Ohio Office of Budget and Management

State of Ohio

Ted Strickland

Governor

OHIO

COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2007

BASIC FINANCIAL STATEMENTS

STATE OF OHIO
STATEMENT OF NET ASSETS
JUNE 30, 2007
(dollars in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS:				
Cash Equity with Treasurer	$ 7,299,881	$ 124,854	$ 7,424,735	$ 541,343
Cash and Cash Equivalents	114,539	342,232	456,771	892,736
Investments	899,044	16,496,675	17,395,719	6,909,258
Collateral on Lent Securities	4,110,979	62,127	4,173,106	299,861
Deposit with Federal Government	—	591,758	591,758	—
Taxes Receivable	1,558,971	—	1,558,971	—
Intergovernmental Receivable	1,474,142	10,089	1,484,231	50,514
Premiums and				
Assessments Receivable	—	3,847,817	3,847,817	—
Investment Trade Receivable	—	187,946	187,946	—
Loans Receivable, Net	992,298	—	992,298	267,642
Receivable from Primary Government	—	—	—	36,286
Other Receivables	643,803	415,257	1,059,060	955,080
Inventories	51,671	37,467	89,138	56,200
Other Assets	84,980	19,218	104,198	582,478
Restricted Assets:				
Cash Equity with Treasurer	—	273	273	22,336
Cash and Cash Equivalents	—	1,564	1,564	348,016
Investments	—	1,535,947	1,535,947	1,693,431
Collateral on Lent Securities	—	410,718	410,718	12,534
Intergovernmental Receivable	—	—	—	57
Loans Receivable, Net	—	—	—	3,614,354
Other Receivables	—	5,211	5,211	—
Capital Assets Being Depreciated, Net	2,441,822	119,098	2,560,920	7,713,208
Capital Assets Not Being Depreciated	21,816,457	11,994	21,828,451	1,104,276
TOTAL ASSETS	**41,488,587**	**24,220,245**	**65,708,832**	**25,099,610**
LIABILITIES:				
Accounts Payable	731,716	51,973	783,689	421,304
Accrued Liabilities	357,270	5,996	363,266	580,945
Medicaid Claims Payable	921,169	—	921,169	—
Obligations Under Securities Lending	4,110,979	472,845	4,583,824	312,395
Investment Trade Payable	—	252,525	252,525	—
Intergovernmental Payable	1,517,837	1,438	1,519,275	151
Internal Balances	881,389	(881,389)	—	—
Payable to Component Units	36,321	—	36,321	—
Unearned Revenue	254,220	1,001	255,221	325,579
Benefits Payable	—	4,456	4,456	—
Refund and Other Liabilities	874,025	95,375	969,400	123,442
Noncurrent Liabilities:				
Bonds and Notes Payable:				
Due in One Year	1,095,192	17,719	1,112,911	840,622
Due in More Than One Year	10,266,089	98,021	10,364,110	5,438,527
Certificates of Participation:				
Due in One Year	9,372	—	9,372	775
Due in More Than One Year	112,810	—	112,810	26,365
Other Noncurrent Liabilities:				
Due in One Year	170,817	2,514,547	2,685,364	1,207,725
Due in More Than One Year	618,927	18,459,207	19,078,134	1,695,924
TOTAL LIABILITIES	**21,958,133**	**21,093,714**	**43,051,847**	**10,973,754**

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....................................	*21,477,381*	*19,322*	*21,496,703*	*5,305,773*
Restricted for:				
Primary, Secondary and Other Education	*34,019*	—	*34,019*	—
Transportation and Highway Safety..........	*1,032,112*	—	*1,032,112*	—
State and Local				
Highway Construction............................	*126,323*	—	*126,323*	—
Federal Programs......................................	*81,639*	—	*81,639*	*19*
Coal Research				
and Development Program....................	—	—	—	*4,130*
Clean Ohio Program..................................	*85,209*	—	*85,209*	—
Community and Economic Development				
and Capital Purposes.............................	*991,094*	—	*991,094*	*22,336*
Debt Service..	—	—	—	*2,448,952*
Enterprise Bond Program..........................	*10,000*	—	*10,000*	—
Deferred Lottery Prizes.............................	—	*13,272*	*13,272*	—
Unemployment Compensation..................	—	*608,364*	*608,364*	—
Ohio Building Authority..............................	—	*28,390*	*28,390*	—
Tuition Trust Authority...............................	—	*32,100*	*32,100*	—
Nonexpendable for				
Colleges and Universities......................	—	—	—	*3,596,345*
Expendable for				
Colleges and Universities......................	—	—	—	*1,922,912*
Unrestricted..	*(4,307,323)*	*2,425,083*	*(1,882,240)*	*825,389*
TOTAL NET ASSETS................................	***$ 19,530,454***	***$ 3,126,531***	***$ 22,656,985***	***$ 14,125,856***

STATE OF OHIO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(dollars in thousands)

		PROGRAM REVENUES			
FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES, FEES, FINES AND FORFEITURES	OPERATING GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)	CAPITAL GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)	NET (EXPENSE) REVENUE
PRIMARY GOVERNMENT:					
GOVERNMENTAL ACTIVITIES:					
Primary, Secondary and Other Education	$ 11,467,076	$ 29,187	$ 1,674,110	$ 16	$ (9,763,763)
Higher Education Support	2,546,530	8,012	23,707	—	(2,514,811)
Public Assistance and Medicaid	15,782,074	832,275	10,133,332	—	(4,816,467)
Health and Human Services	3,538,858	257,446	2,042,689	2,093	(1,236,630)
Justice and Public Protection	3,102,172	929,689	239,930	1,939	(1,930,614)
Environmental Protection and Natural Resources	435,235	220,412	86,032	2,092	(126,699)
Transportation	1,998,166	29,993	108,943	1,271,322	(587,908)
General Government	884,590	455,656	237,366	3,769	(187,799)
Community and Economic Development	3,789,404	338,337	417,989	5,195	(3,027,883)
Interest on Long-Term Debt (excludes interest charged as program expense)	169,776	—	—	—	(169,776)
TOTAL GOVERNMENTAL ACTIVITIES	**43,713,881**	**3,101,007**	**14,964,098**	**1,286,426**	**(24,362,350)**
BUSINESS-TYPE ACTIVITIES:					
Workers' Compensation	2,760,313	4,288,636	911,430	—	2,439,753
Lottery Commission	1,696,881	2,267,134	60,365	—	630,618
Unemployment Compensation	1,175,682	1,112,423	24,804	—	(38,455)
Ohio Building Authority	28,188	26,118	1,463	—	(607)
Tuition Trust Authority	91,416	10,924	341,752	—	261,260
Liquor Control	444,119	639,664	—	—	195,545
Underground Parking Garage	2,519	2,768	25	—	274
Office of Auditor of State	74,487	41,883	48	—	(32,556)
TOTAL BUSINESS-TYPE ACTIVITIES...	**6,273,605**	**8,389,550**	**1,339,887**	**—**	**3,455,832**
TOTAL PRIMARY GOVERNMENT.....	**$ 49,987,486**	**$ 11,490,557**	**$ 16,303,985**	**$ 1,286,426**	**$ (20,906,518)**
COMPONENT UNITS:					
School Facilities Commission	$ 869,189	$ 1,485	$ 28,231	$ —	$ (839,473)
Ohio Water Development Authority	130,521	141,883	172,438	—	183,800
Ohio State University	3,670,254	2,560,623	614,996	28,725	(465,910)
University of Cincinnati	992,084	401,940	470,384	2,675	(117,085)
Other Component Units	4,378,614	2,687,065	521,979	71,251	(1,098,319)
TOTAL COMPONENT UNITS.............	**$ 10,040,662**	**$ 5,792,996**	**$ 1,808,028**	**$ 102,651**	**$ (2,336,987)**

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	$ (24,362,350)	$ 3,455,832	$ (20,906,518)	$ (2,336,987)
General Revenues:				
Taxes:				
Income	9,630,983	—	9,630,983	—
Sales	7,755,604	—	7,755,604	—
Corporate and Public Utility	2,615,648	—	2,615,648	—
Cigarette	986,546	—	986,546	—
Other	672,598	—	672,598	—
Restricted for Transportation Purposes:				
Motor Vehicle Fuel Taxes	1,835,478	—	1,835,478	—
Total Taxes	23,496,857	—	23,496,857	—
Tobacco Settlement	361,552	—	361,552	—
Escheat Property	31,009	—	31,009	—
Unrestricted Investment Income	206,414	—	206,414	759,838
State Assistance	—	—	—	2,730,730
Other	383	372	755	103,816
Additions to Endowments and Permanent Fund Principal	—	—	—	113,438
Special Items	—	—	—	(5,444)
Transfers-Internal Activities	853,171	(853,171)	—	—
TOTAL GENERAL REVENUES, CONTRIBUTIONS, SPECIAL ITEMS AND TRANSFERS	**24,949,386**	**(852,799)**	**24,096,587**	**3,702,378**
CHANGE IN NET ASSETS	**587,036**	**2,603,033**	**3,190,069**	**1,365,391**
NET ASSETS, JULY 1 (as restated)	18,943,418	523,498	19,466,916	12,760,465
NET ASSETS, JUNE 30	**$ 19,530,454**	**$ 3,126,531**	**$ 22,656,985**	**$ 14,125,856**

STATE OF OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007
(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	EDUCATION
ASSETS:			
Cash Equity with Treasurer	$ 3,152,498	$ 232,344	$ 123,041
Cash and Cash Equivalents	16,270	4,456	61
Investments	495,719	8,137	2,777
Collateral on Lent Securities	1,782,443	130,381	69,045
Taxes Receivable	983,703	—	—
Intergovernmental Receivable	509,613	395,488	127,596
Loans Receivable, Net	237,623	—	99
Interfund Receivable	2,992	21	—
Other Receivables	169,078	178,390	399
Inventories	23,717	—	—
Other Assets	8,177	1,001	4,218
TOTAL ASSETS	**$ 7,381,833**	**$ 950,218**	**$ 327,236**
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts Payable	$ 193,394	$ 74,161	$ 17,558
Accrued Liabilities	141,217	17,972	1,912
Medicaid Claims Payable	784,423	3,995	—
Obligations Under Securities Lending	1,782,443	130,381	69,045
Intergovernmental Payable	436,195	179,016	69,806
Interfund Payable	640,920	16,900	2,685
Payable to Component Units	17,317	965	911
Deferred Revenue	325,669	158,682	10,026
Unearned Revenue	—	163,890	53,508
Refund and Other Liabilities	796,017	5,135	—
Liability for Escheat Property	8,712	—	—
TOTAL LIABILITIES	5,126,307	751,097	225,451
FUND BALANCES:			
Reserved for:			
Debt Service	—	—	—
Encumbrances	368,617	819,366	25,149
Noncurrent Portion of Loans Receivable	234,389	—	99
Loan Commitments	—	—	—
Inventories	23,717	—	—
State and Local Highway Construction	—	—	—
Federal Programs	—	16,092	8,668
Other	60,408	22,262	451
Unreserved/Designated	1,012,289	—	—
Unreserved/Undesignated:			
General Fund	556,106	—	—
Special Revenue Funds	—	(658,599)	67,418
Debt Service Funds	—	—	—
Capital Projects Funds	—	—	—
TOTAL FUND BALANCES	2,255,526	199,121	101,785
TOTAL LIABILITIES AND FUND BALANCES	**$ 7,381,833**	**$ 950,218**	**$ 327,236**

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

HIGHWAY OPERATING	REVENUE DISTRIBUTION	NONMAJOR GOVERNMENTAL FUNDS	TOTAL
$ 858,597	$ 273,118	$ 2,660,283	$ 7,299,881
460	9,330	83,962	114,539
—	—	392,411	899,044
482,484	153,262	1,493,364	4,110,979
90,543	478,126	6,599	1,558,971
142,056	—	299,389	1,474,142
99,458	—	655,118	992,298
630	—	4,650	8,293
5,157	1,500	289,279	643,803
27,954	—	—	51,671
1,543	—	14,916	29,855
$ 1,708,882	**$ 915,336**	**$ 5,899,971**	**$ 17,183,476**
$ 199,568	$ —	$ 247,035	$ 731,716
24,770	—	48,317	234,188
—	—	132,751	921,169
482,484	153,262	1,493,364	4,110,979
2,304	651,760	178,756	1,517,837
103,597	1,026	124,554	889,682
465	—	16,663	36,321
6,277	27,813	358,083	886,550
1,221	6,815	28,786	254,220
—	70,389	2,484	874,025
—	—	—	8,712
820,686	911,065	2,630,793	10,465,399
—	—	37,510	37,510
1,467,277	—	1,948,145	4,628,554
98,230	—	650,750	983,468
—	—	67,005	67,005
27,954	—	—	51,671
—	126,323	—	126,323
8,353	—	24,601	57,714
6,446	—	37,288	126,855
—	—	—	1,012,289
—	—	—	556,106
(720,064)	(122,052)	744,875	(688,422)
—	—	(20)	(20)
—	—	(240,976)	(240,976)
888,196	4,271	3,269,178	6,718,077
$ 1,708,882	**$ 915,336**	**$ 5,899,971**	**$ 17,183,476**

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STATE OF OHIO

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

(dollars in thousands)

Total Fund Balances for Governmental Funds	***$ 6,718,077***
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	*1,817,502*
Buildings and Improvements, net of $1,457,001 accumulated depreciation	*1,925,273*
Land Improvements, net of $165,869 accumulated depreciation	*195,045*
Machinery and Equipment, net of $417,725 accumulated depreciation	*194,971*
Vehicles, net of $123,078 accumulated depreciation	*143,701*
Infrastructure, net of $4,922 accumulated depreciation	*18,224,264*
Construction-in-Progress	*1,757,523*
	24,258,279
Some of the State's revenues are collected after year-end but are not available soon enough to pay for the current period's (within 60 days of year-end) expenditures, and therefore, are deferred in the funds.	
Taxes Receivable	*264,887*
Intergovernmental Receivable	*313,226*
Other Receivables	*292,408*
Other Assets	*16,029*
	886,550
Unamortized bond issue costs are not financial resources, and therefore, are not reported in the fund*s.*	*55,125*
The following liabilities are not due and payable in the current period, and therefore, are not reported in the funds.	
Accrued Liabilities:	
Interest Payable	*(123,082)*
Bonds and Notes Payable:	
General Obligation Bonds	*(7,583,266)*
Revenue Bonds	*(811,910)*
Special Obligation Bonds	*(2,966,105)*
Certificates of Participation	*(122,182)*
Other Noncurrent Liabilities:	
Compensated Absences	*(450,288)*
Capital Leases Payable	*(18,737)*
Litigation Liabilities	*(4,698)*
Estimated Claims Payable	*(8,776)*
Liability for Escheat Property	*(298,533)*
	(12,387,577)
Total Net Assets of Governmental Activities	***$ 19,530,454***

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, 2007
(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	EDUCATION
REVENUES:			
Income Taxes	$ 8,863,302	$ —	$ —
Sales Taxes	7,432,423	—	—
Corporate and Public Utility Taxes	1,583,791	—	—
Motor Vehicle Fuel Taxes	—	—	—
Cigarette Taxes	986,546	—	—
Other Taxes	612,304	3,294	—
Licenses, Permits and Fees	288,648	493,904	1,030
Sales, Services and Charges	48,876	776	424
Federal Government	5,362,256	5,291,927	1,673,940
Tobacco Settlement	—	—	—
Escheat Property	83,991	—	—
Investment Income	416,563	26,758	6,394
Other	252,599	151,057	23,975
TOTAL REVENUES	**25,931,299**	**5,967,716**	**1,705,763**
EXPENDITURES:			
CURRENT OPERATING:			
Primary, Secondary and Other Education	8,122,716	2,350	2,331,809
Higher Education Support	2,219,152	2,220	27,554
Public Assistance and Medicaid	10,352,604	5,350,845	—
Health and Human Services	1,207,960	571,869	2,194
Justice and Public Protection	2,020,294	49,087	21,085
Environmental Protection and Natural Resources	93,787	—	—
Transportation	22,190	—	—
General Government	538,117	3,171	—
Community and Economic Development	552,796	59,800	—
CAPITAL OUTLAY	114	2,594	—
DEBT SERVICE	14,575	—	—
TOTAL EXPENDITURES	**25,144,305**	**6,041,936**	**2,382,642**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	**786,994**	**(74,220)**	**(676,879)**
OTHER FINANCING SOURCES (USES):			
Bonds and Certificates of Participation Issued	525,000	—	—
Refunding Bonds Issued	—	—	—
Payment to Refunded Bond Escrow Agents	—	—	—
Premiums	—	—	—
Capital Leases	9,999	—	—
Transfers-in	346,399	110,865	745,635
Transfers-out	(1,322,012)	(15,231)	(31,789)
TOTAL OTHER FINANCING SOURCES (USES)	**(440,614)**	**95,634**	**713,846**
NET CHANGE IN FUND BALANCES	**346,380**	**21,414**	**36,967**
FUND BALANCES (DEFICITS), JULY 1	1,909,683	177,707	64,818
Decrease for Changes in Inventories	(537)	—	—
FUND BALANCES, JUNE 30	**$ 2,255,526**	**$ 199,121**	**$ 101,785**

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

HIGHWAY OPERATING	REVENUE DISTRIBUTION	NONMAJOR GOVERNMENTAL FUNDS	TOTAL
$ —	$ 829,300	$ 8,299	$ 9,700,901
—	301,264	21,918	7,755,605
—	1,030,170	1,688	2,615,649
664,029	1,147,244	24,204	1,835,477
—	—	—	986,546
—	14,970	42,030	672,598
67,659	368,735	1,041,691	2,261,667
1,949	—	26,782	78,807
1,325,456	—	2,009,569	15,663,148
—	—	308,488	308,488
—	—	—	83,991
34,799	2,777	132,354	619,645
22,651	140	311,769	762,191
2,116,543	**3,694,600**	**3,928,792**	**43,344,713**
—	550,937	292,940	11,300,752
—	—	188,224	2,437,150
—	—	71,003	15,774,452
—	519	1,683,010	3,465,552
—	322,504	636,856	3,049,826
—	—	325,537	419,324
2,163,070	—	776	2,186,036
—	—	213,153	754,441
—	2,079,112	972,843	3,664,551
—	—	451,053	453,761
—	—	1,592,509	1,607,084
2,163,070	**2,953,072**	**6,427,904**	**45,112,929**
(46,527)	**741,528**	**(2,499,112)**	**(1,768,216)**
—	—	957,830	1,482,830
—	—	259,205	259,205
—	—	(279,651)	(279,651)
—	—	87,878	87,878
—	—	8,943	18,942
498,034	156,852	1,690,634	3,548,419
(313,456)	(921,978)	(90,782)	(2,695,248)
184,578	**(765,126)**	**2,634,057**	**2,422,375**
138,051	**(23,598)**	**134,945**	**654,159**
752,824	27,869	3,134,233	6,067,134
(2,679)	—	—	(3,216)
$ 888,196	**$ 4,271**	**$ 3,269,178**	**$ 6,718,077**

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, 2007

(dollars in thousands)

Net Change in Fund Balances -- Total Governmental Funds............................		***$ 654,159***
Change in Inventories..		*(3,216)*
		650,943
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...	*622,446*	
Depreciation Expense..	*(192,940)*	
Excess of Capital Outlay Over Depreciation Expense...................................		*429,506*
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...	*(1,150,720)*	
Revenue Bonds...	*(185,250)*	
Special Obligation Bonds..	*(115,000)*	
Refunding Bonds, including Bond Premium/Discount, Net...............................	*(281,390)*	
Certificates of Participation...	*(31,860)*	
Premiums and Discounts, Net:		
General Obligation Bonds..	*(53,179)*	
Revenue Bonds..	*(7,075)*	
Special Obligation Bonds..	*(3,678)*	
Certificates of Participation..	*(1,761)*	
Deferred Refunding Loss..	*16,831*	
Capital Leases..	*(18,942)*	
Total Debt Proceeds...		*(1,832,024)*
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..	*501,800*	
Revenue Bonds..	*198,050*	
Special Obligation Bonds..	*624,568*	
Certificates of Participation..	*800*	
Capital Lease Payments...	*3,571*	
Total Long-Term Debt Repayment..		*1,328,789*
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.		*68,041*

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....................................	*3,274*	
Increase in Accrued Interest and Other Accrued Liabilities..............................	*(298)*	
Amortization of Bond Premiums/Accretion of Bond Discount, Net.....................	*51,558*	
Amortization of Deferred Refunding Loss..	*(25,080)*	
Increase in Compensated Absences...	*(29,615)*	
Increase in Litigation Liabilities..	*(4,698)*	
Increase in Estimated Claims Payable..	*(378)*	
Increase in Liability for Escheat Property..	*(52,982)*	
Total additional expenditures..		*(58,219)*
Change in Net Assets of Governmental Activities..		***$ 587,036***

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, 2007

(dollars in thousands)

	GENERAL			
	BUDGET			VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL	ACTUAL	POSITIVE/ (NEGATIVE)
REVENUES:				
Income Taxes	$ 8,650,000	$ 8,650,000	$ 8,885,327	$ 235,327
Sales Taxes	7,610,000	7,610,000	7,424,469	(185,531)
Corporate and Public Utility Taxes	1,401,200	1,401,200	1,563,679	162,479
Motor Vehicle Fuel Taxes	—	—	—	—
Cigarette Taxes	1,020,000	1,020,000	986,251	(33,749)
Other Taxes	595,201	595,201	612,244	17,043
Licenses, Permits and Fees	273,644	273,644	280,357	6,713
Sales, Services and Charges	55,275	55,275	55,634	359
Federal Government	5,894,165	5,894,165	5,417,510	(476,655)
Investment Income	145,222	145,222	181,454	36,232
Other	1,103,348	1,103,348	1,084,760	(18,588)
TOTAL REVENUES	**26,748,055**	**26,748,055**	**26,491,685**	**(256,370)**
BUDGETARY EXPENDITURES:				
CURRENT OPERATING:				
Primary, Secondary and Other Education	7,845,123	7,901,013	7,788,631	112,382
Higher Education Support	2,233,249	2,279,417	2,276,198	3,219
Public Assistance and Medicaid	11,539,101	11,676,558	11,472,597	203,961
Health and Human Services	1,408,928	1,448,958	1,429,684	19,274
Justice and Public Protection	2,165,787	2,216,512	2,173,201	43,311
Environmental Protection and Natural Resources	131,868	133,375	128,880	4,495
Transportation	35,983	35,983	35,809	174
General Government	722,633	750,686	655,024	95,662
Community and Economic Development	674,029	689,452	671,469	17,983
CAPITAL OUTLAY	164	188	164	24
DEBT SERVICE	1,212,851	1,206,688	1,172,289	34,399
TOTAL BUDGETARY EXPENDITURES	**27,969,716**	**28,338,830**	**27,803,946**	**534,884**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES	**(1,221,661)**	**(1,590,775)**	**(1,312,261)**	**278,514**
OTHER FINANCING SOURCES (USES):				
Transfers-in	562,065	562,065	599,967	37,902
Transfers-out	(405,663)	(405,663)	(411,276)	(5,613)
TOTAL OTHER FINANCING SOURCES (USES)	**156,402**	**156,402**	**188,691**	**32,289**
NET CHANGE IN FUND BALANCES	**$ (1,065,259)**	**$ (1,434,373)**	**(1,123,570)**	**$ 310,803**
BUDGETARY FUND BALANCES (DEFICITS), JULY 1			2,069,673	
Outstanding Encumbrances at Beginning of Fiscal Year			661,373	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30			$ 1,607,476	

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

JOB, FAMILY AND OTHER HUMAN SERVICES				EDUCATION			
BUDGET			VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)	BUDGET			VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
ORIGINAL	FINAL	ACTUAL		ORIGINAL	FINAL	ACTUAL	
		$ —				$ —	
		—				—	
		—				—	
		—				—	
		—				—	
		3,294				—	
		488,174				1,030	
		776				424	
		3,900,643				1,651,404	
		26,348				6,078	
		485,882				32,557	
		4,905,117				**1,691,493**	
$ 128,218	$ 8,962	2,720	$ 6,242	$ 2,553,601	$ 2,594,328	2,329,348	$ 264,980
6,523	6,523	3,859	2,664	39,338	71,284	20,057	51,227
7,060,134	7,404,690	5,245,493	2,159,197	—	—	—	—
685,390	694,168	635,739	58,429	1,808	3,363	2,402	961
70,253	92,260	62,555	29,705	38,057	38,690	25,867	12,823
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
2,543	2,543	1,417	1,126	—	—	—	—
—	59,814	59,814	—	—	—	—	—
2,105	28,776	5,102	23,674	—	—	—	—
—	—	—	—	—	—	—	—
$ 7,955,166	**$ 8,297,736**	**6,016,699**	**$ 2,281,037**	**$ 2,632,804**	**$ 2,707,665**	**2,377,674**	**$ 329,991**
		(1,111,582)				**(686,181)**	
		60,895				744,018	
		(6,779)				(59,849)	
		54,116				**684,169**	
		(1,057,466)				**(2,012)**	
		(2,298,275)				51,489	
		2,495,802				34,445	
		$ (859,939)				**$ 83,922**	

(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, 2007

(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			638,723	
Cigarette Taxes			—	
Other Taxes			—	
Licenses, Permits and Fees			67,684	
Sales, Services and Charges			1,949	
Federal Government			1,297,690	
Investment Income			34,810	
Other			93,149	
TOTAL REVENUES			**2,134,005**	
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	4,229,818	5,201,122	3,897,991	1,303,131
General Government	—	—	—	—
Community and Economic Development	—	—	—	—
CAPITAL OUTLAY	—	—	—	—
DEBT SERVICE	116,053	102,887	102,829	58
TOTAL BUDGETARY EXPENDITURES	**$ 4,345,871**	**$ 5,304,009**	**4,000,820**	**$ 1,303,189**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES			**(1,866,815)**	
OTHER FINANCING SOURCES (USES):				
Transfers-in			566,285	
Transfers-out			(279,851)	
TOTAL OTHER FINANCING SOURCES (USES)			**286,434**	
NET CHANGE IN FUND BALANCES			**(1,580,381)**	
BUDGETARY FUND BALANCES (DEFICITS), JULY 1			(1,021,721)	
Outstanding Encumbrances at Beginning of Fiscal Year			1,774,564	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30			**$ (827,538)**	

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	
		955,519	
		1,105,518	
		—	
		14,970	
		518,046	
		—	
		—	
		2,777	
		142	
		3,727,536	
$ 521,648	$ 522,145	520,307	$ 1,838
—	—	—	—
—	—	—	—
1,865	1,965	1,961	4
530,000	530,000	509,478	20,522
—	—	—	—
—	—	—	—
—	—	—	—
2,064,841	2,132,842	2,047,396	85,446
—	—	—	—
—	—	—	—
$ 3,118,354	**$ 3,186,952**	**3,079,142**	**$ 107,810**
		648,394	
		444,266	
		(1,185,063)	
		(740,797)	
		(92,403)	
		351,925	
		—	
		$ 259,522	

STATE OF OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS -- ENTERPRISE
JUNE 30, 2007
(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer	$ 12,120	$ 66,493	$ —
Cash and Cash Equivalents	315,795	12,701	620
Collateral on Lent Securities	6,801	37,313	—
Restricted Assets:			
Cash Equity with Treasurer	—	273	—
Investments	—	56,551	—
Collateral on Lent Securities	—	410,718	—
Other Receivables	—	5,211	—
Deposit with Federal Government	—	—	591,758
Intergovernmental Receivable	—	—	3,888
Premiums and Assessments Receivable	993,359	—	11,786
Investment Trade Receivable	187,946	—	—
Interfund Receivable	79,600	—	—
Other Receivables	354,299	41,743	9,988
Inventories	—	—	—
Other Assets	3,136	6,548	7,635
TOTAL CURRENT ASSETS	**1,953,056**	**637,551**	**625,675**
NONCURRENT ASSETS:			
Restricted Assets:			
Cash and Cash Equivalents	1,564	—	—
Investments	—	632,221	—
Investments	16,418,413	—	—
Premiums and Assessments Receivable	2,842,672	—	—
Interfund Receivable	808,154	—	—
Capital Assets Being Depreciated, Net	104,933	2,740	—
Capital Assets Not Being Depreciated	11,994	—	—
TOTAL NONCURRENT ASSETS	**20,187,730**	**634,961**	**—**
TOTAL ASSETS	**22,140,786**	**1,272,512**	**625,675**
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable	9,465	11,033	—
Accrued Liabilities	—	—	—
Obligations Under Securities Lending	6,801	448,031	—
Investment Trade Payable	252,525	—	—
Intergovermental Payable	—	—	1,001
Deferred Prize Awards Payable	—	62,035	—
Interfund Payable	—	408	—
Unearned Revenue	—	993	—
Benefits Payable	1,868,461	—	4,456
Refund and Other Liabilities	545,543	35,161	11,854
Bonds and Notes Payable	15,055	—	—
TOTAL CURRENT LIABILITIES	**2,697,850**	**557,661**	**17,311**
NONCURRENT LIABILITIES:			
Deferred Prize Awards Payable	—	618,949	—
Interfund Payable	—	2,473	—
Benefits Payable	15,544,204	—	—
Refund and Other Liabilities	1,495,165	3,006	—
Bonds and Notes Payable	98,021	—	—
TOTAL NONCURRENT LIABILITIES	**17,137,390**	**624,428**	**—**
TOTAL LIABILITIES	**19,835,240**	**1,182,089**	**17,311**
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	5,179	2,740	—
Restricted for Deferred Lottery Prizes	—	13,272	—
Unrestricted	2,300,367	74,411	608,364
TOTAL NET ASSETS	**$ 2,305,546**	**$ 90,423**	**$ 608,364**

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 46,241	$ 124,854
13,116	342,232
18,013	62,127
—	273
111,957	168,508
—	410,718
—	5,211
—	591,758
6,201	10,089
—	1,005,145
—	187,946
1,932	81,532
9,227	415,257
37,467	37,467
1,899	19,218
246,053	**3,462,335**
—	1,564
735,218	1,367,439
78,262	16,496,675
—	2,842,672
7,686	815,840
11,425	119,098
—	11,994
832,591	**21,655,282**
1,078,644	**25,117,617**
31,475	51,973
5,996	5,996
18,013	472,845
—	252,525
437	1,438
—	62,035
2,996	3,404
8	1,001
82,500	1,955,417
4,368	596,926
2,664	17,719
148,457	**3,421,279**
—	618,949
10,106	12,579
788,500	16,332,704
9,383	1,507,554
—	98,021
807,989	**18,569,807**
956,446	**21,991,086**
11,403	19,322
—	13,272
110,795	3,093,937
$ 122,198	**$ 3,126,531**

STATE OF OHIO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
OPERATING REVENUES:			
Charges for Sales and Services	$ —	$ 2,259,397	$ 14,765
Premium and Assessment Income	4,270,933	—	1,058,017
Federal Government	—	—	20,179
Investment Income	—	—	—
Other	17,703	7,737	19,483
TOTAL OPERATING REVENUES	**4,288,636**	**2,267,134**	**1,112,444**
OPERATING EXPENSES:			
Costs of Sales and Services	—	—	—
Administration	41,388	108,420	—
Bonuses and Commissions	—	139,961	—
Prizes	—	1,338,366	—
Benefits and Claims	2,667,148	—	1,175,507
Depreciation	11,096	780	—
Other	40,681	37	175
TOTAL OPERATING EXPENSES	**2,760,313**	**1,587,564**	**1,175,682**
OPERATING INCOME (LOSS)	**1,528,323**	**679,570**	**(63,238)**
NONOPERATING REVENUES (EXPENSES):			
Investment Income	911,430	60,365	24,783
Interest Expense	—	(23,888)	—
Federal Grants	—	—	—
Other	—	(85,429)	372
TOTAL NONOPERATING REVENUES (EXPENSES)	**911,430**	**(48,952)**	**25,155**
INCOME (LOSS) BEFORE TRANSFERS	**2,439,753**	**630,618**	**(38,083)**
TRANSFERS:			
Transfers-in	—	—	9,903
Transfers-out	(7,586)	(669,834)	(39,122)
TOTAL TRANSFERS	**(7,586)**	**(669,834)**	**(29,219)**
NET INCOME (LOSS)	**2,432,167**	**(39,216)**	**(67,302)**
NET ASSETS (DEFICITS), JULY 1	(126,621)	129,639	675,666
NET ASSETS, JUNE 30	**$ 2,305,546**	**$ 90,423**	**$ 608,364**

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 718,057	$ 2,992,219
—	5,328,950
—	20,179
116,833	116,833
228,219	273,142
1,063,109	**8,731,323**
474,720	474,720
79,687	229,495
—	139,961
—	1,338,366
81,334	3,923,989
2,520	14,396
2,096	42,989
640,357	**6,163,916**
422,752	**2,567,407**
1,488	998,066
(265)	(24,153)
48	48
(107)	(85,164)
1,164	**888,797**
423,916	**3,456,204**
49,850	59,753
(196,382)	(912,924)
(146,532)	**(853,171)**
277,384	**2,603,033**
(155,186)	523,498
$ 122,198	**$ 3,126,531**

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	$ —	$ 2,257,758	$ —
Cash Received from Premiums and Assessments	2,303,398	—	1,114,081
Cash Received from Multi-State Lottery for Grand Prize Winner	—	46,584	—
Cash Received from Interfund Services Provided	62,218	2,089	—
Other Operating Cash Receipts	31,122	5,649	18,405
Cash Payments to Suppliers for Goods and Services	(69,315)	(83,575)	(166)
Cash Payments to Employees for Services	(247,020)	(24,020)	—
Cash Payments for Benefits and Claims	(2,168,994)	—	(1,060,057)
Cash Payments for Lottery Prizes	—	(1,485,872)	—
Cash Payments for Bonuses and Commissions	—	(139,994)	—
Cash Payments for Premium Reductions and Refunds	(138,935)	—	—
Cash Payments for Interfund Services Used	(11,501)	(3,118)	—
Other Operating Cash Payments	—	(37)	(45,966)
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	**(239,027)**	**575,464**	**26,297**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers-in	—	—	9,903
Transfers-out	(7,586)	(669,834)	(39,122)
Federal Grants	—	—	—
NET CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	**(7,586)**	**(669,834)**	**(29,219)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal Payments on Bonds and Capital Leases	(14,150)	—	—
Interest Paid	(5,901)	—	—
Acquisition and Construction of Capital Assets	(5,157)	(818)	—
Principal Receipts on Capital Leases Receivable	—	—	—
Proceeds from Sales of Capital Assets	76	165	—
NET CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(25,132)**	**(653)**	**—**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Investments	(21,440,066)	(866,893)	(1,103,044)
Proceeds from the Sales and Maturities of Investments	21,224,871	971,819	1,105,017
Investment Income Received	630,762	29,344	231
Borrower Rebates and Agent Fees	(9,489)	(23,973)	—
NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES	**406,078**	**110,297**	**2,204**
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	**134,333**	**15,274**	**(718)**
CASH AND CASH EQUIVALENTS, JULY 1	195,146	64,193	1,338
CASH AND CASH EQUIVALENTS, JUNE 30	**$ 329,479**	**$ 79,467**	**$ 620**

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 710,629	$ 2,968,387
—	3,417,479
—	46,584
2,008	66,315
12,376	67,552
(458,750)	(611,806)
(91,519)	(362,559)
—	(3,229,051)
—	(1,485,872)
—	(139,994)
—	(138,935)
(1,822)	(16,441)
(80,583)	(126,586)
92,339	**455,073**
49,709	59,612
(196,382)	(912,924)
58	58
(146,615)	**(853,254)**
(4,665)	(18,815)
(151)	(6,052)
(2,531)	(8,506)
4,373	4,373
89	330
(2,885)	**(28,670)**
(1,273,015)	(24,683,018)
1,323,311	24,625,018
28,065	688,402
—	(33,462)
78,361	**596,940**
21,200	**170,089**
38,157	298,834
$ 59,357	**$ 468,923**

(continued)

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(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)	$ 1,528,323	$ 679,570	$ (63,238)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Investment Income	—	—	—
Depreciation	11,096	780	—
Provision for Uncollectible Accounts	58,429	—	—
Amortization of Premiums and Discounts	(826)	—	—
Interest on Bonds, Notes and Capital Leases	5,901	—	—
Decrease (Increase) in Assets:			
Deposit with Federal Government	—	—	58,951
Intergovernmental Receivable	—	—	(537)
Premiums and Assessments Receivable	(1,773,665)	—	44,839
Interfund Receivable	76,938	—	—
Other Receivables	(78,100)	(1,688)	(1,062)
Inventories	—	—	—
Other Assets	27	12,107	(307)
Increase (Decrease) in Liabilities:			
Accounts Payable	657	(859)	—
Accrued Liabilities	—	—	—
Intergovernmental Payable	—	—	74
Deferred Prize Awards Payable	—	(127,890)	—
Interfund Payable	—	(1,448)	—
Unearned Revenue	(372,847)	50	—
Benefits Payable	161,987	—	(11,612)
Refund and Other Liabilities	143,053	14,842	(811)
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	**$ (239,027)**	**$ 575,464**	**$ 26,297**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Change in Fair Value of Investments	$ 109,160	$ 5,078	$ —
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
$ 422,752	$ 2,567,407
(116,833)	(116,833)
2,521	14,397
—	58,429
487	(339)
—	5,901
—	58,951
2,799	2,262
—	(1,728,826)
(43)	76,895
(492)	(81,342)
(1,054)	(1,054)
357	12,184
4,507	4,305
1,816	1,816
3	77
—	(127,890)
7,544	6,096
(2)	(372,799)
(224,900)	(74,525)
(7,123)	149,961
$ 92,339	**$ 455,073**
$ —	$ 114,238
100	100
21	21

STATE OF OHIO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007
(dollars in thousands)

	PENSION TRUST	PRIVATE-PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (as of 12/31/06)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ASSETS:			
Cash Equity with Treasurer	$ —	$ —	$ —
Cash and Cash Equivalents	44,851	50,173	—
Investments (at fair value):			
U.S. Government and Agency Obligations	1,030	—	2,945,415
Common and Preferred Stock	272,608	—	—
Corporate Bonds and Notes	—	—	—
Foreign Stocks and Bonds	11,910	—	—
Commercial Paper	—	—	951,387
Repurchase Agreements	—	—	23,621
Mutual Funds	386,298	5,486,234	—
Real Estate	47,738	—	—
Venture Capital	—	—	—
Direct Mortgage Loans	—	—	—
Investment Contracts	—	—	—
Partnership and Hedge Funds	30,000	—	—
State Treasury Asset Reserve of Ohio (STAR Ohio)	—	—	—
Collateral on Lent Securities	139,368	—	—
Employer Contributions Receivable	1,290	—	—
Employee Contributions Receivable	1,077	—	—
Other Receivables	1,400	7,378	237
Other Assets	—	—	—
Capital Assets, Net	18	—	—
TOTAL ASSETS	**937,588**	**5,543,785**	**3,920,660**
LIABILITIES:			
Accounts Payable	1,364	—	—
Accrued Liabilities	2,388	6,956	—
Obligations Under Securities Lending	139,368	—	—
Intergovernmental Payable	—	—	—
Refund and Other Liabilities	41	5,961	1,037
TOTAL LIABILITIES	**143,161**	**12,917**	**1,037**
NET ASSETS:			
Held in Trust for:			
Employees' Pension Benefits	684,582	—	—
Employees' Postemployment Healthcare Benefits	109,845	—	—
Individuals, Organizations and Other Governments	—	5,530,868	—
Pool Participants	—	—	3,919,623
TOTAL NET ASSETS	**$ 794,427**	**$ 5,530,868**	**$ 3,919,623**

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

AGENCY
$ 273,250
145,172
11,443,008
72,720,274
12,913,738
40,621,383
3,556,005
27,582
2,629,663
14,055,459
4,800,095
17,046,045
42,953
1,240,954
35,369
153,281
—
—
1,498
442,229
—
182,147,958
—
—
153,281
150,033
181,844,644
182,147,958
—
—
—
—
$ —

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STATE OF OHIO
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(dollars in thousands)

	PENSION TRUST	PRIVATE-PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (for the fiscal year ended 12/31/06)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ADDITIONS:			
Contributions from:			
Employer	$ 22,329	$ —	$ —
Employees	8,610	—	—
Plan Participants	—	1,500,870	—
Other	648	—	—
Total Contributions	31,587	1,500,870	—
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	94,578	460,508	—
Interest, Dividends and Other	18,958	260,313	202,886
Total Investment Income	113,536	720,821	202,886
Less: Investment Expense	12,211	36,965	3,759
Net Investment Income	101,325	683,856	199,127
Capital Share and Individual Account Transactions:			
Shares Sold	—	—	13,532,956
Reinvested Distributions	—	—	199,127
Shares Redeemed	—	—	(13,186,466)
Net Capital Share and Individual Account Transactions	—	—	545,617
TOTAL ADDITIONS	**132,912**	**2,184,726**	**744,744**
DEDUCTIONS:			
Pension Benefits Paid to Participants or Beneficiaries	40,343	—	—
Healthcare Benefits Paid to Participants or Beneficiaries	7,981	—	—
Refunds of Employee Contributions	299	—	—
Administrative Expense	665	—	—
Transfers to Other Retirement Systems	915	—	—
Distributions to Shareholders and Plan Participants	—	1,061,917	199,127
TOTAL DEDUCTIONS	**50,203**	**1,061,917**	**199,127**
CHANGE IN NET ASSETS HELD FOR:			
Employees' Pension Benefits	72,085	—	—
Employees' Postemployment Healthcare Benefits	10,623	—	—
Individuals, Organizations and Other Governments	—	1,122,809	—
Pool Participants	—	—	545,617
TOTAL CHANGE IN NET ASSETS	82,708	1,122,809	545,617
NET ASSETS, JULY 1	711,719	4,408,059	3,374,006
NET ASSETS, JUNE 30	**$ 794,427**	**$ 5,530,868**	**$ 3,919,623**

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, 2007
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (as of 12/31/06)	OHIO STATE UNIVERSITY
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer	$ 524,803	$ —	$ —
Cash and Cash Equivalents	—	26,330	331,289
Investments	—	56,983	523,824
Collateral on Lent Securities	294,496	—	—
Intergovernmental Receivable	—	799	6,053
Loans Receivable, Net	1,508	1,741	8,521
Receivable from Primary Government	—	—	2,542
Other Receivables	4	380	399,774
Inventories	—	—	26,195
Other Assets	16	—	40,913
TOTAL CURRENT ASSETS	**820,827**	**86,233**	**1,339,111**
NONCURRENT ASSETS:			
Restricted Assets:			
Cash Equity with Treasurer	—	—	—
Cash and Cash Equivalents	—	320,435	—
Investments	—	1,112,595	—
Collateral on Lent Securities	—	—	—
Intergovernmental Receivable	—	57	—
Loans Receivable, Net	—	3,614,354	—
Investments	—	38,703	2,403,777
Loans Receivable, Net	6,645	26,220	61,043
Other Receivables	—	4,588	13,337
Other Assets	—	41,532	—
Capital Assets Being Depreciated, Net	29	1,385	2,492,200
Capital Assets Not Being Depreciated	—	539	333,628
TOTAL NONCURRENT ASSETS	**6,674**	**5,160,408**	**5,303,985**
TOTAL ASSETS	**827,501**	**5,246,641**	**6,643,096**
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable	11,165	58,933	150,603
Accrued Liabilities	308	9,663	320,120
Obligations Under Securities Lending	294,496	—	—
Intergovernmental Payable	1,063,903	128	—
Unearned Revenue	—	—	125,122
Refund and Other Liabilities	800	—	81,510
Bonds and Notes Payable	—	124,719	512,837
Certificates of Participation	—	—	390
TOTAL CURRENT LIABILITIES	**1,370,672**	**193,443**	**1,190,582**
NONCURRENT LIABILITIES:			
Intergovernmental Payable	1,046,416	—	—
Unearned Revenue	—	—	—
Refund and Other Liabilities	646	161	204,976
Bonds and Notes Payable	—	2,442,231	575,645
Certificates of Participation	—	—	5,075
TOTAL NONCURRENT LIABILITIES	**1,047,062**	**2,442,392**	**785,696**
TOTAL LIABILITIES	**2,417,734**	**2,635,835**	**1,976,278**
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	29	1,924	1,711,274
Restricted for:			
Federal Programs	—	—	—
Coal Research and Development Program	—	—	—
Community and Economic Development and Capital Purposes	—	—	—
Debt Service	—	2,448,952	—
Nonexpendable:			
Scholarships and Fellowships	—	—	—
Research	—	—	—
Endowments and Quasi-Endowments	—	—	1,459,705
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	—	—	—
Endowments and Quasi-Endowments	—	—	179,309
Current Operations	—	—	309,777
Loans, Grants and Other College and University Purposes	—	—	42,076
Unrestricted	(1,590,262)	159,930	964,677
TOTAL NET ASSETS (DEFICITS)	**$ (1,590,233)**	**$ 2,610,806**	**$ 4,666,818**

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
$ —	$ 16,540	$ 541,343
100,759	434,358	892,736
11,097	1,108,661	1,700,565
—	5,365	299,861
—	43,662	50,514
2,869	31,071	45,710
163	33,581	36,286
67,014	319,411	786,583
1,806	28,199	56,200
17,941	54,653	113,523
201,649	**2,075,501**	**4,523,321**
—	22,336	22,336
—	27,581	348,016
—	580,836	1,693,431
—	12,534	12,534
—	—	57
—	—	3,614,354
1,236,356	1,529,857	5,208,693
29,620	98,404	221,932
38,737	111,835	168,497
388,520	38,903	468,955
1,269,011	3,950,583	7,713,208
202,952	567,157	1,104,276
3,165,196	**6,940,026**	**20,576,289**
3,366,845	**9,015,527**	**25,099,610**
57,135	143,468	421,304
76,006	174,848	580,945
—	17,899	312,395
—	23	1,064,054
29,669	203,588	358,379
43,051	109,103	234,464
131,560	71,506	840,622
90	295	775
337,511	**720,730**	**3,812,938**
—	8,408	1,054,824
—	4,519	4,519
227,070	203,728	636,581
776,729	1,643,922	5,438,527
—	21,290	26,365
1,003,799	**1,881,867**	**7,160,816**
1,341,310	**2,602,597**	**10,973,754**
480,191	3,112,355	5,305,773
—	19	19
—	4,130	4,130
—	22,336	22,336
—	—	2,448,952
147,974	117,027	265,001
92,181	4,180	96,361
679,429	622,526	2,761,660
375,297	98,026	473,323
42,817	159,608	202,425
121,082	17,963	139,045
37,013	116,757	153,770
48,537	14,356	62,893
35,109	121,389	156,498
5	9,084	9,089
23,332	76,253	99,585
119,675	83,562	382,546
8,138	137,998	455,913
16,032	203,040	261,148
(201,277)	1,492,321	825,389
$ 2,025,535	**$ 6,412,930**	**$ 14,125,856**

STATE OF OHIO
COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (for the year ended 12/31/06)	OHIO STATE UNIVERSITY
EXPENSES:			
Primary, Secondary and Other Education	$ 869,183	$ —	$ —
Community and Economic Development	—	—	—
Cost of Services		115,572	—
Administration	—	10,463	—
Education and General:			
Instruction and Departmental Research	—	—	760,923
Separately Budgeted Research	—	—	364,170
Public Service	—	—	116,504
Academic Support	—	—	128,932
Student Services	—	—	78,501
Institutional Support	—	—	143,956
Operation and Maintenance of Plant	—	—	106,564
Scholarships and Fellowships	—	—	70,682
Auxiliary Enterprises	—	—	204,709
Hospitals	—	—	1,443,509
Interest on Long-Term Debt	—	—	47,038
Depreciation	6	179	193,657
Other	—	4,307	11,109
TOTAL EXPENSES	**869,189**	**130,521**	**3,670,254**
PROGRAM REVENUES:			
Charges for Services, Fees, Fines and Forfeitures	1,485	141,883	2,560,623
Operating Grants, Contributions and Restricted Investment Income	28,231	172,438	614,996
Capital Grants, Contributions and Restricted Investment Income	—	—	28,725
TOTAL PROGRAM REVENUES	**29,716**	**314,321**	**3,204,344**
NET PROGRAM (EXPENSE) REVENUE	**(839,473)**	**183,800**	**(465,910)**
GENERAL REVENUES:			
Unrestricted Investment Income	—	5,239	429,584
State Assistance	836,600	—	492,892
Other	—	2	1,613
TOTAL GENERAL REVENUES	**836,600**	**5,241**	**924,089**
ADDITIONS (DEDUCTIONS) TO ENDOWMENTS AND PERMANENT FUND PRINCIPAL	**—**	**—**	**46,426**
SPECIAL ITEM	**—**	**—**	**—**
CHANGE IN NET ASSETS	**(2,873)**	**189,041**	**504,605**
NET ASSETS, JULY 1 (as restated)	(1,587,360)	2,421,765	4,162,213
NET ASSETS (DEFICITS), JUNE 30	**$ (1,590,233)**	**$ 2,610,806**	**$ 4,666,818**

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
$ —	$ 32,045	$ 901,228
—	23,103	23,103
—	—	115,572
—	—	10,463
285,671	1,415,518	2,462,112
153,247	180,391	697,808
56,592	121,143	294,239
66,306	403,911	599,149
37,188	207,497	323,186
84,858	392,001	620,815
61,499	274,213	442,276
24,474	179,513	274,669
77,509	593,899	876,117
—	212,566	1,656,075
40,245	63,737	151,020
87,570	243,569	524,981
16,925	35,508	67,849
992,084	**4,378,614**	**10,040,662**
401,940	2,687,065	5,792,996
470,384	521,979	1,808,028
2,675	71,251	102,651
874,999	**3,280,295**	**7,703,675**
(117,085)	**(1,098,319)**	**(2,336,987)**
—	325,015	759,838
205,235	1,196,003	2,730,730
7,033	95,168	103,816
212,268	**1,616,186**	**3,594,384**
16,966	**50,046**	**113,438**
—	**(5,444)**	**(5,444)**
112,149	**562,469**	**1,365,391**
1,913,386	5,850,461	12,760,465
$ 2,025,535	**$ 6,412,930**	**$ 14,125,856**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Ohio, as of June 30, 2007, 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, the Buckeye Tobacco Settlement Financing 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 27 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
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, 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, 2006.

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, 2006. 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, 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 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
Highway 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 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 5.

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 5.

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	10-30 years
Machinery and Equipment	3-15 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. They apply the straight-line method to depreciable capital assets. 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, as of June 30, 2006, for the primary government and component units that resulted from prior period adjustments for corrections of errors are presented in the following tables (dollars in thousands).

Government-wide Financial Statements:

	Governmental Activities	Total Primary Government	Component Units
Net Assets, as of June 30, 2006, As Previously Reported	$18,943,585	$19,467,083	$12,763,399
Corrections that Increased/(Decreased) Net Assets:			
Cash and Cash Equivalents	—	—	5
Investments	—	—	(70)
Other Receivables-Accounts	—	—	(1,324)
Capital Assets Being Depreciated, Net	—	—	921
Capital Assets Not Being Depreciated	—	—	286
Accrued Liabilities (Compensated Absences)	—	—	126
Unearned Revenue	—	—	(2,878)
Bonds and Notes Payable	(167)	(167)	—
Total Corrections, Net	(167)	(167)	(2,934)
Net Assets, July 1, 2006, As Restated	$18,943,418	$19,466,916	$12,760,465

Discretely Presented Component Units Fund Financial Statements:

	Nonmajor Component Units	Total Component Units
Net Assets, as of June 30, 2006, As Previously Reported	$5,853,395	$12,763,399
Corrections that Increased/(Decreased) Net Assets:		
Cash and Cash Equivalents	5	5
Investments	(70)	(70)
Other Receivables-Accounts	(1,324)	(1,324)
Capital Assets Being Depreciated, Net	921	921
Capital Assets Not Being Depreciated	286	286
Accrued Liabilities (Compensated Absences)	126	126
Unearned Revenue	(2,878)	(2,878)
Total Corrections, Net	(2,934)	(2,934)
Net Assets, July 1, 2006, As Restated	$5,850,461	$12,760,465

B. Implementation of Recently Issued Accounting Pronouncements

For the fiscal year ended June 30, 2007, the State implemented the provisions of

- Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*

GASB 43 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.

C. Recently Issued GASB Pronouncements

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).

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

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 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.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27*. The requirements of GASB 50 are effective for periods beginning after June 15, 2007. This Statement establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pensions. It amends note disclosures and required supplementary information (RSI) standards of Statements No. 25*, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with applicable changes adopted in Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The requirements of GASB 51 are effective for financial statements for periods beginning after June 15, 2009. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies among state and local governments, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

In November 2007, the GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. The provisions of GASB 52 are effective for financial statements for periods beginning after June 15, 2008. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by similar entities. It requires endowments to report their land and other real estate investments at fair value. Additionally, governments are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for their investments reported at fair value.

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 2007. 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 2007, whenever signed into law or otherwise legally authorized.

For fiscal year 2007, 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, 2007
(dollars in thousands)

		Major Special Revenue Funds			
	General	Job, Family, and Other Human Services	Education	Highway Operating	Revenue Distribution
Total Fund Balances - GAAP Basis	$2,255,526	$ 199,121	$ 101,785	$ 888,196	$ 4,271
Less: Reserved Fund Balances	687,131	857,720	34,367	1,608,260	126,323
Less: Designated Fund Balances	1,012,289	—	—	—	—
Unreserved/Undesignated Fund Balances — GAAP Basis	556,106	(658,599)	67,418	(720,064)	(122,052)
BASIS DIFFERENCES					
Revenue Accruals/Adjustments:					
Cash Equity with Treasurer	(89,129)	(16,020)	—	(854)	(13,596)
Taxes Receivable	(983,703)	—	—	(90,543)	(478,126)
Intergovernmental Receivable	(509,613)	(395,488)	(127,596)	(142,056)	—
Loans Receivable, Net	(237,623)	—	(99)	(99,458)	—
Interfund Receivable	(2,992)	(21)	—	(630)	—
Other Receivables	(169,078)	(178,390)	(399)	(5,157)	(1,500)
Deferred Revenue	325,669	158,682	10,026	6,277	27,813
Unearned Revenue	—	163,890	53,508	1,221	6,815
Total Revenue Accruals/Adjustments	(1,666,469)	(267,347)	(64,560)	(331,200)	(458,594)
Expenditure Accruals/Adjustments:					
Cash Equity with Treasurer	(87,825)	(11,067)	(998)	(17,745)	—
Inventories	(23,717)	—	—	(27,954)	—
Other Assets	(8,177)	(1,001)	(4,218)	(1,543)	—
Accounts Payable	193,394	74,161	17,558	199,568	—
Accrued Liabilities	141,217	17,972	1,912	24,770	—
Medicaid Claims Payable	784,423	3,995	—	—	—
Intergovernmental Payable	436,195	179,016	69,806	2,304	651,760
Interfund Payable	640,920	16,900	2,685	103,597	1,026
Payable to Component Units	17,317	965	911	465	—
Refund and Other Liabilities	796,017	5,135	—	—	70,389
Liability for Escheat Property	8,712	—	—	—	—
Total Expenditure Accruals/Adjustments	2,898,476	286,076	87,656	283,462	723,175
Other Adjustments:					
Fund Balance Reclassifications:					
From Unreserved (Non-GAAP Budgetary Basis) to Reserved for:					
Noncurrent Portion of Loans Receivable	234,389	—	99	98,230	—
Inventories	23,717	—	—	27,954	—
State and Local Highway Construction	—	—	—	—	126,323
Federal Programs	—	16,092	8,668	8,353	—
Other	60,408	22,262	451	6,446	—
From Undesignated (Non-GAAP Budgetary Basis) to Designated	1,012,289	—	—	—	—
Cash and Investments Held Outside of State Treasury	(511,989)	(12,593)	(2,838)	(460)	(9,330)
Other	—	1	—	—	—
Total Other Adjustments	818,814	25,762	6,380	140,523	116,993
Total Basis Differences	2,050,821	44,491	29,476	92,785	381,574
TIMING DIFFERENCES					
Encumbrances	(999,451)	(245,831)	(12,972)	(200,259)	—
Budgetary Fund Balances (Deficits) — Non-GAAP Basis	$1,607,476	$(859,939)	$ 83,922	$ (827,538)	$ 259,522

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 Section 133.10, 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, 2007, 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, 2007
(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......................	$ 652,689	$ 707,226	$ —	$198,944	$ —
Component Units...........................	743,008	835,916	38,741	746,138	12,872
Total Deposits — Reporting Entity..	$1,395,697	$1,543,142	$38,741	$945,082	$12,872

*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, 2007, 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, 2007
(dollars in thousands)

Investments for the Primary Government (including Fiduciary Activities), as of June 30, 2007	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	$20,179,966	$168,887
U.S. Government Obligations—Strips	371,822	—
U.S. Agency Obligations	8,475,384	—
U.S. Agency Obligations—Strips	256,174	—
Common and Preferred Stock	71,524,757	—
Corporate Bonds and Notes	16,609,957	—
Corporate Bonds and Notes—Strips	541	—
Commercial Paper	6,607,796	—
Repurchase Agreements	59,487	1,481
Mortgage and Asset-Backed Securities	9,222,875	—
International Investments:		
Foreign Stocks	37,617,819	—
Foreign Bonds	1,739,133	—
High-Yield and Emerging Markets Fixed Income	1,174,970	—
Securities Lending Collateral:		
Commercial Paper	58,912	—
Repurchase Agreements	1,211,126	100,000
Mortgage and Asset-Backed Securities	3,849	—
Variable Rate Notes	2,410,354	—
Master Notes	990,000	—
Negotiable Certificates of Deposit	518,037	—
		$270,368
Investments Not Subject to Custodial Credit Risk Exposure:		
Investments Held by Broker-Dealers under Securities Loans with Cash Collateral:		
U.S. Government Obligations	2,813,527	
U.S. Government Obligations—Strips	4,317	
U.S. Agency Obligations	4,450,962	
U.S. Agency Obligations—Strips	20,901	
Common and Preferred Stock	1,137,872	
Corporate Bonds and Notes	139,055	
International Investments:		
Foreign Stocks	1,193,568	
Foreign Bonds	2,018	
High-Yield and Emerging Markets Fixed Income	65,984	
International Investments-Commingled Equity Funds	1,214,335	
Equity Mutual Funds	9,180,629	
Bond Mutual Funds	5,584,197	
Real Estate	14,176,511	
Venture Capital	4,800,095	
Partnerships and Hedge Funds	486,346	
Investment Contracts	6,006	
Deposit with Federal Government	591,758	
Component Units' Equity in State Treasurer's Cash and Investment Pool	(876,074)	
Component Units' Equity in the State Treasury Asset Reserve of Ohio	(355,515)	
Total Investments — Primary Government	$223,669,451	

(Continued)

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Investments for Component Units, as of June 30, 2007	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	$ 326,962	$ 173,185	$ 99,941
U.S. Government Obligations—Strips	6,147	4,209	—
U.S. Agency Obligations	815,720	452,823	208,927
U.S. Agency Obligations—Strips	1,752	—	1,752
Common and Preferred Stock	1,846,280	378,162	722,906
Corporate Bonds and Notes	268,500	103,433	139,123
Commercial Paper	46,425	8,225	—
Repurchase Agreements	249,778	92,631	155,245
Mortgage and Asset-Backed Securities	72,887	610	—
Negotiable Certificates of Deposit	420	—	—
Municipal Obligations	92,281	71,943	19,915
International Investments:			
Foreign Stocks	224,416	1,025	—
Foreign Bonds	17,531	—	—
Other Investments	8,720	4,797	—
		$1,291,043	$1,347,809
Investments Not Subject to Custodial Credit Risk Exposure:			
Equity Mutual Funds	2,358,423		
Bond Mutual Funds	1,029,574		
Real Estate	213,663		
Life Insurance	17,532		
Investment Contracts	628,989		
Charitable Remainder Trusts	41,344		
Partnerships and Hedge Funds	477,574		
Investment in State Treasurer's Cash and Investment Pool	876,074		
Investment in the State Treasury Asset Reserve of Ohio (STAR Ohio)	355,515		
Total Investments — Component Units	9,976,507		
Total Investments — Reporting Entity	$233,645,958		

Reconciliation of Deposits and Investments Disclosures with Financial Statements
As of June 30, 2007
(dollars in thousands)

	Government-Wide Statement of Net Assets				
	Governmental Activities	Business-Type Activities	Component Units	Fiduciary Funds Statement of Net Assets	Total
Cash Equity with Treasurer	$ 7,299,881	$ 124,854	$ 541,343	$ 273,250	$ 8,239,328
Cash and Cash Equivalents	114,539	342,232	892,736	240,196	1,589,703
Investments	899,044	16,496,675	6,909,258	191,288,769	215,593,746
Collateral on Lent Securities	4,110,979	62,127	299,861	292,649	4,765,616
Deposit with Federal Government	—	591,758	—	—	591,758
Restricted Assets:					
Cash Equity with Treasurer	—	273	22,336	—	22,609
Cash and Cash Equivalents	—	1,564	348,016	—	349,580
Investments	—	1,535,947	1,693,431	—	3,229,378
Collateral on Lent Securities	—	410,718	12,534	—	423,252
Total Reporting Entity	$12,424,443	$19,566,148	$10,719,515	$192,094,864	$234,804,970

Total Carrying Amount of Deposits and Investments per Financial Statements	$234,804,970
Outstanding Warrants and Other Reconciling Items	135,561
Differences Resulting from Component Units with December 31 Year-Ends	101,124
Total Carrying Amount of Deposits and Investments Disclosed in Note 4	$235,041,655

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The total carrying amount of deposits and investments, as of June 30, 2007, reported for the primary government and its component units is (dollars in thousands) $234,804,970. The total of the carrying amounts of both deposits in the amount of $1,395,697 and investments in the amount of $233,645,958 that has been categorized and disclosed in this note is $235,041,655. 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 assets. 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, and
- Commercial paper must be rated within the two highest classifications established by two standard rating agencies.

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, 2007
(dollars in thousands)

	Credit Rating					
Investment Type	AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations	$12,592,725	$ 140,775	$ —	$ 10,540	$ —	$ —
U.S. Agency Obligations—Strips	257,525	—	9,423	—	—	—
Corporate Bonds and Notes	3,074,803	2,997,239	5,197,156	3,738,633	479,718	836,440
Corporate Bonds and Notes—Strips	541	—	—	—	—	—
Commercial Paper	3,120,396	—	3,487,400	—	—	—
Repurchase Agreements	56,636	1,452	1,140	—	—	—
Mortgage and Asset-Backed Securities	8,354,105	241,053	101,788	94,478	462	1,874
Foreign Bonds	61,397	121,809	364,236	415,444	223,552	113,860
High-Yield & Emerging Markets Fixed Income	7,613	—	7,229	145,630	290,645	561,406
Bond Mutual Funds	4,813,775	223,246	3,904	29,456	85,607	45,723
Investment Contracts	—	—	—	—	—	—
Securities Lending Collateral:						
Commercial Paper	—	—	58,912	—	—	—
Repurchase Agreements	—	300,000	911,126	—	—	—
Mortgage and Asset-Backed Securities	3,849	—	—	—	—	—
Variable Rate Notes	—	1,185,384	1,224,970	—	—	—
Master Notes	—	655,000	335,000	—	—	—
Negotiable Certificates of Deposit	—	275,012	243,025	—	—	—
Total Primary Government	$32,343,365	$6,140,970	$11,945,309	$4,434,181	$1,079,984	$1,559,303

	Credit Rating				
Investment Type	CCC/Caa	CC/Ca	D	Unrated	Total
U.S. Agency Obligations	$ —	$ —	$ —	$ 182,306	$12,926,346
U.S. Agency Obligations—Strips	—	—	—	10,127	277,075
Corporate Bonds and Notes	240,092	726	8,628	175,577	16,749,012
Corporate Bonds and Notes—Strips	—	—	—	—	541
Commercial Paper	—	—	—	—	6,607,796
Repurchase Agreements	—	—	—	259	59,487
Mortgage and Asset-Backed Securities	—	—	—	429,115	9,222,875
Foreign Bonds	9,764	—	6,468	424,621	1,741,151
High-Yield & Emerging Markets Fixed Income	144,174	440	13,399	70,418	1,240,954
Bond Mutual Funds	—	—	—	382,486	5,584,197
Investment Contracts	—	—	—	6,006	6,006
Securities Lending Collateral:					
Commercial Paper	—	—	—	—	58,912
Repurchase Agreements	—	—	—	—	1,211,126
Mortgage and Asset-Backed Securities	—	—	—	—	3,849
Variable Rate Notes	—	—	—	—	2,410,354
Master Notes	—	—	—	—	990,000
Negotiable Certificates of Deposit	—	—	—	—	518,037
Total Primary Government	$394,030	$1,166	$28,495	$1,680,915	$59,607,718

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Component Units
Investment Credit Ratings
As of June 30, 2007
(dollars in thousands)

Investment Type	Credit Rating AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations	$ 758,264	$ 812	$ —	$ —	$ —	$ —
U.S. Agency Obligations—Strips	1,752	—	—	—	—	—
Corporate Bonds and Notes	75,912	44,227	74,220	29,048	8,086	20,144
Commercial Paper	—	—	46,425	—	—	—
Repurchase Agreements	157,147	—	—	—	—	—
Mortgage and Asset-Backed Securities	6,376	—	—	—	—	—
Negotiable Certificates of Deposit	—	—	—	—	—	—
Municipal Obligations	91,923	31	60	—	—	—
Bond Mutual Funds	635,562	247,469	57,260	25,420	19,651	20,995
Foreign Bonds	—	220	—	1,093	7,444	965
Investment Contracts	—	—	—	—	—	—
Other Investments	—	—	—	—	—	—
Total Component Units	$1,726,936	$292,759	$177,965	$55,561	$35,181	$42,104

Investment Type	Credit Rating CCC/Caa	Unrated	Total
U.S. Agency Obligations	$ —	$ 56,644	$ 815,720
U.S. Agency Obligations—Strips	—	—	1,752
Corporate Bonds and Notes	7,808	9,055	268,500
Commercial Paper	—	—	46,425
Repurchase Agreements	—	92,631	249,778
Mortgage and Asset-Backed Securities	—	66,511	72,887
Negotiable Certificates of Deposit	—	420	420
Municipal Obligations	—	267	92,281
Bond Mutual Funds	6,595	16,622	1,029,574
Foreign Bonds	—	7,809	17,531
Investment Contracts	—	628,989	628,989
Other Investments	—	3,908	3,908
Total Component Units	$14,403	$882,856	$3,227,765

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
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, 2007, all investments meet the requirements of the State's laws and policies, when applicable. However, investments in certain issuers are at least five percent of investment balances, as follows (dollars in thousands):

Issuer	Amount	Percentage of Investment Balance
Governmental and Business-Type Activities:		
Federal National Mortgage Association	$2,698,831	9%
Federal Home Loan Bank	1,661,363	5%
Federal Home Loan Mortgage Corporation	1,574,717	5%
STAR Ohio Investment Trust Fund:		
Federal National Mortgage Association	1,390,357	29%
Federal Home Loan Bank	814,123	17%
Federal Home Loan Mortgage Corporation	1,363,802	28%
School Facilities Commission Component Unit Fund:		
Federal National Mortgage Association	117,428	15%
Federal Home Loan Bank	111,459	14%
Federal Home Loan Mortgage Corporation	54,988	7%
Ohio Water Development Authority Component Unit Fund (12/31/06):		
AIGMFC	350,196	27%
Citigroup	235,917	18%

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 18 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, 2007, 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 $1.8 million of investments with call dates during fiscal years 2008 through 2010. These investments have maturities between fiscal years 2008 and 2012 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, 2007. Master Notes of $510 million and variable rate notes of $805.5 million have daily reset dates. Mortgage and asset-backed securities of $3.8 million and variable rate notes of $625 million have monthly reset dates. Variable rate notes of $749.9 million have quarterly reset dates.

The Lottery Commission Enterprise Fund has collateral on lent securities with reset dates. Master notes and variable rate notes with reset dates are reported as collateral on lent securities. Master notes of $55 million have daily reset dates. Variable rate notes of $95 million, $95 million, and $40 million, respectively have daily, monthly, and quarterly reset dates.

Also during fiscal year 2007, 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.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The following table lists the investment maturities of the State's investments. All investments at June 30, 2007, 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, 2007
(dollars in thousands)

	Investment Maturities (in years)				
Investment Type	Less than 1	1-5	6-10	More than 10	Total
U.S. Government Obligations	$ 853,701	$ 4,434,275	$ 3,920,552	$13,784,965	$22,993,493
U.S. Government Obligations—Strips	903	17,459	104,464	253,313	376,139
U.S. Agency Obligations	6,204,150	4,161,489	708,531	1,852,176	12,926,346
U.S. Agency Obligations—Strips	1,083	72,707	99,460	103,825	277,075
Corporate Bonds and Notes	3,116,732	5,015,568	3,163,092	5,453,620	16,749,012
Corporate Bonds and Notes—Strips	—	—	—	541	541
Commercial Paper	6,607,796	—	—	—	6,607,796
Repurchase Agreements	59,487	—	—	—	59,487
Mortgage and Asset-Backed Securities	26,700	112,420	315,007	8,768,748	9,222,875
Foreign Bonds	137,773	307,359	457,654	838,365	1,741,151
High-Yield & Emerging Markets Fixed Income	33,129	200,800	653,726	353,299	1,240,954
Bond Mutual Funds	1,434,188	1,331,392	1,919,775	898,842	5,584,197
Investment Contracts	—	6,006	—	—	6,006
Securities Lending Collateral:					
Commercial Paper	58,912	—	—	—	58,912
Repurchase Agreements	1,211,126	—	—	—	1,211,126
Mortgage and Asset-Backed Securities	3,849	—	—	—	3,849
Variable Rate Notes	2,410,354	—	—	—	2,410,354
Master Notes	990,000	—	—	—	990,000
Negotiable Certificates of Deposit	518,037	—	—	—	518,037
Total Primary Government	$23,667,920	$15,659,475	$11,342,261	$32,307,694	$82,977,350

Component Units
Investments Subject to Interest Rate Risk
As of June 30, 2007
(dollars in thousands)

	Investment Maturities (in years)				
Investment Type	Less than 1	1-5	6-10	More than 10	Total
U.S. Government Obligations	$ 83,258	$ 159,456	$ 50,947	$ 33,301	$ 326,962
U.S. Government Obligations—Strips	1,359	3,844	577	367	6,147
U.S. Agency Obligations	340,394	326,668	57,696	90,962	815,720
U.S. Agency Obligations—Strips	—	—	1,752	—	1,752
Corporate Bonds and Notes	53,971	86,927	62,850	64,752	268,500
Commercial Paper	46,425	—	—	—	46,425
Repurchase Agreements	249,778	—	—	—	249,778
Mortgage and Asset-Backed Securities	311	1,155	4,753	66,668	72,887
Negotiable Certificates of Deposit	420	—	—	—	420
Municipal Obligations	19,942	71,124	190	1,025	92,281
Bond Mutual Funds	349,283	359,629	242,751	77,911	1,029,574
Foreign Bonds	—	2,941	3,497	11,093	17,531
Investment Contracts	210,022	360,404	—	58,563	628,989
Other Investments	367	1,836	551	1,154	3,908
Total Component Units	$1,355,530	$1,373,984	$425,564	$405,796	$3,560,874

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

5. Foreign Currency Risk

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

According to Chapter 135, Ohio Revised Code, investments 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, 2007, 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, 2007
(dollars in thousands)

Currency	Fiduciary Activities			
	Stocks	Bonds	High-Yield & Emerging Markets Fixed Income	Total
Argentinean Peso	$ 941	$ 39,653	$ 713	$ 41,307
Australian Dollar	735,779	—	—	735,779
Brazilian Real	402,484	47,007	10,283	459,774
British Pound	3,139,112	—	—	3,139,112
Bulgarian Lev	758	—	—	758
Canadian Dollar	682,477	38,702	—	721,179
Chilean Peso	20,063	—	—	20,063
Chinese Yuan	59,447	—	—	59,447
Colombian Peso	3,857	22,716	—	26,573
Czech Koruna	39,051	—	—	39,051
Danish Krone	145,092	—	—	145,092
Egyptian Pound	43,930	6,059	739	50,728
Euro	5,091,048	7,609	345	5,099,002
Hong Kong Dollar	943,359	—	—	943,359
Hungarian Forint	60,559	1,896	—	62,455
Indian Rupee	142,266	—	—	142,266
Indonesian Rupiah	104,325	10,448	377	115,150
Israeli Shekel	86,285	3,405	—	89,690
Japanese Yen	2,949,896	—	25	2,949,921
Jordanian Dollar	1	—	—	1
Lithuanian Litas	29	—	—	29
Malaysian Ringgit	185,649	—	7,525	193,174
Mexican Peso	169,704	45,668	5,919	221,291
New Zealand Dollar	101,725	—	—	101,725
Norwegian Krone	231,599	—	—	231,599
Pakistani Rupee	6,843	—	—	6,843
Philippines Peso	53,010	—	—	53,010
Polish Zloty	59,266	—	—	59,266
Romanian Leu	3,694	—	—	3,694
Russian Ruble	48,492	—	529	49,021
Singapore Dollar	319,289	—	—	319,289
South African Rand	390,716	—	—	390,716
South Korean Won	982,749	—	—	982,749
Sri Lankan Rupee	12,443	—	—	12,443
Swedish Krona	300,199	—	—	300,199
Swiss Franc	784,886	—	—	784,886
Taiwan Dollar	635,974	—	—	635,974
Thailand Baht	162,280	1,997	—	164,277
Turkish Lira	180,743	35,323	8,556	224,622
Uruguyuan Peso	—	—	1,712	1,712
Venezuelan Bolivar	130	—	—	130
Zimbabwean Dollar	1,283	5,233	—	6,516
Investments Held in Foreign Currency	$19,281,433	$265,716	$36,723	19,583,872
Foreign Investments Held in U.S. Dollars				23,423,955
Total Foreign Investments-Primary Government, including Fiduciary Activities				$43,007,827

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Component Units
International Investments—Foreign Currency Risk
As of June 30, 2007
(dollars in thousands)

Ohio State University:

Currency	Included in the Balance Reported for Common & Preferred Stock	Corporate Bonds	Total
Argentinean Peso	$ —	$ 1,914	$ 1,914
Australian Dollar	4,336	—	4,336
Brazilian Real	4,694	—	4,694
British Pound	25,653	—	25,653
Canadian Dollar	7,883	—	7,883
Danish Krone	468	—	468
Egyptian Pound	326	—	326
Euro	57,250	—	57,250
Hong Kong Dollar	8,040	—	8,040
Indonesian Rupiah	993	—	993
Israeli Shekel	542	—	542
Japanese Yen	36,012	—	36,012
Malaysian Ringgit	4,508	—	4,508
Mexican Peso	1,088	881	1,969
New Zealand Dollar	152	—	152
Norwegian Krone	7,596	—	7,596
Philippines Peso	597	—	597
Polish Zloty	440	—	440
Singapore Dollar	2,272	—	2,272
South African Rand	8,357	—	8,357
South Korean Won	9,152	—	9,152
Swedish Krona	4,101	—	4,101
Swiss Franc	4,112	—	4,112
Taiwan Dollar	3,567	—	3,567
Thailand Baht	1,307	—	1,307
Turkish Lira	—	970	970
Other	—	197	197
Investments Held in Foreign Currency	193,446	3,962	197,408
Foreign Investments Held in U.S. Dollars	—	13,569	13,569
Total Ohio State University	$193,446	$17,531	$210,977

Nonmajor Component Units:

Currency	Included in the Balance Reported for Common & Preferred Stock
Australian Dollar	$ 2,818
Bermudian Dollar	93
Brazilian Real	2,208
British Pound	5,358
Canadian Dollar	3,838
Euro	1,647
Japanese Yen	7,608
South African Rand	2,984
South Korean Won	2,551
Taiwan Dollar	1,009
Investments Held in Foreign Currency	30,114
Foreign Investments Held in U.S. Dollars	856
Total Nonmajor Component Units	$30,970

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, 2007, 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 22 days or less while the weighted average maturity of securities loans is one day 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 2007, the State had not experienced any losses due to credit or market risk on securities lending activities.

In fiscal year 2007, the Treasurer lent U.S. government and agency obligations in exchange for cash collateral while the SHPRS lent 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, 2007, approximately $264.9 million of the net taxes receivable balance is also reported as deferred revenue on the governmental funds' balance sheet, of which $237.1 million is reported in the General Fund and $27.8 million is reported in the Revenue Distribution Special Revenue Fund.

Refund liabilities for income and corporation franchise taxes, totaling approximately $866.3 million, are reported for governmental activities as "Refunds and Other Liabilities" on the Statement of Net Assets, of which, $795.9 million is reported in the General Fund and $70.4 million is reported in the Revenue Distribution Special Revenue Fund on the governmental funds' balance sheet.

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

	Governmental Activities				
	Major Governmental Funds				
	General	Highway Operating	Revenue Distribution	Nonmajor Govern-mental Funds	Total Primary Government
Current-Due Within One Year:					
Income Taxes	$ 470,124	$ —	$ 57,321	$ 162	$ 527,607
Sales Taxes	382,108	—	28,655	864	411,627
Motor Vehicle Fuel Taxes	—	90,543	145,518	3,346	239,407
Commercial Activity Taxes	—	—	209,296	—	209,296
Public Utility Taxes	71,517	—	30,302	—	101,819
Severance Taxes	—	—	—	2,227	2,227
	923,749	90,543	471,092	6,599	1,491,983
Noncurrent-Due in More Than One Year:					
Income Taxes	59,954	—	7,034	—	66,988
Taxes Receivable, Net	$ 983,703	$ 90,543	$478,126	$ 6,599	$1,558,971

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, 2007 (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	$ 479,820	$ 25,207	$ —	$ 4,586	$ 509,613
Job, Family and Other Human Services	307,583	87,905	—	—	395,488
Education	53,687	73,909	—	—	127,596
Highway Operating	142,056	—	—	—	142,056
Nonmajor Governmental Funds	266,872	4,451	—	28,066	299,389
Total Governmental Activities	1,250,018	191,472	—	32,652	1,474,142
Business-Type Activities:					
Major Proprietary Funds:					
Unemployment Compensation	—	—	3,888	—	3,888
Nonmajor Proprietary Funds	23	—	—	6,178	6,201
Total Business-Type Activities	23	—	3,888	6,178	10,089
Intergovernmental Receivable	$1,250,041	$191,472	$ 3,888	$38,830	$1,484,231

NOTE 5 RECEIVABLES (Continued)

C. Loans Receivable

Loans receivable for the primary government and its discretely presented major component units, as of June 30, 2007, 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	$211,989	$ —	$ —	$ —	$211,989
School District Solvency Assistance	17,206	—	—	—	17,206
Wayne Trace Local School District	4,149	—	—	—	4,149
State Workforce Development	1,397	—	—	—	1,397
Office of Minority Financial Incentives	942	—	—	—	942
Professional Development	844	—	—	—	844
Columbiana County Economic Stabilization	523	—	—	—	523
Small Government Fire Departments	676	—	—	—	676
Nurses Education Assistance	—	99	—	—	99
Highway, Transit, & Aviation Infrastructure Bank	—	—	99,458	—	99,458
Economic Development Office of Financial Incentives	—	—	—	334,324	334,324
Rail Development	—	—	—	3,348	3,348
Brownfield Revolving Loan	—	—	—	598	598
Local Infrastructure Improvements	—	—	—	316,818	316,818
Natural Resources	—	—	—	30	30
Loans Receivable, Gross	237,726	99	99,458	655,118	992,401
Estimated Uncollectible	(103)	—	—	—	(103)
Loans Receivable, Net	$237,623	$99	$ 99,458	$655,118	$992,298
Current-Due Within One Year	$ 13,200	$ —	$ 13,832	$ 28,581	$ 55,613
Noncurrent-Due in More Than One Year	224,423	99	85,626	626,537	936,685
Loans Receivable, Net	$237,623	$99	$ 99,458	$655,118	$992,298

Major Component Units — Loans Receivable

Loan Program	Ohio Water Development Authority (12/31/06)	Ohio State University	University of Cincinnati
Water and Wastewater Treatment (including restricted portion)	$3,642,315	$ —	$ —
Student	—	85,214	36,626
Other	—	—	766
Loans Receivable, Gross	3,642,315	85,214	37,392
Estimated Uncollectible	—	(15,650)	(4,903)
Loans Receivable, Net	$3,642,315	$ 69,564	$ 32,489
Current-Due Within One Year	$ 1,741	$ 8,521	$ 2,869
Noncurrent-Due in More Than One Year	3,640,574	61,043	29,620
Loans Receivable, Net	$3,642,315	$ 69,564	$ 32,489

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, 2007, 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	Revenue Distribution	Nonmajor Governmental Funds	Total
Manufacturers' Rebates	$ 68,733	$103,081	$ —	$ —	$ —	$ 14,242	$ 186,056
Tobacco Settlement	—	—	—	—	—	253,306	253,306
Health Facility Bed Assessments	—	60,226	—	—	—	—	60,226
Interest	32,313	—	—	4,043	—	5,054	41,410
Accounts	52,512	10,938	376	943	1,500	7,193	73,462
Environmental Legal Settlements	—	—	—	—	—	9,062	9,062
Miscellaneous	15,520	4,145	23	171	—	422	20,281
Other Receivables, Net-Due Within One Year	$169,078	$178,390	$ 399	$ 5,157	$ 1,500	$ 289,279	$ 643,803

	Business-Type Activities				
	Major Proprietary Funds				
Type of Receivable	Workers' Compensation	Lottery Commission	Unemployment Compensation	Nonmajor Proprietary Funds	Total
Accounts	$ 966,512	$ —	$ 73,638	$ 968	$1,041,118
Interest and Dividends (including restricted portion)	183,418	5,211	—	5,465	194,094
Leases	—	—	—	2,758	2,758
Lottery Sales Agents	—	41,974	—	—	41,974
Miscellaneous	—	—	—	36	36
Other Receivables, Gross	1,149,930	47,185	73,638	9,227	1,279,980
Estimated Uncollectible	(795,631)	(231)	(63,650)	—	(859,512)
Other Receivables, Net-Due Within One Year	$ 354,299	$46,954	$ 9,988	$ 9,227	$ 420,468
Total Primary Government					$1,064,271

Major Component Units — Other Receivables

Type of Receivable	Ohio State University	University of Cincinnati
Accounts	$ 864,811	$ 30,283
Interest	16,852	26,100
Investment Trade Receivable (Stock Proceeds)	—	216
Pledges	41,583	37,885
Unbilled Charges	—	31,062
Other Receivables, Gross	923,246	125,546
Estimated Uncollectible	(510,135)	(19,795)
Other Receivables, Net	$ 413,111	$ 105,751
Current-Due Within One Year	$ 399,774	$ 67,014
Noncurrent-Due in More Than One Year	13,337	38,737
Other Receivables, Net	$ 413,111	$ 105,751

NOTE 5 RECEIVABLES (Continued)

The "Other Receivables" balance reported in the fiduciary funds as of June 30, 2007, is comprised of interest due of approximately $4.8 million, investment trade receivable of $3.9 million, and miscellaneous receivables of $1.8 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, 2007, 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
2008	$2,716
Total Minimum Lease Payments	2,716
Amount for interest	(29)
Present Value of Net Minimum Lease Payments	2,687
Unearned Income	71
Net Leases Receivable	$2,758

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, 2007, follow (dollars in thousands).

Primary Government — Accrued Liabilities

	Wages and Employee Benefits	Accrued Interest	Other	Total Accrued Liabilities
Governmental Activities:				
Major Governmental Funds:				
General	$141,217	$ —	$ —	$141,217
Job, Family and Other Human Services	17,972	—	—	17,972
Education	1,912	—	—	1,912
Highway Operating	24,770	—	—	24,770
Nonmajor Governmental Funds	48,289	—	28	48,317
	234,160	—	28	234,188
Reconciliation of balances in fund financial statements to government-wide financial statements due to basis differences	—	123,082	—	123,082
Total Governmental Activities	234,160	123,082	28	357,270
Business-Type Activities:				
Nonmajor Proprietary Funds	5,981	15	—	5,996
Total Primary Government	$240,141	$123,097	$ 28	$363,266

	Wages and Employee Benefits	Health Benefit Claims	Management and Administrative Expenses	Total Accrued Liabilities
Fiduciary Activities:				
State Highway Patrol Retirement System Pension Trust (12/31/06)	$ 1,511	$ 877	$ —	$ 2,388
Variable College Savings Plan Private-Purpose Trust	—	—	6,956	6,956
Total Fiduciary Activities	$ 1,511	$ 877	$6,956	$ 9,344

NOTE 6 PAYABLES (Continued)

Major Component Units — Accrued Liabilities

	Wages and Employee Benefits	Self-Insurance	Accrued Interest	Other	Total Accrued Liabilities
Ohio State University	$163,632	$120,663	$ 4,918	$30,907	$ 320,120
University of Cincinnati	41,773	—	5,788	28,445	76,006

B. Intergovernmental Payable

The intergovernmental payable balances for the primary government, as of June 30, 2007, 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	$274,723	$137,891	$23,581	$ —	$ 436,195
Job, Family and Other Human Services	—	179,016	—	—	179,016
Education	—	69,795	11	—	69,806
Highway Operating	—	2,304	—	—	2,304
Revenue Distribution	649,799	—	—	1,961	651,760
Nonmajor Governmental Funds	—	178,756	—	—	178,756
Total Governmental Activities	924,522	567,762	23,592	1,961	1,517,837
Business-Type Activities:					
Major Proprietary Funds:					
Unemployment Compensation	—	322	679	—	1,001
Nonmajor Proprietary Funds	437	—	—	—	437
Total Business-Type Activities	437	322	679	—	1,438
Total Primary Government	$924,959	$568,084	$24,271	$ 1,961	$1,519,275
Fiduciary Activities:					
Holding and Distribution Agency Fund	$ —	$ —	$ 2,876	$14,294	$ 17,170
Payroll Withholding and Fringe Benefits Agency Fund	—	359	—	—	359
Other Agency Fund	130,525	1,979	—	—	132,504
Total Fiduciary Activities	$130,525	$ 2,338	$ 2,876	$14,294	$ 150,033

As of June 30, 2007, the School Facilities Commission Component Unit Fund reported an intergovernmental payable balance totaling approximately $2.11 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, 2007, consist of the balances reported on the tables presented on the following page (dollars in thousands).

NOTE 6 PAYABLES (Continued)

Primary Government — Refund and Other Liabilities

Governmental Activities:	Estimated Tax Refund Claims: Personal Income Tax	Corporation Franchise Tax	Total Tax Refund Liabilities	Interest on Lawyers' Trust Accounts	Other	Total
Major Governmental Funds:						
General	$ 636,114	$159,789	$795,903	$ —	$ 114	$ 796,017
Job, Family and Other Human Services	—	—	—	3,141	1,994	5,135
Revenue Distribution	64,766	5,623	70,389	—	—	70,389
Nonmajor Governmental Funds	—	—	—	—	2,484	2,484
Total Governmental Activities	$ 700,880	$165,412	$866,292	$ 3,141	$ 4,592	$ 874,025

Business-Type Activities:	Reserve for Compen-sation Adjustment	Refund and Security Deposits	Compensated Absences	Capital Leases	Other	Total
Major Proprietary Funds:						
Workers' Compensation	$ 1,858,529	$ 87,808	$ 26,645	$ —	$ 67,726	$ 2,040,708
Lottery Commission	—	32,930	3,255	—	1,982	38,167
Unemployment Compensation	—	11,854	—	—	—	11,854
Nonmajor Proprietary Funds	—	2,671	10,920	22	138	13,751
	1,858,529	135,263	40,820	22	69,846	2,104,480
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-wide financial statements	(1,858,529)	(87,808)	(40,439)	(22)	(22,307)	(2,009,105)
Total Business-Type Activities	$ —	$ 47,455	$ 381	$ —	$ 47,539	$ 95,375
Total Primary Government						$ 969,400

Fiduciary Activities:	Child Support Collections	Refund and Security Deposits	Payroll Withholdings	Retirement Systems' Assets	Other	Total
State Highway Patrol Retirement System Pension Trust (12/31/06)	$ —	$ —	$ —	$ —	$ 41	$ 41
Variable College Savings Plan Private-Purpose Trust	—	—	—	—	5,961	5,961
STAR Ohio Investment Trust	—	—	—	—	1,037	1,037
Agency Funds:						
Holding and Distribution	—	18,184	—	—	—	18,184
Centralized Child Support Collections	61,571	—	—	—	—	61,571
Retirement Systems	—	—	—	181,097,077	—	181,097,077
Payroll Withholding and Fringe Benefits	—	—	112,760	—	—	112,760
Other	—	405,957	—	49,075	100,020	555,052
Total Fiduciary Activities	$ 61,571	$424,141	$112,760	$181,146,152	$107,059	$181,851,683

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	$ 93,415	$ 91,478	$ 24,143	$ 55,403	$ 22,047	$ 286,486
University of Cincinnati	38,372	64,408	159,515	—	7,826	270,121

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

A. Interfund Balances

Interfund balances, as of June 30, 2007, consist of the following (dollars in thousands):

	Due To				
	Governmental Activities				
Due from	General	Job, Family and Other Human Services	Highway Operating	Nonmajor Governmental Funds	Total
Major Governmental Funds:					
General	$ —	$21	$ —	$3,599	$ 3,620
Revenue Distribution	—	—	630	396	1,026
Nonmajor Governmental Funds	—	—	—	655	655
Total Governmental Activities	—	21	630	4,650	5,301
Nonmajor Proprietary Funds	2,992	—	—	—	2,992
Total Business-Type Activities	2,992	—	—	—	2,992
Total Primary Government	$2,992	$21	$ 630	$4,650	$ 8,293

	Business-Type Activities			
	Major Proprietary Fund			
Due from	Workers' Compensation	Nonmajor Proprietary Funds	Total	Total Primary Government
Major Governmental Funds:				
General	$627,972	$9,328	$637,300	$640,920
Job, Family, Other Human Services	16,900	—	16,900	16,900
Education	2,685	—	2,685	2,685
Highway Operating	103,597	—	103,597	103,597
Revenue Distribution	—	—	—	1,026
Nonmajor Governmental Funds	123,609	290	123,899	124,554
Total Governmental Activities	874,763	9,618	884,381	889,682
Major Proprietary Funds:				
Lottery Commission	2,881	—	2,881	2,881
Nonmajor Proprietary Funds	10,110	—	10,110	13,102
Total Business-Type Activities	12,991	—	12,991	15,983
Total Primary Government	$887,754	$9,618	$897,372	$905,665

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 $887.8 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 $874.8 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, 2007, 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	$ —	$ 67,554	$ 9,549	$ 255	$ 741	$1,194,063	$1,272,162
Job, Family and Other Human Services	3,665	—	1,500	—	—	163	5,328
Education	31,768	—	—	—	—	21	31,789
Highway Operating	554	—	—	—	156,111	156,791	313,456
Revenue Distribution	98,629	—	64,882	495,864	—	262,603	921,978
Nonmajor Governmental Funds	68,635	4,189	377	1,915	—	15,666	90,782
Total Governmental Activities	203,251	71,743	76,308	498,034	156,852	1,629,307	2,635,495
Major Proprietary Funds:							
Workers' Compensation	7,586	—	—	—	—	—	7,586
Lottery Commission	507	—	669,327	—	—	—	669,834
Unemployment Compensation	—	39,122	—	—	—	—	39,122
Nonmajor Proprietary Funds	135,055	—	—	—	—	61,327	196,382
Total Business-Type Activities	143,148	39,122	669,327	—	—	61,327	912,924
Total Primary Government	$346,399	$110,865	$745,635	$ 498,034	$156,852	$1,690,634	$3,548,419

	Business-Type Activities			
	Major Proprietary Fund			
Transferred from	Unemploy-ment Compen-sation	Nonmajor Proprietary Funds	Total	Total Primary Government
Major Governmental Funds:				
General	$ —	$ 49,850	$ 49,850	$1,322,012
Job, Family and Other Human Services	9,903	—	9,903	15,231
Education	—	—	—	31,789
Highway Operating	—	—	—	313,456
Revenue Distribution	—	—	—	921,978
Nonmajor Governmental Funds	—	—	—	90,782
Total Governmental Activities	9,903	49,850	59,753	2,695,248
Major Proprietary Funds:				
Workers' Compensation	—	—	—	7,586
Lottery Commission	—	—	—	669,834
Unemployment Compensation	—	—	—	39,122
Nonmajor Proprietary Funds	—	—	—	196,382
Total Business-Type Activities	—	—	—	912,924
Total Primary Government	$ 9,903	$ 49,850	$ 59,753	$3,608,172

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 2007, the component units reported $2.73 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	$17,317	$ 575,652	$1,690,552	$25,000	$2,291,204
Job, Family and Other Human Services	965	—	—	—	—
Education	911	—	—	—	—
Highway Operating	465	—	—	—	—
Nonmajor Governmental Funds	16,663	291,706	147,820	—	439,526
Total Primary Government	$36,321	$ 867,358	$1,838,372	$25,000	$2,730,730

Component Units
(dollars in thousands)

	Receivable from the Primary Government	Total State Assistance from the Primary Government
Major Component Units:		
School Facilities Commission	$ —	$ 836,600
Ohio State University	2,542	492,892
University of Cincinnati	163	205,235
Nonmajor Component Units	33,581	1,196,003
Variance Due to Year-End Differences (June 30 versus December 31)	35	—
Total Component Units	$36,321	$2,730,730

NOTE 8 CAPITAL ASSETS

A. Primary Government

Capital asset activity, for the year ended June 30, 2007, reported for the primary government was as follows (dollars in thousands):

	Primary Government			
	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	$ 1,736,463	$ 82,638	$ (1,599)	$ 1,817,502
Buildings	60,060	—	—	60,060
Land Improvements	930	272	—	1,202
Construction-in-Progress	1,581,498	532,943	(356,918)	1,757,523
Infrastructure:				
Highway Network:				
General Subsystem	8,337,768	41,930	(16,092)	8,363,606
Priority Subsystem	7,196,979	123,546	—	7,320,525
Bridge Network	2,430,629	72,260	(6,850)	2,496,039
Total Capital Assets Not Being Depreciated	21,344,327	853,589	(381,459)	21,816,457
Other Capital Assets:				
Buildings	3,324,452	43,168	(45,406)	3,322,214
Land Improvements	338,506	27,882	(6,676)	359,712
Machinery and Equipment	593,066	62,223	(42,593)	612,696
Vehicles	251,551	36,592	(21,364)	266,779
Infrastructure:				
Parks, Recreation and Natural Resources Network	42,312	7,152	(448)	49,016
Total Other Capital Assets at historical cost	4,549,887	177,017	(116,487)	4,610,417
Less Accumulated Depreciation for:				
Buildings	1,388,541	100,009	(31,549)	1,457,001
Land Improvements	153,331	16,471	(3,933)	165,869
Machinery and Equipment	401,398	56,009	(39,682)	417,725
Vehicles	118,893	18,789	(14,604)	123,078
Infrastructure:				
Parks, Recreation and Natural Resources Network	3,278	1,662	(18)	4,922
Total Accumulated Depreciation	2,065,441	192,940	(89,786)	2,168,595
Other Capital Assets, Net	2,484,446	(15,923)	(26,701)	2,441,822
Governmental Activities-Capital Assets, Net	$23,828,773	$837,666	$(408,160)	$24,258,279

For fiscal year 2007, the State charged depreciation expense to the following governmental functions:

Governmental Activities:	***(in 000s)***
Primary, Secondary and Other Education	$ 1,110
Higher Education Support	5
Public Assistance and Medicaid	6,804
Health and Human Services	17,372
Justice and Public Protection	72,496
Environmental Protection and Natural Resources	14,855
Transportation	27,238
General Government	96,910
Community and Economic Development	4,094
Total Depreciation Expense for Governmental Activities	240,884
Gains (Losses) on Capital Asset Disposals Included in Depreciation	(47,944)
Fiscal Year 2007 Increases to Accumulated Depreciation	$192,940

NOTE 8 CAPITAL ASSETS (Continued)

As of June 30, 2007, 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	$ 6,916
Land Improvements	474
Total	$ 7,390

	Primary Government *(Continued)*			
	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land	$ 11,994	$ —	$ —	$ 11,994
Construction-in-Progress	778	4	(782)	—
Total Capital Assets Not Being Depreciated	12,772	4	(782)	11,994
Other Capital Assets:				
Buildings	222,154	820	—	222,974
Land Improvements	66	—	—	66
Machinery and Equipment	142,870	7,264	(5,376)	144,758
Vehicles	4,629	1,238	(832)	5,035
Total Other Capital Assets at historical cost	369,719	9,322	(6,208)	372,833
Less Accumulated Depreciation for:				
Buildings	115,547	7,378	—	122,925
Land Improvements	51	1	—	52
Machinery and Equipment	127,061	6,314	(4,872)	128,503
Vehicles	2,549	522	(816)	2,255
Total Accumulated Depreciation	245,208	14,215	(5,688)	253,735
Other Capital Assets, Net	124,511	(4,893)	(520)	119,098
Business-Type Activities-Capital Assets, Net	$137,283	$(4,889)	$(1,302)	$131,092

For fiscal year 2007, the State charged depreciation expense to the following business-type functions:

Business-Type Activities:	***(in 000s)***
Workers' Compensation	$11,096
Lottery Commission	780
Tuition Trust Authority	28
Liquor Control	411
Underground Parking Garage	622
Office of Auditor of State	1,459
Total Depreciation Expense for Business-Type Activities	14,396
Gains (Losses) on Capital Asset Disposals Included in Depreciation	(181)
Fiscal Year 2007 Increases to Accumulated Depreciation	$14,215

NOTE 8 CAPITAL ASSETS (Continued)

B. Major Component Units
Capital asset activity, for the year ended June 30, 2007, 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, 2006	Increases	Decreases	Balance June 30, 2007
Capital Assets Not Being Depreciated:				
Land	$ 52,543	$ 211	$ (701)	$ 52,053
Construction-in-Progress	433,357	—	(151,782)	281,575
Total Capital Assets Not Being Depreciated	485,900	211	(152,483)	333,628
Other Capital Assets:				
Buildings	2,877,674	391,445	(21,280)	3,247,839
Land Improvements	241,209	15,808	—	257,017
Machinery, Equipment and Vehicles	806,761	81,517	(67,310)	820,968
Library Books and Publications	162,924	3,472	(2,629)	163,767
Total Other Capital Assets at historical cost	4,088,568	492,242	(91,219)	4,489,591
Less Accumulated Depreciation for:				
Buildings	1,082,641	103,649	(15,999)	1,170,291
Land Improvements	128,956	10,922	—	139,878
Machinery, Equipment and Vehicles	525,790	73,521	(56,458)	542,853
Library Books and Publications	141,433	5,565	(2,629)	144,369
Total Accumulated Depreciation	1,878,820	193,657	(75,086)	1,997,391
Other Capital Assets, Net	2,209,748	298,585	(16,133)	2,492,200
Total Capital Assets, Net	$2,695,648	$298,796	$(168,616)	$2,825,828
University of Cincinnati:				
Capital Assets Not Being Depreciated:				
Land	$ 21,923	$ —	$ —	$ 21,923
Construction-in-Progress	141,295	131,735	(96,365)	176,665
Collections of Works of Art and Historical Treasures	4,356	18	(10)	4,364
Total Capital Assets Not Being Depreciated	167,574	131,753	(96,375)	202,952
Other Capital Assets:				
Buildings	1,532,286	65,612	—	1,597,898
Land Improvements	78,014	3,615	—	81,629
Machinery, Equipment and Vehicles	191,650	13,383	—	205,033
Library Books and Publications	131,684	9,057	—	140,741
Infrastructure	89,668	6,685	—	96,353
Total Other Capital Assets at historical cost	2,023,302	98,352	—	2,121,654
Less Accumulated Depreciation for:				
Buildings	517,687	56,514	(34)	574,167
Land Improvements	10,773	3,906	9	14,688
Machinery, Equipment and Vehicles	110,425	16,308	(3,253)	123,480
Library Books and Publications	86,240	7,243	(1,524)	91,959
Infrastructure	44,750	3,599	—	48,349
Total Accumulated Depreciation	769,875	87,570	(4,802)	852,643
Other Capital Assets, Net	1,253,427	10,782	4,802	1,269,011
Total Capital Assets, Net	$1,421,001	$142,535	$ (91,573)	$1,471,963

For fiscal year 2007, Ohio State University and the University of Cincinnati reported approximately $193.7 million and $87.6 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 2007, 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, 2006 through December 31, 2006	9.00%	13.54%
January 1, 2007 through June 30, 2007	9.50%	13.77%
Law Enforcement Employees:		
July 1, 2006 through December 31, 2006	10.10%	16.93%
January 1, 2007 through June 30, 2007	10.10%	17.17%

The employer rate for regular employees is scheduled to increase to 14 percent beginning January 1, 2008. The employer rate for law enforcement employees is scheduled to increase to 17.4 percent, beginning January 1, 2008, and incrementally thereafter, until reaching 18.1 percent on January 1, 2011. The employee rate for regular employees is scheduled to increase 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):

	2007	2006	2005
Primary Government:			
Regular Employees..	$254,977	$253,259	$248,032
Law Enforcement Employees	4,112	3,988	3,946
Total	$259,089	$257,247	$251,978
Major Component Units:			
School Facilities Commission	$ 317	$ 297	$ 283
Ohio Water Development Authority	89	82	83
Ohio State University	70,385	62,108	63,044
University of Cincinnati	14,162	13,285	14,070

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):

	2007	2006	2005
Primary Government:			
Employer Contributions	$3,455	$2,598	$2,054
Employee Contributions	7,718	5,828	4,375
Major Component Units:			
Ohio State University:			
Employer Contributions	1,618	1,185	1,002
Employee Contributions	3,536	2,494	2,032
University of Cincinnati:			
Employer Contributions	292	236	200
Employee Contributions	595	460	403

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) 222-5601 or 1-800-222-7377.

Other Postemployment Benefits (OPEB)
Members of the defined contribution plan may access a Retiree Medical Account upon retirement. During fiscal year 2007, employers paid 4.5 percent of their share into members' accounts for the period covering July 1, 2006 through December 31, 2006, and 4.5 percent for the period covering January 1, 2007 through June 30, 2007. 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, 2007, were as follows (dollars in thousands):

	2007
Primary Government....................................	$1,805
Major Component Units:	
Ohio State University	796
University of Cincinnati	144

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

All age and service retirees who are members of the defined benefit or combined plans with 10 or more years of service credit qualify for healthcare coverage under OPERS. Members hired after January 1, 2003, with no prior service credit vest according to length of service. Members with 10 years of service credit have a 25-percent vested interest. Vested interest increases with service credit until members attain a 100 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 4.5 percent of covered payroll for the period, July 1, 2006 through December 31, 2006, and five percent for the period, January 1, 2007 through June 30, 2007. 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 2007, 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):

	2007
Primary Government:	
Regular Employees	$135,968
Law Enforcement Employees	1,589
Total	$137,557
Major Component Units:	
School Facilities Commission	$ 169
Ohio Water Development Authority	47
Ohio State University	37,523
University of Cincinnati	7,550

The number of active contributing participants for the primary government was 58,976, as of June 30, 2007.

The Health Care Preservation Plan adopted by the OPERS Retirement Board on September 9, 2004, became effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

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.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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, 2007, the State had no significant liability balances relative to existing ERI agreements with state employees covered by OPERS. During fiscal year 2007, the State incurred expenditures/expenses totaling $12.4 million for 263 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 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 2.2 percent for the first 30 years of credited service. Each year over 30 years is incrementally increased by .1 percent, starting at 2.5 percent for the 31st year of contributing service up to a maximum allowance of 100 percent of final average salary. Upon reaching 35 years of Ohio service, the first 31 years of Ohio contributing service are multiplied by 2.5 percent, and each year over 31 years is incrementally increased by .1 percent starting at 2.6 percent for the 32nd year.

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. Benefits are increased annually by three percent of the original base amount.

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.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 2007 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 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):

	2007	2006	2005
Primary Government	$ 7,477	$ 7,162	$ 6,893
Major Component Units:			
Ohio State University	35,523	34,038	33,075
University of Cincinnati ..	14,395	14,188	13,551

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):

	2007	2006	2005
Primary Government:			
Employer Contributions	$ 88	$ 101	$ 129
Employee Contributions	148	166	184
Major Component Units:			
Ohio State University:			
Employer Contributions	2,103	1,438	1,018
Employee Contributions	2,475	1,719	1,283
University of Cincinnati:			
Employer Contributions	769	789	651
Employee Contributions	973	970	770

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, 2007, net assets available for future healthcare benefits were $4.07 billion. Net healthcare costs paid by the primary government and its discretely presented major component units, for the year ended June 30, 2007, were as follows (dollars in thousands):

	2007
Primary Government	$ 575
Major Component Units:	
Ohio State University	2,733
University of Cincinnati	1,107

The number of eligible benefit recipients for STRS as a whole was 161,911, as of June 30, 2007; a breakout of the number of eligible recipients for the primary government and its component units, as of June 30, 2007, is unavailable.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

C. State Highway Patrol Retirement System (SHPRS)

SHPRS, a component unit of the State, was established in 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. In addition to providing pension benefits, SHRPS is authorized by Chapter 5505, Ohio Revised Code, to pay 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.

Chapter 5505, Ohio Revised Code, 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 SHRPS 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 contribution rate.

SHRPS' 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.

Pension Benefits

The employer and employee contribution rates, as of December 31, 2006, were 25.5 percent and ten percent, respectively.

During calendar year 2006, all of the employees' contributions funded pension benefits while 22 percent of the employer's contributions funded pension benefits. The difference in the total employer rates charged and the employer rates applicable to the funding of pension benefits is applied to the funding of postemployment healthcare benefits.

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
2006	$19,242	100%
2005	18,048	100
2004	17,870	100

SHPRS used the entry-age, normal actuarial cost method for the Schedule of Funding Progress for the actuarial valuation, dated December 31, 2006. 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 28 years.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

The Schedule of Funding Progress for Pension Benefits for the last three years is presented in the following table. Amounts reported do not include assets or liabilities for postemployment healthcare benefits.

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)
2006	$807,761	$653,493	$154,268	80.9%	$85,878	176.6%
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

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

Other Postemployment Benefits

The cost of retiree healthcare benefits is recognized as claims are incurred and premiums are paid. The calendar year 2006 expense was $8.9 million. The number of active contributing plan participants, as of December 31, 2006, was 1,592.

Healthcare benefits 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. Premiums are assumed to increase annually by four percent, plus an additional percentage ranging from one to six percent through 2013. Net assets available for benefits allocated to healthcare costs at December 31, 2006 were $104.9 million, and included investments carried at fair value, as previously described.

SHRPS used the entry-age, normal actuarial cost method for the Schedule of Funding Progress for the actuarial valuation, dated December 31, 2006, for Other Postemployment Retirement Benefits. Assumptions used in preparing the Schedule of Funding Progress and in determining the annual required contribution include: a 6.5 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; and price inflation was assumed to be at least four percent a year.

As of December 31, 2006, 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 $189.2 million; the actuarial accrued liability for healthcare benefits at that date was $294.1 million.

Employer contributions are made in accordance with actuarially determined requirements. For calendar year 2006, the employer contribution requirement was approximately $3.1 million or 3.5 percent of active member payroll.

The Schedule of Funding Progress for Other Postemployment Benefits for the last three years is presented below.

SHPRS Schedule of Funding Progress Last Three Calendar Years – OPEB
(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)
2006	$294,079	$104,857	$189,222	35.7%	$85,878	220.3%
2005	281,094	95,889	185,205	34.1	83,408	222.0
2004	256,258	93,666	162,592	36.6	81,758	198.9

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

D. Alternative Retirement Plan (ARP)

Pension Benefits
The ARP is a defined contribution retirement plan that is authorized under Section 3305.02, Ohio Revised Code. The ARP provides at least three or more alternative retirement plans for academic and administrative employees of Ohio's institutions of higher education, who otherwise would be covered by OPERS or STRS. 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 OPERS or STRS 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.

For the year ended June 30, 2007, employers were not required to contribute to the ARP on behalf of employees that would otherwise have been enrolled in OPERS.

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, 2007, to STRS in cases when the employee would have otherwise been enrolled in STRS.

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 OPERS and STRS. 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, 2007, for the ARP follow (dollars in thousands):

	2007	
	OPERS	STRS
Major Component Units:		
Ohio State University:		
Employer Contributions..........	$19,281	$17,926
Employee Contributions.........	13,071	12,804
University of Cincinnati:		
Employer Contributions..........	7,618	5,800
Employee Contributions.........	5,126	5,502

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. Issuances for highway capital improvements, natural resources, and conservation are, in part, used for acquisition, construction, or improvement of capital assets. 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, 2007, the General Assembly had authorized the issuance of $4.15 billion in Common Schools Capital Facilities Bonds, of which $3.29 billion had been issued. As of June 30, 2007, the General Assembly had also authorized the issuance of $2.96 billion in Higher Education Capital Facilities Bonds, of which $2 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, 2007, the General Assembly had authorized the issuance of approximately $2.13 billion in Highway Capital Improvements Bonds, of which $1.81 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, 2007, the General Assembly had authorized $2.52 billion of these bonds to be sold (excluding any amounts for unaccreted discount on capital appreciation bonds at issuance), of which $2.28 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, 2007, 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 $322 million, as of June 30, 2007, of which $295 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, 2007, the General Assembly had authorized the issuance of approximately $200 million in Conservation Projects Bonds of which $200 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, 2007, the General Assembly had authorized the issuance of $200 million in Third Frontier Research and Development Bonds, of which $80.7 million had been issued as of June 30, 2007.

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 $90 million in Site Development Bonds as of June 30, 2007, of which $30 million had been issued.

General obligation bonds outstanding and future general obligation debt service requirements, as of June 30, 2007, are presented in the table on the following page. For the variable-rate bonds, using the assumption that current interest rates remain the same over their term, the interest and net swap payment amounts are based on rates as of June 30, 2007. As rates vary, variable-rate bond interest payments and net swap payments vary.

For the year ended June 30, 2007, 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, 2007
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Common Schools Capital Facilities	2000-07	2.0%-5.5%	2027	$3,004,397	$855,000
Higher Education Capital Facilities	2000-07	2.5%-5.5%	2027	1,738,872	957,000
Highway Capital Improvements	1999-07	2.1%-5.6%	2017	893,596	325,000
Infrastructure Improvements	1990-07	2.3%-7.6%	2026	1,460,058	240,014
Coal Research and Development	2000-04	2.0%-5.0%	2013	30,365	15,000
Natural Resources Capital Facilities	1999-07	2.0%-5.4%	2020	176,485	27,000
Conservation Projects	2002-07	2.0%-5.3%	2023	180,681	—
Third Frontier Research and Development	2007	4.0%-5.5%	2017	71,527	119,280
Site Development	2007	3.4%-5.3%	2016	27,285	60,000
Total General Obligation Bonds				$7,583,266	$2,598,294

Future Funding of Current Interest and Capital Appreciation Bonds:

Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2008	$ 518,590	$303,400	$ 185	$ 822,175
2009	513,320	283,778	125	797,223
2010	506,205	261,524	63	767,792
2011	474,970	239,288	—	714,258
2012	472,085	216,224	—	688,309
2013-2017	1,980,465	785,397	—	2,765,862
2018-2022	1,519,475	372,884	—	1,892,359
2023-2027	694,365	64,574	—	758,939
Total Current Interest and Capital Appreciation Bonds	$6,679,475	$2,527,069	$ 373	$9,206,917

Future Funding of Variable-Rate Bonds:

Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2008	$ 17,015	$ 26,632	$ (914)	$ 42,733
2009	17,235	26,424	(845)	42,814
2010	19,345	25,734	(421)	44,658
2011	21,125	25,011	6	46,142
2012	19,230	24,272	29	43,531
2013-2017	239,075	102,935	243	342,253
2018-2022	266,855	51,676	(546)	317,985
2023-2027	125,555	9,618	(506)	134,667
Total Variable-Rate Bonds	$ 725,435	$ 292,302	$(2,954)	$1,014,783

Total General Obligation Bonds	7,404,910
Unamortized Premium/ (Discount), Net	230,681
Deferred Refunding Loss	(52,325)
Total Carrying Amount	$7,583,266

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Interest Rate Swaps

As of June 30, 2007, approximately $741 million of issued Infrastructure Improvement Bonds and Common Schools Bonds include associated interest-rate swaps. Terms of the swap agreements are provided in the tables below and on page 105. Fair value has been determined using the zero-coupon method.

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 has also been included by swap, when applicable.

Primary Government-Governmental Activities
Interest Rate Swaps—Infrastructure Improvements
As of June 30, 2007
(dollars in thousands)

Issue	Type of Swap	Original Notional Amount	Underlying Index	Counterparty's Swap Rate at 06/30/07	State's Swap Rate at 06/30/07	Effective Date	Termination (Maturity) Date	Fair Value
Infrastructure Improvements, Series 2001B	Floating to fixed knock-out	$63,900	SIFMA Index	3.73%	4.63%	11/29/01	08/01/21	$(1,569)
Credit Quality Ratings of Counterparties:		50% Aaa/AAA Bear Stearns Financial Products; 50% Aa3/AA- Morgan Stanley Capital Services						
Infrastructure Improvements, Refunding Series 2003B	Floating to fixed	$104,315	Actual Bond Rate	3.73%	2.96%	02/26/03	08/01/08	$764
Credit Quality Ratings of Counterparty:		Aa3/AA- Morgan Stanley Capital Services						
Infrastructure Improvements, Refunding Series 2003D	Floating to fixed	$58,085	Actual Bond Rate	3.73%	3.04%	03/20/03	02/01/10	$875
Credit Quality Ratings of Counterparty:		Aa3/AA- Morgan Stanley Capital Services						
Infrastructure Improvements, Series 2003F	Fixed to floating	$30,115	SIFMA Index	2.54%	3.73%	12/04/03	02/01/10	$(264)
Credit Quality Ratings of Counterparty:		Aaa/AA JP Morgan Chase						
Infrastructure Improvements, Refunding Series 2004A	Floating to fixed Enhanced LIBOR	$58,725	LIBOR (see terms below)	3.62%	3.51%	03/03/04	02/01/23	$1,209
Credit Quality Ratings of Counterparty:		Aa3/AA- 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%)								

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

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, 2007. 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 SIFMA 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 SIFMA 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 of $764 thousand at June 30, 2007.

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 of $875 thousand at June 30, 2007.

Infrastructure Improvements-Series 2003F
The State entered into an interest rate swap to convert a portion of the Series 2003F fixed-rate bonds into a synthetic variable rate. The combination of fixed-rate bonds and a fixed-to-floating swap creates synthetic variable-rate debt that is exposed to changing interest rates. The borrowing cost is less than the traditional variable borrowing cost.

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2007. 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 of $1.2 million at June 30, 2007.

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.

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Primary Government-Governmental Activities
Interest Rate Swaps—Common Schools
As of June 30, 2007
(dollars in thousands)

Issue	Type of Swap	Original Notional Amount	Underlying Index	Counterparty's Swap Rate at 06/30/07	State's Swap Rate at 06/30/07	Effective Date	Termination (Maturity) Date	Fair Value
Common Schools, Series 2003D	Fixed to floating	$67,000	SIFMA Index	2.67%	3.73%	12/15/03	09/01/07	$(144)
Credit Quality Ratings of Counterparties: 50% Aaa/AA JP Morgan Chase; 50% Aa3/AA- 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	$3,514
Credit Quality Ratings of Counterparties: 50% Aaa/AA JP Morgan Chase; 50% Aa3/AA- Morgan Stanley Capital Services Terms: 65% of 1-month LIBOR + 25 basis points								
Common Schools, Series 2005A	Floating to Fixed LIBOR	$100,000	LIBOR (see terms below)	3.53%	3.75%	04/01/05	03/15/25	$(8,062)
Credit Quality Ratings of Counterparties: 50% Aaa/AAA Bear Stearns Financial Products; 50% Aaa/AA JP Morgan Chase Terms: 62% of 10-year LIBOR								
Common Schools, Series 2005B	Floating to Fixed LIBOR	$100,000	LIBOR (see terms below)	3.53%	3.75%	04/01/05	03/15/25	$(8,062)
Credit Quality Ratings of Counterparties: 50% Aaa/AAA Bear Stearns Financial Products; 50% Aaa/AA JP Morgan Chase Terms: 62% of 10-year LIBOR								
Common Schools, Series 2006B	Floating to fixed LIBOR	$100,000	LIBOR (see terms below)	3.71%	3.20%	06/15/06	06/15/26	$5,214
Credit Quality Ratings of Counterparties: 50% Aaa/AA+ UBS AG; 50% Aaa/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)	3.71%	3.20%	06/15/06	06/15/26	$5,214
Credit Quality Ratings of Counterparties: 50% Aaa/AA+ UBS AG; 50% Aaa/AA- Royal Bank of Canada Terms: 65% of 1-month LIBOR + 25 basis points								

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 SIFMA 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, 2007. 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 of $3.5 million at June 30, 2007.

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

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 was not exposed to credit risk because the swap had a negative fair value at June 30, 2007. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

The swap exposes the State to basis risk or a mismatch (shortfall) between the floating rate received on the swap and the variable rate paid on the underlying variable-rate bonds. A mismatch (shortfall) would effectively make the fixed rate the State pays on the swap higher. Given that the variable swap receipt is based on a long-dated taxable index (LIBOR), the State assumes the risk of reductions in marginal federal tax rates or elimination of the tax preference for municipal securities and the risk of the LIBOR yield curve being flat or inverted for extended periods of time. Any changes in federal tax rates 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. A flat or inverted LIBOR yield curve would likely result in a shortfall between the variable-rate swap receipt and the payments on the associated variable-rate bonds.

Common Schools-Series 2005B

The State entered into an interest rate swap to convert its Common Schools, Series 2005B variable-rate bonds into a synthetic fixed rate. The combination of the variable-rate bonds and a floating-to-fixed swap creates a low-cost, long-term synthetic fixed-rate debt that protects the State from rising interest rates.

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2007. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

The swap exposes the State to basis risk or a mismatch (shortfall) between the floating rate received on the swap and the variable rate paid on the underlying variable-rate bonds. A mismatch (shortfall) would effectively make the fixed rate the State pays on the swap higher. Given that the variable swap receipt is based on a long-dated taxable index (LIBOR), the State assumes the risk of reductions in marginal federal tax rates or elimination of the tax preference for municipal securities and the risk of the LIBOR yield curve being flat or inverted for extended periods of time. Any changes in federal tax rates 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. A flat or inverted LIBOR yield curve would likely result in a shortfall between the variable-rate swap receipt and the payments on the associated variable-rate bonds.

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 of $5.2 million at June 30, 2007.

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.

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

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 of $5.2 million at June 30, 2007.

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

Proceeds of the refunding (new) bonds are placed in irrevocable trusts to provide for all future debt service payments of the refunded (old) bonds. These refunded 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.

The State has defeased general obligation bonds in prior years and placed the proceeds in irrevocable trusts. As of June 30, 2007, 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, $156.3 million for Common Schools Bonds, and $106 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.

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 purchased approximately $102 million in Series 1998 Taxable Development Assistance Refunding Bonds and delivered cash and/or direct U.S. government obligations to the escrow agent for the redemption of the refunded bonds on October 2, 2006. Since the State has taken delivery of the proceeds from the issuance of the Series 1998 Taxable Development Assistance Refunding Bonds during fiscal year 2007, the refunding bonds are included in the financial statements as of June 30, 2007.

Revitalization Project revenue bonds provide financing to enable the remediation or clean up of contaminated publicly or privately owned lands to allow for their environmentally safe and productive development. The Revitalization Project bonds are also backed with profits derived from the sale of spirituous liquor by the Division of Liquor Control.

Since fiscal year 1998, the Treasurer of State has issued a total of $723 million in State Infrastructure Bank Bonds for various transportation construction projects financed by the Department of Transportation. The State has pledged federal highway receipts and loan repayments received under the State Infrastructure Bank Loan Program as the primary sources of moneys for meeting the principal and interest requirements on the bonds. Issuances for the State Infrastructure Bank are, in part, used for acquisition, construction, or improvement of capital assets.

NOTE 11 REVENUE BONDS AND NOTES (Continued)

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 debt issuance for the William Green Building has been used for acquisition and construction of capital assets. 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, 2007, are presented below.

For the year ended June 30, 2007, NOTE 15 summarizes changes in revenue bonds.

Future bond service requirements for revenue bonds of the primary government, as of June 30, 2007, are presented below.

Primary Government
Revenue Bonds
As of June 30, 2007
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Governmental Activities:				
Treasurer of State:				
Economic Development	1997-06	4.3%-7.7%	2026	$310,057
Revitalization Project	2003-06	3.6%-5.0%	2021	91,428
State Infrastructure Bank	1998-07	2.8%-6.0%	2022	410,425
Total Governmental Activities				811,910
Business-Type Activities:				
Ohio Building Authority	1997-04	2.0%-4.0%	2008	2,664
Bureau of Workers' Compensation	2003	1.6%-4.0%	2014	113,076
Total Business-Type Activities				115,740
Total Revenue Bonds				$927,650

Primary Government
Future Funding Requirements for Revenue Bonds
As of June 30, 2007
(dollars in thousands)

	Governmental Activities			Business-Type Activities			Total		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2008	$ 98,065	$ 40,955	$ 139,020	$ 17,741	$ 5,337	$ 23,078	$115,806	$ 46,292	$ 162,098
2009	91,050	36,504	127,554	16,005	4,606	20,611	107,055	41,110	148,165
2010	77,270	32,140	109,410	15,930	3,867	19,797	93,200	36,007	129,207
2011	61,775	28,088	89,863	15,865	3,109	18,974	77,640	31,197	108,837
2012	49,065	25,214	74,279	15,890	2,326	18,216	64,955	27,540	92,495
2013-2017	232,360	86,578	318,938	31,115	2,294	33,409	263,475	88,872	352,347
2018-2022	136,010	35,118	171,128	—	—	—	136,010	35,118	171,128
2023-2027	46,625	3,983	50,608	—	—	—	46,625	3,983	50,608
	792,220	288,580	1,080,800	112,546	21,539	134,085	904,766	310,119	1,214,885
Net Unamortized Premium/(Discount)	28,293	—	28,293	5,078	—	5,078	33,371	—	33,371
Deferred Refunding Loss	(8,603)	—	(8,603)	(1,884)	—	(1,884)	(10,487)	—	(10,487)
Total	$811,910	$288,580	$1,100,490	$115,740	$21,539	$137,279	$927,650	$310,119	$1,237,769

NOTE 11 REVENUE BONDS AND NOTES (Continued)

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, 2006, approximately $1.48 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, 2006, were as follows (dollars in thousands):

Year Ending December 31,	Principal	Interest	Total
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	89,895	55,640	145,535
2012-2016	359,865	220,676	580,541
2017-2021	426,845	99,496	526,341
2022-2026	255,235	25,089	280,324
	1,421,700	661,451	2,083,151
Net Unamortized Premium/(Discount)	94,965	—	94,965
Deferred Refunding Loss	(34,085)	—	(34,085)
Total	$1,482,580	$661,451	$2,144,031

Of the outstanding revenue bonds and notes reported for the OWDA component unit fund, approximately $94.4 million in bonds had adjustable interest rates that are reset weekly at rates determined by the remarketing agency. As of December 31, 2006, the rate for the variable-rate bonds was approximately 3.8 percent.

Major Component Units
Future Funding Requirements for Revenue Bonds
As of June 30, 2007
(dollars in thousands)

	Ohio Water Development Authority (12/31/06)			Ohio State University			University of Cincinnati		
Year Ending December 31 or June 30,	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	$ 125,170	$ 112,525	$ 237,695						
2008	177,210	112,506	289,716	$ 512,837	$ 42,821	$ 555,658	$130,725	$ 39,863	$ 170,588
2009	164,470	102,158	266,628	32,715	26,510	59,225	30,170	35,016	65,186
2010	139,465	94,425	233,890	33,959	25,206	59,165	30,920	33,768	64,688
2011	143,970	87,750	231,720	44,689	23,785	68,474	34,660	32,414	67,074
2012	—	—	—	36,753	22,182	58,935	36,495	30,951	67,446
2012-2016	717,295	344,582	1,061,877	—	—	—	—	—	—
2013-2017	—	—	—	149,317	82,508	231,825	201,975	129,601	331,576
2017-2021	646,175	166,959	813,134	—	—	—	—	—	—
2018-2022	—	—	—	125,517	51,947	177,464	199,370	81,045	280,415
2022-2026	376,550	48,019	424,569	—	—	—	—	—	—
2023-2027	—	—	—	82,169	25,121	107,290	150,395	39,715	190,110
2027-2031	30,750	5,927	36,677	—	—	—	—	—	—
2028-2032	—	—	—	54,849	8,767	63,616	89,135	9,477	98,612
2032-2036	4,845	274	5,119	—	—	—	—	—	—
2033-2037	—	—	—	15,677	452	16,129	—	—	—
	2,525,900	1,075,125	3,601,025	1,088,482	309,299	1,397,781	903,845	431,850	1,335,695
Net Unamortized Premium/(Discount)	101,201	—	101,201	—	—	—	4,444	—	4,444
Deferred Refunding Loss	(60,151)	—	(60,151)	—	—	—	—	—	—
Total	$2,566,950	$1,075,125	$3,642,075	$1,088,482	$309,299	$1,397,781	$908,289	$431,850	$1,340,139

NOTE 11 REVENUE BONDS AND NOTES (Continued)

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, 2007, are presented in the table at the bottom of the previous page.

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. These issuances are, in part, used for acquisition, construction, or improvement of capital assets.

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. These issuances are, in part, used for acquisition, construction, or improvement of capital assets.

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

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

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

Special obligation bonds outstanding and bonds authorized but unissued, as of June 30, 2007, are presented in the following table.

Primary Government-Governmental Activities
Special Obligation Bonds
As of June 30, 2007
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Ohio Building Authority	1993-07	2.0%-6.1%	2025	$1,766,870	$278,600
Treasurer of State:					
Chapter 154 Bonds	1993-07	2.5%-5.5%	2020	1,177,255	202,225
Elementary and Secondary Education	1998-99	4.0%-5.0%	2008	21,980	—
Total Special Obligation Bonds				$2,966,105	$480,825

NOTE 12 SPECIAL OBLIGATION BONDS (Continued)

Future special obligation debt service requirements, as of June 30, 2007, were as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2008	$454,854	$134,946	$589,800
2009	347,230	114,866	462,096
2010	336,525	97,717	434,242
2011	308,165	81,436	389,601
2012	280,625	67,073	347,698
2013-2017	807,045	188,932	995,977
2018-2022	316,030	51,609	367,639
2023-2027	62,160	5,338	67,498
	2,912,634	741,917	3,654,551
Net Unamortized Premium/ (Discount)	118,264	—	118,264
Deferred Refunding Loss	(64,793)	—	(64,793)
Total	$2,966,105	$741,917	$3,708,022

For the year ended June 30, 2007, NOTE 15 summarizes changes in special obligation bonds.

During fiscal year 2007, the OBA and Treasurer of State defeased a number of special obligation bond issues *in substance* when the net proceeds of refunding bonds (after payment of underwriting fees and bond issue costs) were deposited with escrow agents to provide for all future principal and interest payments on the old bonds. A resulting economic gain/(loss) from an advance refunding represents the difference between the present values of the debt service payments on the old and new debt.

Details on the advanced refundings for fiscal year 2007 are presented in the table below.

In prior years, the OBA and the Treasurer of State defeased certain bond issues by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the various trust accounts' assets and liabilities for the defeased bonds are not included in the State's financial statements. As of June 30, 2007, 364.3 million and 315.4 million of OBA and Chapter 154 special obligations bonds, respectively, are considered defeased and no longer outstanding.

Primary Government — Governmental Activities
Special Obligation Bonds
Details of Advance Refundings
For the Year Ended June 30, 2007
(dollars in thousands)

Refunding Bond Issue	Date of Refunding	Amount of Refunding Bonds Issued	True Interest Cost Rates of Refunding Bonds	Carrying Amount of Bonds Refunded (in substance)	Refunding Bond Proceeds Placed in Escrow	Reduction in Debt Service Payments	Economic Gain Resulting from Refunding
Ohio Building Authority:							
State Facilities (Administrative Building), Series 2006B	10/3/2006	$70,335	3.93%	$73,140	$76,095	$3,876/13 yrs	$3,036
State Facilities (Juvenile Correctional Building), Series 2007B	5/2/2007	16,410	3.94%	17,039	17,565	653 / 9 yrs	563
Treasurer of State Chapter 154:							
Mental Health Facilities, Series II - 2006B	12/14/2006	26,775	4.75%	26,630	28,482	1,793 / 11 yrs	1,115
Culture State Facilities, Series II - 2006B	12/14/2006	28,295	4.83%	28,060	30,036	1,620 / 10 yrs	1,080
Parks and Recreation Facilities, Series II 2006A	12/14/2006	15,410	4.32%	14,760	15,968	924 / 11 yrs	656
Total		$157,225		$159,629	$168,146		$6,450

NOTE 13 CERTIFICATES OF PARTICIPATION

A. Primary Government

As of June 30, 2007, approximately $122.2 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. In fiscal years 2005 and 2007, the Ohio Department of Administrative Services participated in the issuance of $79.2 million and $31.9 million, respectively, of COP obligations to finance the acquisition of the Ohio Administrative Knowledge System (OAKS), a statewide Enterprise Resource Planning (ERP) system. These issuances are, in part, used for acquisition, construction, or improvement of capital assets.

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, 2007, are presented in the following table.

Primary Government — Governmental Activities
Certificate of Participation Obligations
As of June 30, 2007
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Department of Transportation:				
Panhandle Rail Line Project	1992	6.5%	2012	$ 3,730
Department of Administrative Services:				
Ohio Administrative Knowledge System (OAKS)	2005-2007	3.5%-5.25%	2017	118,452
Total Certificates of Participation				$122,182

As of June 30, 2007, the primary government's future commitments under the COP financing arrangements were as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2008	$ 9,320	$ 5,852	$ 15,172
2009	9,810	5,108	14,918
2010	10,290	4,623	14,913
2011	10,815	4,105	14,920
2012	12,135	3,549	15,684
2013-2017	62,405	8,367	70,772
	114,775	31,604	146,379
Net Unamortized Premium	7,407	—	7,407
Total	$122,182	$31,604	$153,786

For the year ended June 30, 2007, NOTE 15 summarizes changes in COP obligations.

NOTE 13 CERTIFICATES OF PARTICIPATION (Continued)

B. Component Units

For the State's component units, approximately $27.1 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, 2007, future commitments under the COP financing arrangements for the State's component units are detailed in the table below and on the following page.

Component Units
Future Funding Requirements for Certificate of Participation Obligations
As of June 30, 2007
(dollars in thousands)

	Ohio State University			University of Cincinnati		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total
2008	$ 390	$ 260	$ 650	$90	$5	$95
2009	405	242	647	—	—	—
2010	425	222	647	—	—	—
2011	445	202	647	—	—	—
2012	—	—	—	—	—	—
2013-2017	2,581	646	3,227	—	—	—
2018-2022	1,219	62	1,281	—	—	—
2023-2027	—	—	—	—	—	—
2028-2032	—	—	—	—	—	—
2033-2037	—	—	—	—	—	—
Total	$5,465	$1,634	$7,099	$90	$5	$95

	University of Akron			Total Component Units		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total
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	390	1,335	1,725	390	1,335	1,725
2013-2017	2,405	6,220	8,625	4,986	6,866	11,852
2018-2022	3,390	5,235	8,625	4,609	5,297	9,906
2023-2027	4,620	4,005	8,625	4,620	4,005	8,625
2028-2032	6,325	2,300	8,625	6,325	2,300	8,625
2033-2037	3,140	310	3,450	3,140	310	3,450
Total	$21,585	$24,990	$46,575	$27,140	$26,629	$53,769

NOTE 14 OTHER NONCURRENT LIABILITIES

As of June 30, 2007, 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	$ 450,288
Capital Leases Payable	18,737
Litigation Liabilities	4,698
Estimated Claims Payable	8,776
Liability for Escheat Property	307,245
Total Governmental Activities	789,744
Business-Type Activities:	
Compensated Absences	40,439
Capital Leases Payable	22
Workers' Compensation:	
Benefits Payable	17,412,665
Other	1,968,524
Deferred Prize Awards Payable	680,984
Tuition Benefits Payable	871,000
Workers Compensation Claims-Auditor of State's Office	120
Total Business-Type Activities	20,973,754
Total Primary Government	$21,763,498

For the year ended June 30, 2007, 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, 2007, was $490.7 million, of which $450.3 million is allocable to governmental activities and $40.4 million is allocable to business-type activities.

As of June 30, 2007, discretely presented major component units reported a total of $156.8 million in compensated absences liabilities, as detailed by major component unit in NOTE 15.

B. Lease Agreements

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

Assets acquired through capital leasing are valued at the lower of fair value or the present value of the future minimum lease payments at the lease's inception. Capital leases are used for the acquisition of capital assets.

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 2007 were approximately $88.5 million.

Future minimum lease commitments for operating leases and capital leases judged to be noncancelable, as of June 30, 2007, were as follows (dollars in thousands):

Primary Government

Year Ending June 30,	Operating Leases
2008	$4,432
2009	843
2010	116
2011	23
2012	4
Total minimum lease payments	$5,418

	Capital Leases		
Year Ending June 30,	Governmental Activities	Business-Type Activities	Total
2008	$10,582	$11	$10,593
2009	1,928	9	1,937
2010	1,511	3	1,514
2011	1,374	—	1,374
2012	1,290	—	1,290
2013-2017	3,534	—	3,534
Total Minimum Lease Payments	20,219	23	20,242
Amount for interest	(1,482)	(1)	(1,483)
Present Value of Net Minimum Lease Payments	$18,737	$22	$18,759

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

As of June 30, 2007, the primary government had the following capital assets under capital leases (dollars in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Equipment	$33,556	$21	$33,577
Vehicles........	419	—	419
Total	$33,975	$21	$33,996

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, 2007, are presented in the table below.

Major Component Units

	Capital Leases	
Year Ending June 30,	Ohio State University	University of Cincinnati
2008	$ 6,307	$ 13,724
2009	6,699	15,284
2010	5,268	15,159
2011	3,273	14,140
2012	2,296	13,711
2013-2017	2,432	62,973
2018-2022	—	55,026
2023-2027	—	42,283
2028-2032	—	20,524
2033-2037	—	3,481
Total Minimum Lease Payments...	26,275	256,305
Amount for interest	(2,131)	(96,790)
Present Value of Net Minimum Lease Payments...	$24,144	$159,515
Equipment & Vehicles	$63,363	$ —
Buildings................	—	181,119
Total	$63,363	$181,119

C. Litigation Liabilities
In instances when the unfavorable outcome of pending litigation has been assessed to be probable, liabilities are recorded in the financial statements. As of June 30, 2007, $4.7 million in liabilities ultimately payable from various governmental funds has been recorded for this purpose. For information on the State's loss contingencies arising from pending litigations, see NOTE 19.

D. Estimated Claims Payable
For governmental activities, the State recognized $5.8 million in estimated claims liabilities, as of June 30, 2007, 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 $2.9 million in estimated claims for defaulted loans under the Ohio Enterprise Bond Program at the Ohio Department of Development, as of June 30, 2007. The program is included in governmental activities and is accounted for in the Community and Economic Development Special Revenue Fund.

E. 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, 2007, this liability totaled approximately $307.2 million.

F. Worker's Compensation

Benefits Payable
As discussed in NOTE 20, 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, 2007, in the amount of approximately $17.41 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.

G. 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 4.5 to nine percent,

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

represent the expected long-term rate of return on the assets restricted for the payment of deferred prize awards. Once established for a particular deferred prize award, the interest rate does not fluctuate with changes in the expected long-term rate of return. The difference between the present value and gross amount of the obligations is amortized into income over the terms of the obligations using the interest method. As of June 30, 2007, this payable totals $681 million.

Future payments of prize awards, stated at present value, as of June 30, 2007, follow (dollars in thousands):

Year Ending June 30,	
2008	$ 101,955
2009	86,569
2010	69,540
2011	66,820
2012	66,743
2013-2017	324,637
2018-2022	186,820
2023-2027	47,599
2028-2032	12,157
2033-2036	1,283
	964,123
Unamortized Discount	(283,139)
Net Prize Liability	$ 680,984

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

H. Tuition Benefits Payable

The actuarial present value of future tuition benefits payable from the Tuition Trust Authority Enterprise Fund was approximately $871 million, as of June 30, 2007. 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 one percent for 2008, six percent for 2009 and 2010, and ten percent thereafter, as well as 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, 2006	$(231.8)
Adjustment to Beginning of Year's Assets	(0.1)
Interest on the Deficit at 7 Percent	(16.2)
Investment Gain	59.1
Lower-Than-Assumed Tuition Increase	85.6
Change in Assumption for Future Tuition Growth	127.0
Interest Gain on Late Tuition Payouts	0.8
Other	4.1
Actuarial Surplus, as of June 30, 2007	$ 28.5

As of June 30, 2007, the market value of actuarial net assets available for payment of the tuition benefits payable was $899.5 million.

I. Other Liabilities

The Workers' Compensation Enterprise Fund reports approximately $1.97 billion in other noncurrent liabilities, as of June 30, 2007, of which 1.) $1.86 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 20, 2.) $87.8 million represents premium payment security deposits collected in advance from private employers to reduce credit risk for premiums collected in subsequent periods, and 3.) $22.2 million consists of other miscellaneous liabilities.

Additionally, the Office of the Auditor of State Enterprise Fund reports $120 thousand 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, 2007 (See NOTE 7).

NOTE 15 CHANGES IN NONCURRENT LIABILITIES

A. Primary Government

Changes in noncurrent liabilities, for the year ended June 30, 2007, are presented for the primary government in the following table.

Primary Government
Changes in Noncurrent Liabilities
For the Fiscal Year Ended June 30, 2007
(dollars in thousands)

Governmental Activities:	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007	Amount Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds (NOTE 10)	$ 6,893,521	$1,223,291	$ 533,546	$ 7,583,266	$ 536,546
Revenue Bonds (NOTE 11)	720,675	304,976	213,741	811,910	98,990
Special Obligation Bonds (NOTE 12)	3,317,492	304,507	655,894	2,966,105	459,656
Total Bonds and Notes Payable	10,931,688	1,832,774	1,403,181	11,361,281	1,095,192
Certificates of Participation (NOTE 13)	90,389	33,621	1,828	122,182	9,372
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	420,673	397,317	367,702	450,288	52,518
Capital Leases Payable	3,366	18,942	3,571	18,737	10,441
Litigation Liabilities	—	4,698	—	4,698	—
Estimated Claims Payable	8,398	1,835	1,457	8,776	2,000
Liability for Escheat Property	255,800	120,076	68,631	307,245	105,858
Total Other Noncurrent Liabilities	688,237	542,868	441,361	789,744	170,817
Total Noncurrent Liabilities	$11,710,314	$2,409,263	$1,846,370	$12,273,207	$1,275,381

Business-Type Activities:	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007	Amount Due Within One Year
Bonds and Notes Payable:					
Revenue Bonds (NOTE 11)	$ 135,215	$ 863	$ 20,338	$ 115,740	$ 17,719
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	34,454	36,361	30,376	40,439	3,497
Capital Leases Payable	12	21	11	22	11
Workers' Compensation:					
Unearned Revenue	372,847	47,671	420,518	—	—
Benefits Payable	17,250,678	1,255,813	1,093,826	17,412,665	1,868,461
Other:					
Adjustment Expenses Liability	1,676,498	1,411,205	1,229,174	1,858,529	481,510
Premium Payment Security Deposits	87,693	3,372	3,257	87,808	—
Miscellaneous	68,454	21,918	68,185	22,187	16,413
Deferred Prize Awards Payable	723,531	143,667	186,214	680,984	62,035
Tuition Benefits Payable	1,095,900	—	224,900	871,000	82,500
Workers' Compensation Claims-Auditor of State's Office	7,490	316	7,686	120	120
Total Other Noncurrent Liabilities	21,317,557	2,920,344	3,264,147	20,973,754	2,514,547
Total Noncurrent Liabilities	$21,452,772	$2,921,207	$3,284,485	$21,089,494	$2,532,266

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 2007, 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	$145,476
Higher Education Support	129,425
Environmental Protection and Natural Resources	902
Transportation	4
Community and Economic Development	124,472
Total Interest Expense Charged to Governmental Functions	$400,279

B. Component Units

Changes in noncurrent liabilities, for the year ended June 30, 2007 (December 31, 2006 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, 2007
(dollars in thousands)

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Amount Due Within One Year
School Facilities Commission:					
Intergovernmental Payable	$2,146,013	$ 789,727	$ 825,421	$2,110,319	$1,063,903
Compensated Absences*	684	546	491	739	93
Total	$2,146,697	$ 790,273	$ 825,912	$2,111,058	$1,063,996
Ohio Water Development Authority:					
Revenue Bonds & Notes Payable (NOTE 11)	$2,623,417	$ 156,398	$ 212,865	$2,566,950	$ 124,719
Compensated Absences*	168	—	7	161	—
Total	$2,623,585	$ 156,398	$ 212,872	$2,567,111	$ 124,719
Ohio State University:					
Unearned Revenue	$ 138,904	$2,338,863	$2,477,767	$ —	$ —
Compensated Absences*	85,054	13,253	6,829	91,478	6,829
Capital Leases Payable*	15,107	16,165	7,128	24,144	5,598
Other Liabilities*	119,537	10,463	23,143	106,857	5,076
Revenue Bonds & Notes Payable (NOTE 11)	1,085,295	77,987	74,800	1,088,482	512,837
Certificates of Participation (NOTE 13)	5,825	—	360	5,465	390
Total	$1,449,722	$2,456,731	$2,590,027	$1,316,426	$ 530,730
University of Cincinnati:					
Compensated Absences*	$ 66,291	$ 1,210	$3,093	$64,408	$ 34,241
Capital Leases Payable*	122,140	42,700	5,325	159,515	5,790
Other Liabilities*	42,358	84,530	80,690	46,198	3,020
Revenue Bonds & Notes Payable (NOTE 11)	842,531	221,984	156,226	908,289	131,560
Certificates of Participation (NOTE 13)	180	—	90	90	90
Total	$1,073,500	$ 350,424	$ 245,424	$1,178,500	$ 174,701

*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, 2007 (December 31, 2006 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	$ 171,540
Hospital Facilities Bonds	7,355
Ohio Department of Transportation:	
Akron-Canton Airport Project Bonds	6,585
Total Primary Government	$ 185,480
Component Units (12/31/06):	
Ohio Water Development Authority	$2,208,505
Ohio Air Quality Development Authority	1,300,000
Total Component Units	$3,508,505

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, 2007 (dollars in thousands):

Primary Government:	
Nonmajor Governmental Funds:	
Mental Health and Retardation Special Revenue Fund	$ (13,505)
Coal Research/Development General Obligations-Debt Service Fund	(20)
Total Governmental Funds:	$ (13,525)
Component Units:	
School Facilities Commission Fund	$(1,590,233)

B. "Other" Fund Balance Reserves and Designations

Details on the "Reserved for Other" account reported for the governmental funds, as of June 30, 2007, are presented in the table below.

The unreserved fund balance for the General Fund, as of June, 30, 2007, has been designated for budget stabilization in the amount of $1.01 billion.

Primary Government
Governmental Funds — Reserved for Other
As of June 30, 2007
(dollars in thousands)

	General Fund	Job, Family and Other Human Services	Education	Highway Operating	Nonmajor Governmental Funds	Total Governmental Funds
Compensated Absences	$27,076	$ 3,517	$358	$4,903	$ 9,328	$ 45,182
Prepaids (included in "Other Assets")	8,167	1,001	93	1,543	2,985	13,789
Advances to Local Governments	25,164	17,744	—	—	—	42,908
Ohio Enterprise Bond Program	—	—	—	—	10,000	10,000
Loan Guarantee Programs	1	—	—	—	11,977	11,978
Assets in Excess of Debt Service Requirements	—	—	—	—	3	3
Environmental Protection and Natural Resources	—	—	—	—	911	911
Community and Economic Development	—	—	—	—	2,084	2,084
Total Reserved for Other	$60,408	$22,262	$451	$6,446	$37,288	$126,855

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 $440 thousand for the year ended December 31, 2006) 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, 2006 (the GLPF's year-end), are presented below (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, 2006, was as follows (dollars in thousands):

Cash and Investments	$135,336
Other Assets	297
Total Assets	$135,633
Total Liabilities	$ 3,429
Total Net Assets	132,204
Total Liabilities and Net Assets	$135,633
Total Revenues and Other Additions	$ 18,354
Total Expenditures	(6,509)
Net Increase in Net Assets	$ 11,845

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 2007 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	$ 59,181	$ 6,443	$ 65,624
Jefferson	4,237	50	4,287
Lakeland	17,010	524	17,534
Lorain County	26,698	668	27,366
Rio Grande	5,223	—	5,223
Sinclair	48,228	912	49,140
Total Local Community Colleges	160,577	8,597	169,174
Technical Colleges:			
Belmont	5,534	504	6,038
Central Ohio	7,709	30	7,739
Hocking	16,325	1,701	18,026
James A. Rhodes	7,896	9	7,905
Marion	5,175	126	5,301
Zane	4,818	991	5,809
North Central	7,827	62	7,889
Stark	17,064	1,767	18,831
Total Technical Colleges	72,348	5,190	77,538
Total	$232,925	$13,787	$246,712

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 2007, the State had the following related-party transactions with its related organizations:

- The General Fund reports a $212 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 $2.5 million from the Revenue Distribution Fund for the Commission's share of the State's motor vehicle fuel excise tax allocation.

- Separate funds, established for the 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 $8.4 million in compensation for administrative services performed under contract for the distribution of state funding to nonprofit legal aid societies and $1 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. Pending litigation affecting the Department of Education and the Bureau of Workers' Compensation is discussed below.

Department of Education (ODE)

Litigation pending in the Hamilton County Court of Appeals contests that the Ohio Department of Education improperly and retroactively recalculated the number of district residents attending community schools during fiscal year 2005. Plaintiff Cincinnati City School District Board of Education claims this resulted in significant reductions in state funding in fiscal years 2006 and 2007. Those claims are based on statutory theories. The trial court entered summary judgment in favor of Plaintiff on November 22, 2006, and a final judgment on January 5, 2007, in an amount of $4.7 million. A liability for $4.7 million has been included as "Other Noncurrent Liabilities-Due in More Than One Year" account for governmental activities in the government-wide Statement of Net Assets. In briefing in the case, ODE estimated additional potential exposure of an amount between $34.3 million and $50.4 million, plus interest, based on the calculation at issue for fiscal years 2005, 2006, and 2007. Also, included are claims that similarly affected school districts could recover if all those districts were to successfully pursue litigation. No liability has been reported in the financial statements for this additional potential exposure.

Bureau of Workers' Compensation (BWC)

Litigation is currently pending before the Ohio Supreme Court relating to premium dividend credits that were denied to previously active participants in the BWC's retrospective rating plan (RRP) and then changed to other plans. This action was filed on behalf of all employers that paid premiums under a RRP during any year from 1995 through 2002, and any subsequent year in which premium dividend credits were granted. After three of the plaintiffs became self-insured, they continued to pay dollar-for-dollar claims costs under their continuing RRP obligations, but did not pay premiums. The premium credit was also denied to a fourth plaintiff that left the RRP and went to a group-rated state plan. This plaintiff received credits for paid premiums during the years it was group-rated, but did not receive credit for paid claims costs. The trial court denied class certification in this case. In February 2007, the 10th District Court of Appeals affirmed the trial court's ruling for BWC. The plaintiffs have filed an appeal.

In another case, a constitutional challenge to the 2003 workers' compensation subrogation statute is pending before the Ohio Supreme Court. The 4th District Court of Appeals has found the statute to be constitutional.

A class action case has been filed alleging that the Bureau of Workers' Compensation /Industrial Commission (BWC/IC) identifies permanent total disability (PTD) recipients not represented by counsel and encourages them to settle their PTD claims for substantially less than their actuarial present value. The plaintiffs contend that BWC refused to conduct good-faith settlement negotiations with PTD recipients represented by counsel. The trial court denied BWC's motion to dismiss and/or change of venue, and granted class certification. The 8th District Court of Appeals has issued a ruling affirming the trial court's rulings. BWC has appealed to the Ohio Supreme Court.

Additionally, BWC/IC is involved in litigation challenging policies related to lump sum advancements made to PTD recipients. This action alleges that BWC/IC has improperly recouped monies from PTD recipients by continuing to deduct monies from the plaintiff's benefits in an amount greater than the advance plus interest.

The ultimate outcome of the litigation related to BWC discussed to this point can not be presently determined. Accordingly, no provision for any liability has been reported in the financial statements. Management is vigorously defending the cases outlined above.

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

NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

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 2006 State of Ohio Single Audit (issued in July 2007), $36 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, 2007.

C. Tax Refund Claims

As of June 30, 2007, corporate franchise tax refund claims estimated in the amount of $11 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, 2007, 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	$10,320
Brownfield Revolving Loans	3,062
	13,382
Local Infrastructure and Transportation Improvements	
Ohio Public Works Commission:	
State Capital Improvements Loans	25,449
Revolving Loans	28,174
	53,623
Total Nonmajor Governmental Funds	$67,005

As of December 31, 2006, loan commitments for the Ohio Water Development Authority, a discretely presented major component unit, were as follows (dollars in thousands):

Water Pollution Control Loan	$641,402
Drinking Water Assistance	88,550
Fresh Water	65,102
Other Projects	14,801
Community Assistance	14,912
Rural Utility Services	8,525
Pure Water Refunding	253
Total	$833,545

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, 2007, the Ohio Department of Transportation had total contractual commitments of approximately $2.14 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 $1.05 billion, $411.4 million, $610.7 million, and $72.7 million, respectively.

As of June 30, 2007, 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	$ 18,445
Parks and Recreation Improvements	9,295
Administrative Services Building Improvements	19,169
Youth Services Building Improvements	7,759
Adult Correctional Building Improvements	25,506
Highway Safety Building Improvements	492
Ohio Parks and Natural Resources	11,352
Total	$ 92,018

Major Component Units	
Ohio State University	$255,620
University of Cincinnati	299,883

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.

During fiscal year 2007, Ohio received $308.5 million, which is approximately $44.3 million or 12.6 percent less than the pre-adjusted base payment for the year. For the last eight 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 $2.71 billion, which is approximately $334.4 million or 11 percent less than the total of the pre-adjusted base payments.

As of June 30, 2007, the estimated tobacco settlement receivable in the amount of $253.3 million is included in "Other Receivables" reported for the governmental funds. The receivable includes $77.6 million for payments withheld from the State in fiscal years 2006 and 2007 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.

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
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............	359,829	23,950	383,779
2013-2017 ..	1,799,146	119,750	1,918,896
2018-2022 ..	2,016,011	—	2,016,011
2023-2025 ..	1,209,607	—	1,209,607
Total............	$6,823,909	$239,500	$7,063,409

As of October 23, 2007, the State transferred future rights to the Master Settlement Agreement revenue to the Buckeye Tobacco Settlement Financing Authority. (See NOTE 21).

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, 2007, in the amount of approximately $17.41 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 $1.87 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, nonincremental adjustment expense, 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 five 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 billion, as of June 30, 2007, and $37.7 billion, as of June 30, 2006. For additional information, refer to the Fund's separate audited financial report, for the fiscal year ended June 30, 2007.

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 2007	Fiscal Year 2006
Benefits Payable and Compensation Adjustment Expenses Liability, as of July 1	$18,927	$19,299
Incurred Compensation and Compensation Adjustment Benefits	2,667	1,934
Incurred Compensation and Compensation Adjustment Benefit Payments and Other Adjustments	(2,323)	(2,306)
Benefits Payable and Compensation Adjustment Expenses Liability, as of June 30	$19,271	$18,927

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.

All 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, United Healthcare, or Aetna 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, 2007, approximately $142.7 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 2007	Fiscal Year 2006
Claims Liabilities, as of July 1	$ 35,662	$ 41,492
Incurred Claims	205,041	212,466
Claims Payments	(207,538)	(218,296)
Claims Liabilities, as of June 30 .	$ 33,165	$ 35,662

As of June 30, 2007, the resources on deposit in the Agency Fund for the Ohio Med Health Plan exceeded the estimated claims liability by approximately $109.5 million, thereby resulting in a funding surplus. Eighty-five percent or $93.1 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, 2007, 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 2007	Fiscal Year 2006
Claims Liabilities, as of July 1	$ 7,685	$ 6,969
Incurred Claims	69,556	54,088
Claims Payments	(68,231)	(53,372)
Claims Liabilities, as of June 30 .	$ 9,010	$ 7,685

As of June 30, 2007, the estimated claims liability exceeded resources on deposit in the Agency Fund for the United Healthcare Plan by approximately $16.6 million, thereby resulting in a funding deficit. Eighty-five percent or $14.1 million of the deficit, representing the employer share, was reallocated back to the governmental and proprietary funds, with a resulting increase to expenditures/expenses.

As of June 30, 2007, approximately $32.1 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 2007	Fiscal Year 2006
Claims Liabilities, as of July 1	$ 8,194	$ —
Incurred Claims	66,294	49,806
Claims Payments	(64,918)	(41,612)
Claims Liabilities, as of June 30 .	$ 9,570	$ 8,194

As of June 30, 2007, the resources on deposit in the Agency Fund for the Aetna Plan exceeded the estimated claims liability by approximately $22.5 million, thereby resulting in a funding surplus. Eighty-five percent or $19.1 million of the surplus, representing the employer share, was reallocated back to the governmental and proprietary funds, with a resulting reduction in expenditures/expenses.

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, 2007 (December 31, 2006, for the Ohio Water Development Authority), the State issued major debt as detailed in the table below.

Debt Issuances
Subsequent to June 30, 2007
(dollars in thousands)

	Date Issued	Net Interest Rate or True Interest Cost	Amount
Primary Government:			
Ohio Public Facilities Commission-General Obligation Bonds:			
Infrastructure Improvements, Series 2007A	09/05/07	4.42%	$ 120,000
Coal Development, Series I	09/05/07	3.93%	8,000
Total General Obligation Bonds			128,000
Treasurer of State-Revenue Bonds:			
State Infrastructure Bank, Series 2007-1	11/07/07	3.88%	210,000
Total Revenue Bonds			210,000
Treasurer of State-Special Obligation Bonds:			
Parks and Recreation Facilities, Series II-2007A	11/01/07	3.86%	30,000
Ohio Building Authority-Special Obligation Bonds			
State Facilities (Administrative Building), Series 2008A	2/27/08	4.45%	25,000
State Facilities (Adult Correctional Facility), Series 2008A	2/27/08	4.46%	25,000
Total Special Obligation Bonds			80,000
Buckeye Tobacco Settlement Financing Authority-Asset-Backed Bonds:			
Tobacco Settlement-Asset-Backed, Series 2007-1	10/23/07	5.29%	5,531,595
Total Asset-Backed Bonds			5,531,595
Ohio Department of Administrative Services Certificates of Participation:			
Ohio Administrative Knowledge System, Series 2008A	3/5/08/08	3.88%	35,025
Total Certificates of Participation			35,025
Total Primary Government			$5,984,620
Major Component Units:			
Ohio Water Development Authority Debt:			
2007 Community Assistance-Auction Rate Securities	7/26/07	Variable	$ 24,550
2007 Fresh Water Commercial Paper (Maturity Dates: $12.5 million on 1/9/08 & $12.5 million on 1/10/08)	10/17/07	3.52%	25,000
2008 Fresh Water Commercial Paper Series A (Maturity Date: 3/12/08)	1/9/08	2.70%	12,500
2008 Fresh Water Commercial Paper Series A (Maturity Date: 3/12/08)	1/10/08	2.70%	12,500
2008 Fresh Water Commercial Paper Series B (Expected Maturity Date: July or August 2008)	3/12/08	3.0% - 3.5%	40,000
Total Commercial Paper			90,000
Total Ohio Water Development Authority			$ 114,550
University of Cincinnati Bonds:			
Bond Anticipation Notes, Series 2007E	7/2/07	3.75%	$ 40,468
Bond Anticipation Notes, Series 2007F (Retired 12/21/07)	9/12/07	3.73%	32,810
Bond Anticipation Notes, Series 2008A	1/14/08	2.73%	30,000
Total Bond Anticipation Notes			103,278
Bonds, Series 2007G	12/11/07	3.75% - 5.00%	89,170
Total University of Cincinnati			$ 192,448

NOTE 21 SUBSEQUENT EVENTS (Continued)

B. Bureau of Workers' Compensation
Litigation between the Hospital Association and BWC was decided in March 2007. Although the court did not award any monetary damages, it determined BWC improperly reduced reimbursement payments to hospitals and BWC will be required to increase its future hospital reimbursements, beginning in the second half of fiscal year 2008. BWC is projecting an increase of $80 million for hospital reimbursements reported for the quarter ending June 2008.

C. Department of Youth Services
The S. H. v. Strickrath (S. D. Ohio, 2008) case, involving the Department of Youth Services (DYS), was settled in April 2008. As a result of the settlement, DYS will implement remedial measures for mental health care, education, and other programs. The settlement also requires structural changes to DYS facilities to address the other issues raised by the litigation. In order to implement these remedial measures, it is projected that DYS will be required to expend an amount between $20 million and $30 million, along with additional attorneys' fees and costs, beginning July 2008.

D. Buckeye Tobacco Settlement Financing Authority
House Bill 119, effective June 30, 2007, created the Buckeye Tobacco Settlement Financing Authority ("Authority") for the sole purpose of purchasing and receiving any assignment of tobacco settlement receipts pursuant to the Tobacco Master Settlement Agreement and issuing obligations to provide financing of essential State functions and facilities. The Authority reported no financial activity prior to entering into a *Purchase and Sale Agreement,* dated October 1, 2007, between the State and the Authority, wherein the State agreed to sell its interest in the tobacco settlement receipts (2007 Sold Tobacco Receipts) to the Authority. On October 23, 2007, the Authority issued asset-backed bonds of $5.5 billion, primarily to finance the Authority's purchase of the 2007 Sold Tobacco Receipts from the State.