$ 5,887	$ 11,490
2008	3,287	11,695
2009	2,581	12,725
2010	1,949	12,551
2011	922	11,482
2012-2016	1,647	51,745
2017-2021	—	39,124
2022-2026	—	29,721
2027-2031	—	6,255
Total Minimum Lease Payments...	16,273	186,788
Amount for interest	(1,166)	(64,648)
Present Value of Net Minimum Lease Payments...	$15,107	$122,140
Equipment & Vehicles	$53,928	$ —
Buildings................	—	141,909
Total	$53,928	$141,909

C. Estimated Claims Payable

For governmental activities, the State recognized $4.9 million in estimated claims liabilities, as of June 30, 2006, 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 $3.5 million in estimated claims for defaulted loans under the Ohio Enterprise Bond Program at the Ohio Department of Development, as of June 30, 2006. 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, 2006, this liability totaled approximately $255.8 million.

E. Workers' Compensation

Unearned Revenue

Unearned revenue in the amount of $400 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, 2006, in the amount of approximately $17.25 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

Future installment payments for the deferred prize awards payable are reported at present value based upon interest rates that the Treasurer of State provides to 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 not

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

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. As of June 30, 2006, this payable totals $723.5 million.

Future payments of prize awards, stated at present value, as of June 30, 2006, follow (dollars in thousands):

Year Ending June 30,	
2007	$138,601
2008	101,120
2009	85,661
2010	68,659
2011	65,937
2012-2016	328,117
2017-2021	215,800
2022-2026	64,322
2027-2031	13,239
2032-2035	2,300
	1,083,756
Unamortized Discount	(360,225)
Net Prize Liability	$723,531

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 was approximately $1.1 billion, as of June 30, 2006. 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 ten percent; 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, 2005	$(250.0)
Adjustment to Beginning of Year's Assets	9.1
Interest on the Deficit at 7 Percent	(16.9)
Investment Gain	9.3
Lower-Than-Assumed Tuition Increase	9.7
Corrected Beneficiary Dates of Birth	7.0
Interest Gain on Late Tuition Payouts	.6
Other	(.6)
	(231.8)
Value of Future Contingent Payments for Variable Investment Options	55.2
Actuarial Deficit, as of June 30, 2006	$(176.6)

As of June 30, 2006, the market value of actuarial net assets available for payment of the tuition benefits payable was $864.1 million.

H. Other Liabilities

The Workers' Compensation Enterprise Fund reports approximately $1.83 billion in other noncurrent liabilities, as of June 30, 2006, of which 1.) $1.68 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.) $87.7 million represents premium payment security deposits collected in advance from private employers to reduce credit risk for premiums collected in subsequent periods, and 3.) $68.5 million consists of other miscellaneous liabilities.

Additionally, the Office of the Auditor of State Enterprise Fund reports $7.5 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, 2006 (See NOTE 7A.).

NOTE 15 CHANGES IN NONCURRENT LIABILITIES

A. Primary Government

Changes in noncurrent liabilities, for the year ended June 30, 2006, are presented for the primary government in the following table.

Primary Government
Changes in Noncurrent Liabilities
For the Fiscal Year Ended June 30, 2006
(dollars in thousands)

Governmental Activities:	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amount Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds (NOTE 10)	$ 6,039,203	$1,453,237	$ 598,919	$ 6,893,521	$ 482,553
Revenue Bonds (NOTE 11)	591,888	204,972	76,185	720,675	77,730
Special Obligation Bonds (NOTE 12)	3,699,936	131,924	514,535	3,317,325	459,647
Total Bonds and Notes Payable	10,331,027	1,790,133	1,189,639	10,931,521	1,019,930
Certificates of Participation (NOTE 13)	92,142	—	1,753	90,389	800
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	397,617	370,596	347,540	420,673	46,000
Capital Leases Payable	2,471	4,959	4,064	3,366	1,725
Estimated Claims Payable	6,623	3,118	1,343	8,398	1,500
Liability for Escheat Property	203,501	111,136	58,837	255,800	79,609
Total Other Noncurrent Liabilities	610,212	489,809	411,784	688,237	128,834
Total Noncurrent Liabilities	$11,033,381	$2,279,942	$1,603,176	$11,710,147	$1,149,564

Business-Type Activities:	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amount Due Within One Year
Bonds and Notes Payable:					
Revenue Bonds (NOTE 11)	$ 151,063	$ 1,255	$ 17,103	$ 135,215	$ 18,803
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	35,683	30,908	32,137	34,454	3,180
Capital Leases Payable	205	12	205	12	5
Workers' Compensation:					
Unearned Revenue	389,332	47,334	36,672	399,994	39,396
Benefits Payable	17,499,142	1,289,653	1,538,117	17,250,678	1,886,938
Other:					
Adjustment Expenses Liability	1,800,540	643,841	767,883	1,676,498	420,856
Premium Payment Security Deposits	86,992	3,464	2,763	87,693	—
Miscellaneous	67,592	21,174	20,312	68,454	62,535
Deferred Prize Awards Payable	843,418	463,416	583,303	723,531	94,484
Tuition Benefits Payable	1,106,800	34,409	45,309	1,095,900	81,200
Workers' Compensation Claims-Auditor of State's Office	9,528	—	2,038	7,490	115
Total Other Noncurrent Liabilities	21,839,232	2,534,211	3,028,739	21,344,704	2,588,709
Total Noncurrent Liabilities	$21,990,295	$2,535,466	$3,045,842	$21,479,919	$2,607,512

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 2006, 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	$121,081
Higher Education Support	126,681
Environmental Protection and Natural Resources	739
Transportation	4
Community and Economic Development	118,201
Total Interest Expense Charged to Governmental Functions	$366,706

B. Component Units

Changes in noncurrent liabilities, for the year ended June 30, 2006 (December 31, 2005 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, 2006
(dollars in thousands)

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amount Due Within One Year
School Facilities Commission:					
Intergovernmental Payable	$2,341,427	$ 487,708	$ 683,122	$2,146,013	$990,280
Compensated Absences*	555	548	419	684	101
Total	$2,341,982	$ 488,256	$ 683,541	$2,146,697	$990,381
Ohio Water Development Authority:					
Revenue Bonds & Notes Payable (NOTE 11)	$2,243,949	$ 975,028	$ 595,560	$2,623,417	$141,798
Compensated Absences*	161	26	19	168	—
Total	$2,244,110	$ 975,054	$ 595,579	$2,623,585	$141,798
Ohio State University:					
Unearned Revenue	$ 100,670	$1,544,796	$1,506,562	$ 138,904	$136,904
Compensated Absences*	78,752	11,856	5,554	85,054	5,554
Capital Leases Payable*	15,458	6,974	7,325	15,107	5,509
Other Liabilities*	118,284	5,578	4,325	119,537	4,207
Revenue Bonds & Notes Payable (NOTE 11)	855,902	484,869	255,476	1,085,295	485,599
Certificates of Participation (NOTE 13)	6,180	—	355	5,825	360
Total	$1,175,246	$2,054,073	$1,779,597	$1,449,722	$638,133
University of Cincinnati:					
Compensated Absences*	$ 65,289	$ 1,695	$ 693	$ 66,291	$ 35,428
Capital Leases Payable*	126,800	—	4,660	122,140	5,325
Other Liabilities*	35,804	92,225	85,671	42,358	1,405
Revenue Bonds & Notes Payable (NOTE 11)	750,005	161,745	69,219	842,531	109,608
Certificates of Participation (NOTE 13)	270	—	90	180	90
Total	$ 978,168	$ 255,665	$ 160,333	$1,073,500	$151,856

*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, 2006 (December 31, 2005 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 Enterprise Bond Program	$170,130
Hospital Facilities Bonds	11,070
Total Primary Government	$181,200
Component Units (12/31/05):	
Ohio Water Development Authority	$2,205,235
Ohio Air Quality Development Authority	1,200,000
Total Component Units	$3,405,235

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, 2006 (dollars in thousands):

Primary Government:	
Nonmajor Governmental Funds:	
Mental Health and Retardation Special Revenue Fund	$(36,257)
Primary Government (Continued):	
Major Proprietary Funds:	
Workers' Compensation Enterprise Fund	$ (126,621)
Nonmajor Proprietary Funds:	
Tuition Trust Authority Enterprise Fund	$ (228,838)
Component Units:	
School Facilities Commission Fund	$(1,587,360)

B. "Other" Fund Balance Reserves and Designations

Details on the "Reserved for Other" account reported for the governmental funds, as of June 30, 2006, are presented below.

Primary Government
Governmental Funds — Reserved for Other
As of June 30, 2006
(dollars in thousands)

	General Fund	Job, Family and Other Human Services	Education	Highway Operating	Nonmajor Governmental Funds	Total Governmental Funds
Compensated Absences	$27,750	$3,685	$357	$5,123	$ 9,748	$46,663
Prepaids (included in "Other Assets")	15,384	1,929	176	2,965	5,512	25,966
Advances to Local Governments	7,234	—	—	—	—	7,234
Ohio Enterprise Bond Program	—	—	—	—	10,000	10,000
Loan Guarantee Programs	26	—	—	—	6,794	6,820
Assets in Excess of Debt Service Requirements	—	—	—	—	3	3
Total Reserved for Other	$50,394	$5,614	$533	$8,088	$32,057	$96,686

The unreserved fund balance for the General Fund, as of June 30, 2006, had been designated for budget stabilization in the amount of $1.01 billion.

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 they are 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 applies its distribution (approximately $281 thousand for the year ended December 31, 2005) 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, 2005 (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, 2005, was as follows (dollars in thousands):

Cash and Investments	$122,120
Other Assets	399
Total Assets	$122,519
Total Liabilities	$ 2,160
Total Net Assets	120,359
Total Liabilities and Net Assets	$122,519
Total Revenues and Other Additions	$ 7,065
Total Expenditures	(5,911)
Net Increase in Net Assets	$ 1,154

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.

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.

NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

Fiscal year 2006 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	$ 56,980	$ 7,157	$ 64,137
Jefferson	4,032	1,441	5,473
Lakeland	16,796	2,570	19,366
Lorain County	25,592	656	26,248
Rio Grande	4,959	—	4,959
Sinclair	47,899	4,699	52,598
Total Local Community Colleges	156,258	16,523	172,781
Technical Colleges:			
Belmont	5,503	67	5,570
Central Ohio	6,892	365	7,257
Hocking	15,608	268	15,876
James A. Rhodes	7,693	1	7,694
Marion	4,983	89	5,072
Zane	4,899	89	4,988
North Central	7,850	397	8,247
Stark	15,155	2,599	17,754
Total Technical Colleges	68,583	3,875	72,458
Total	$224,841	$20,398	$245,239

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 Housing Finance Agency, 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 2006, the State had the following related-party transactions with its related organizations:

- The General Fund reports a $225 million loans receivable balance due from the Ohio Housing Finance Agency. The State made the loans to finance and support the agency's housing programs.

- The Ohio Department of Taxation paid the Ohio Turnpike Commission $2.9 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 Ohio Housing Finance Agency, 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 $3.1 million in compensation for administrative services performed under contract for the distribution of state funding to nonprofit legal aid societies and $2.5 million 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.

All 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 2005 State of Ohio Single Audit (completed in July 2006), $96.4 million of federal expenditures were in question as not being appropriate under the terms of the respective grants. No provision for any liability or adjustments has been recognized for the questioned costs in the State's financial statements, for the fiscal year ended June 30, 2006.

C. Tax Refund Claims

As of June 30, 2006, personal income tax refund claims estimated in the amount of $3.7 million were pending an official determination of the Tax Commissioner at the Ohio Department of Taxation. The claims arose from refund claims taxpayers filed for tax periods occurring in prior years. A liability has been reported in the financial statements for this matter under the "Refunds and Other Liabilities" account.

D. Loan Commitments

As of June 30, 2006, commitments to finance program loans from the primary government's budgeted nonmajor special revenue funds are detailed below (dollars in thousands):

Community and Economic Development	
Ohio Department of Development:	
Low- & Moderate-Income Housing Loans	$ 19,627
Brownfield Revolving Loans	142
	19,769
Local Infrastructure and Transportation Improvements	
Ohio Public Works Commission:	
State Capital Improvements Loans	42,147
Revolving Loans	39,527
	81,674
Total Nonmajor Governmental Funds	$101,443

As of December 31, 2005, loan commitments for the Ohio Water Development Authority, a discretely presented major component unit, were as follows (dollars in thousands):

Water Pollution Control Loan	$677,414
Drinking Water Assistance	79,521
Fresh Water	79,024
Other Projects	10,639
Community Assistance	10,393
Rural Utility Services	7,201
Pure Water Refunding	653
Total	$864,845

The Authority intends to meet these commitments using available funds and grant commitments from the U.S. Environmental Protection Agency.

E. Construction Commitments

As of June 30, 2006, the Ohio Department of Transportation had total contractual commitments of approximately $2.01 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 $1.19 billion, $388.3 million, $368.2 million, and $59.6 million, respectively.

As of June 30, 2006, other major non-highway construction commitments for the primary government's budgeted capital projects funds and major discretely presented component unit funds were as follows (dollars in thousands):

Primary Government	
Mental Health/Mental Retardation Facilities Improvements	$ 20,511
Parks and Recreation Improvements	8,324
Administrative Services Building Improvements	30,246
Youth Services Building Improvements	9,592
Adult Correctional Building Improvements	30,970
Highway Safety Building Improvements	1,368
Ohio Parks and Natural Resources	13,435
Total	$114,446

Major Component Units	
Ohio State University	$177,370
University of Cincinnati	129,955

NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

F. 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, estimating the amount of annual payments that actually will be received in any given year can be complex, since under the terms of the MSA, payments are subject to a number of adjustment factors, including an inflation adjustment, a volume adjustment, and a potential adjustment for market share losses of participating manufacturers. Some of these adjustments, such as the inflation adjustment, result in the State receiving higher payments. Other factors, such as the volume adjustment and the market share adjustment can work to reduce the amount of the State's annual payments.

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
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............	359,829	23,950	383,779
2012-2016 ..	1,799,147	119,750	1,918,897
2017-2021 ..	1,972,638	23,950	1,996,588
2022-2025 ..	1,612,809	—	1,612,809
Total............	$7,176,737	$239,500	$7,416,237

During fiscal year 2006, Ohio received $294.7 million, which is approximately $58.1 million or 16.5 percent less than the pre-adjusted base payment for the year. For the last seven 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 $2.40 billion, which is approximately $290 million or 10.8 percent less than the total of the pre-adjusted base payments established for the past seven fiscal years.

As of June 30, 2006, the estimated tobacco settlement receivable in the amount of $200.2 million is included in "Other Receivables" reported for the governmental funds. The receivable includes $40.2 million for payments withheld from the State in fiscal year 2006 by the cigarette manufacturers when they exercised the market share loss provisions of the MSA. These moneys are on deposit in an escrow account until pending litigation between the State and the manufacturers is resolved. The State contends it has met its obligations under the MSA and is due the payments withheld.

The moneys provide funding for the construction of primary and secondary school capital facilities, education technology for primary and secondary education and for higher education, programs for smoking cessation and other health-related purposes, biomedical research and technology, and assistance to 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, 2006, in the amount of approximately $17.25 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 $1.68 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 $37.7 billion, as of June 30, 2006, and $38.6 billion, as of June 30, 2005. For additional information, refer to the Fund's separate audited financial report, for the fiscal year ended June 30, 2006.

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, the United Healthcare Plan, or the Aetna Plan, which are fully self-insured health benefit plans.

Ohio Med, a preferred provider organization, was established July 1, 1989. 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 2006	Fiscal Year 2005
Benefits Payable and Compensation Adjustment Expenses Liability, as of July 1	$19,299	$18,773
Incurred Compensation and Compensation Adjustment Benefits	1,934	2,916
Incurred Compensation and Compensation Adjustment Benefit Payments and Other Adjustments	(2,306)	(2,390)
Benefits Payable and Compensation Adjustment Expenses Liability, as of June 30	$18,927	$19,299

NOTE 20 RISK FINANCING (Continued)

The United Healthcare and the Aetna plans, originally health maintenance organizations, became self-insured healthcare plans of the State on July 1, 2002 and July 1, 2005, respectively.

Both plans have contracts with the primary government to serve as claims administrator. Benefits offered while under the State's administration are essentially the same as the benefits offered before the two plans became self-insured arrangements.

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, 2006, approximately $144.9 million in total assets was available in the Payroll Withholding and Fringe Benefits Agency Fund to cover claims for the Ohio Med Health Plan. Changes in the balance of claims liabilities for the plan during the past two fiscal years were as follows (dollars in thousands):

Ohio Med Health Plan

	Fiscal Year 2006	Fiscal Year 2005
Claims Liabilities, as of July 1	$ 41,492	$ 40,917
Incurred Claims	212,466	232,337
Claims Payments	(218,296)	(231,762)
Claims Liabilities, as of June 30	$ 35,662	$ 41,492

As of June 30, 2006, the resources on deposit in the Agency Fund for the Ohio Med Health Plan exceeded the estimated claims liability by approximately $109.2 million, thereby resulting in a funding surplus. Ninety percent or $92.8 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, 2006, no assets were available in the Payroll Withholding and Fringe Benefits Agency Fund to cover claims incurred by June 30 for the United Healthcare Plan, thereby resulting in a funding deficit. Changes in the balance of claims liabilities for the plan during the past fiscal year were as follows (dollars in thousands):

United Healthcare Plan

	Fiscal Year 2006	Fiscal Year 2005
Claims Liabilities, as of July 1	$ 6,969	$ 7,544
Incurred Claims	155,894	101,231
Claims Payments	(155,178)	(101,806)
Claims Liabilities, as of June 30	$ 7,685	$ 6,969

As of June 30, 2006, approximately $22.1 million in total assets was available in the Payroll Withholding and Fringe Benefits Agency Fund to cover claims incurred by June 30 for the Aetna Plan, thereby resulting in a funding surplus. Changes in the balance of claims liabilities for the plan during the past fiscal year were as follows (dollars in thousands):

Aetna Plan

	Fiscal Year 2006
Claims Liabilities, as of July 1	$ —
Incurred Claims	49,806
Claims Payments	(41,612)
Claims Liabilities, as of June 30	$ 8,194

For the resulting funding deficit and funding surplus of the United Healthcare and Aetna plans, respectively, the financial statements do not reflect adjustments to the expenses/expenditures of the governmental and proprietary funds, since the adjustments were judged not to be significant.

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, 2006 (December 31, 2005 for the Ohio Water Development Authority), the State issued major debt as detailed in the table below.

Debt Issuances
Subsequent to June 30, 2006
(dollars in thousands)

	Date Issued	Net Interest Rate or True Interest Cost	Amount
Primary Government:			
Ohio Public Facilities Commission-General Obligation Bonds:			
Third Frontier Research and Development, Series 2006A	08/01/06	3.99%	$ 50,000
Common Schools Capital Facilities, Series 2006D	09/26/06	4.12%	250,000
Infrastructure Improvements, Series 2006A	10/25/06	4.33%	120,000
Site Development, Series 2006A	11/13/06	3.76%	30,000
Higher Education Facilities, Series 2006B	12/07/06	4.17%	150,000
Common Schools Capital Facilities, Series 2007A	3/08/07	4.16%	250,000
Total General Obligation Bonds			850,000
Treasurer of State-Revenue Bonds:			
State Infrastructure Bank, Series 2006-1	09/13/06	3.89%	180,000
Total Revenue Bonds			180,000
Treasurer of State-Special Obligation Bonds:			
Mental Health Capital Facilities, Series II-2006A	07/26/06	4.20%	30,000
Parks and Recreation Facilities, Refunding Series II-2006A	11/30/06	3.79%	15,410
Mental Health Capital Facilities, Series II-2006B	11/30/06	3.78%	26,775
Cultural Facilities, Series II-2006A	11/30/06	3.99%	25,000
Cultural Facilities, Refunding Series II-2006B	11/30/06	3.77%	28,295
Ohio Building Authority-Special Obligation Bonds:			
State Facilities (Administrative Building), Series 2006A	09/21/06	3.86%	40,000
State Facilities (Administrative Building), Refunding Series 2006B	09/21/06	3.96%	70,335
Total Special Obligation Bonds			235,815
Ohio Department of Administrative Services-Certificates of Participation:			
Ohio Administrative Knowledge System, Series 2006A	11/30/06	3.97%	31,860
Total Certificates of Participation			31,860
Total Primary Government			$1,297,675
Major Component Units:			
Ohio Water Development Authority Bonds:			
Rural Development Advance, Series 2006A	04/27/06	4.00-5.00%*	$ 31,000
Fresh Water, Refunding Series 2006A	10/03/06	4.00-5.25%*	51,975
Total Ohio Water Development Authority			$ 82,975
University of Cincinnati Bonds:			
Bond Anticipation Notes, Series 2006D	07/06/06	3.82%	$ 20,025
Bond Anticipation Notes, Series 2006E	08/01/06	3.75%	15,000
General Receipts, Series 2007A	01/23/07	4.42%	78,445
General Receipts, Series 2007B	01/24/07	3,71%	39,955
Bond Anticipation Notes, Series 2007C	01/25/07	3.62%	28,000
Total University of Cincinnati			$ 181,425

*Interest Coupon Rate

NOTE 21 SUBSEQUENT EVENTS (Continued)

B. Other Debt Transactions

Primary Government
In August 2006, the State entered into two forward-starting constant maturity swaps to replace the existing BMA-based floating-to-fixed swaps on the Common Schools, Series 2005A and Series 2005B, variable-rate bonds. The swaps have a notional amount of $183.2 million ($91.6 million each) and will be effective on March 15, 2007 with a final maturity of March 15, 2025. The State will pay a fixed rate of 3.75 percent. The counterparty will pay a variable rate based on 62 percent of the 10-year LIBOR taxable index.

In October 2006, the State took delivery of approximately $107.9 million in proceeds for the Taxable Development Assistance, Series 1998 refunding bonds based on a forward purchase refunding agreement entered into by the Treasurer of State in December 1998. The 1998 bonds were issued to advance refund approximately $102 million in Taxable Development Assistance, Series 1996 bonds. The entire $107.9 million of proceeds was used to redeem the Series 1996 bonds, including payment of a call premium.

Component Units
Subsequent to June 30, 2006, the University of Cincinnati entered into two capital leases in connection with the issuance of economic development bonds by Hamilton County, Ohio for the financing of two buildings of the King Highland Community Urban Redevelopment Corporation. The two leases total to $42.7 million and have 32-year terms.

C. Change in Reporting Entity — Combination of Component Units
Effective July 1, 2006, the Ohio General Assembly enacted into law the combination of the University of Toledo and the Medical University of Ohio into one state university to be known as the University of Toledo.