

Ohio Office of Budget
and Management

State of Ohio
Bob Taft
Governor



OHIO

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

FOR THE FISCAL YEAR
ENDED JUNE 30, 2003

BASIC FINANCIAL STATEMENTS

STATE OF OHIO
STATEMENT OF NET ASSETS
JUNE 30, 2003
(dollars in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS:				
Cash Equity with Treasurer.....	\$ 4,167,693	\$ 49,504	\$ 4,217,197	\$ 331,171
Cash and Cash Equivalents.....	76,797	2,095,257	2,172,054	725,924
Investments.....	740,078	14,382,573	15,122,651	3,737,273
Collateral on Lent Securities.....	1,485,828	2,501,452	3,987,280	110,836
Deposit with Federal Government.....	—	1,190,542	1,190,542	—
Taxes Receivable.....	982,334	—	982,334	—
Intergovernmental Receivable.....	1,588,533	5,493	1,594,026	47,927
Premiums and Assessments Receivable.....	—	1,567,971	1,567,971	—
Investment Trade Receivable.....	—	381,989	381,989	—
Loans Receivable, Net.....	847,838	—	847,838	226,289
Receivable from Primary Government.....	—	—	—	26,074
Other Receivables.....	299,162	359,604	658,766	674,308
Inventories.....	43,508	29,043	72,551	46,758
Other Assets.....	56,685	13,493	70,178	341,967
Restricted Assets:				
Cash Equity with Treasurer.....	—	—	—	16,351
Cash and Cash Equivalents.....	—	1,891	1,891	90,428
Investments.....	—	1,634,447	1,634,447	1,154,874
Collateral on Lent Securities.....	—	—	—	5,485
Loans Receivable, Net.....	—	—	—	2,520,041
Capital Assets Being Depreciated, Net.....	2,235,203	198,321	2,433,524	5,449,732
Capital Assets Not Being Depreciated.....	20,133,306	13,587	20,146,893	1,013,106
TOTAL ASSETS.....	32,656,965	24,425,167	57,082,132	16,518,544
LIABILITIES:				
Accounts Payable.....	470,217	34,265	504,482	368,949
Accrued Liabilities.....	238,398	3,899	242,297	328,517
Medicaid Claims Payable.....	1,046,634	—	1,046,634	—
Obligations Under Securities Lending.....	1,485,828	2,501,452	3,987,280	116,321
Investment Trade Payable.....	—	1,990,631	1,990,631	—
Intergovernmental Payable.....	1,123,104	375	1,123,479	3,007
Internal Balances.....	782,195	(782,195)	—	—
Payable to Component Units.....	26,074	—	26,074	—
Deferred Revenue.....	156,662	2,017	158,679	184,759
Benefits Payable.....	—	13,148	13,148	—
Refund and Other Liabilities.....	772,161	73,405	845,566	95,758
Noncurrent Liabilities:				
Bonds and Notes Payable:				
Due in One Year.....	865,004	3,730	868,734	543,430
Due in More Than One Year.....	8,283,050	163,580	8,446,630	3,204,039
Certificates of Participation:				
Due in One Year.....	890	—	890	1,070
Due in More Than One Year.....	6,480	—	6,480	7,740
Other Noncurrent Liabilities:				
Due in One Year.....	96,268	2,397,735	2,494,003	955,680
Due in More Than One Year.....	443,585	16,240,627	16,684,212	1,923,326
TOTAL LIABILITIES.....	15,796,550	22,642,669	38,439,219	7,732,596

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

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET ASSETS:				
<i>Invested in Capital Assets,</i>				
<i>Net of Related Debt.....</i>	19,261,553	19,827	19,281,380	4,579,028
<i>Restricted for:</i>				
<i>Primary, Secondary and Other Education</i>	5,128	—	5,128	—
<i>Transportation and Highway Safety.....</i>	638,615	—	638,615	—
<i>State and Local Government</i>				
<i>Highway Construction.....</i>	124,022	—	124,022	—
<i>Federal Programs.....</i>	75,967	—	75,967	36
<i>Coal Research</i>				
<i>and Development Program.....</i>	8,488	—	8,488	—
<i>Clean Ohio Program.....</i>	79,457	—	79,457	—
<i>Debt Service.....</i>	—	—	—	1,838,858
<i>Intergovernmental and Capital Purposes..</i>	929,213	—	929,213	16,351
<i>Enterprise Bond Program.....</i>	10,000	—	10,000	—
<i>Workers' Compensation.....</i>	—	545,756	545,756	—
<i>Deferred Lottery Prizes.....</i>	—	169,822	169,822	—
<i>Unemployment Compensation.....</i>	—	1,286,679	1,286,679	—
<i>Ohio Building Authority.....</i>	—	24,600	24,600	—
<i>Nonexpendable for</i>				
<i>Colleges and Universities.....</i>	—	—	—	1,736,585
<i>Expendable for</i>				
<i>Colleges and Universities.....</i>	—	—	—	1,045,836
<i>Unrestricted/(Deficits).....</i>	(4,272,028)	(264,186)	(4,536,214)	(430,746)
TOTAL NET ASSETS.....	\$ 16,860,415	\$ 1,782,498	\$ 18,642,913	\$ 8,785,948

STATE OF OHIO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(dollars in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES				NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES, FEES, FINES AND FORFEITURES	OPERATING GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)	CAPITAL GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)		
PRIMARY GOVERNMENT:						
GOVERNMENTAL ACTIVITIES:						
Primary, Secondary and Other Education.....	\$ 8,498,696	65,651	\$ 1,198,613	\$ —	\$ (7,234,432)	
Higher Education Support	2,515,379	3,164	20,409	—	(2,491,806)	
Public Assistance and Medicaid	12,683,617	526,679	8,358,304	—	(3,798,634)	
Health and Human Services	2,930,071	107,668	1,650,626	6,988	(1,164,789)	
Justice and Public Protection	2,435,774	694,517	155,320	1,654	(1,584,283)	
Environmental Protection and Natural Resources.....	403,445	152,501	70,293	1,089	(179,562)	
Transportation	1,532,040	35,768	60,720	920,351	(515,201)	
General Government	486,013	330,249	77,899	415	(77,450)	
Community and Economic Development.....	739,814	260,705	319,117	—	(159,992)	
Intergovernmental.....	3,675,073	—	—	—	(3,675,073)	
Interest on Long-Term Debt (excludes interest charged as program expense).....	195,559	—	—	—	(195,559)	
TOTAL GOVERNMENTAL ACTIVITIES	36,095,481	2,176,902	11,911,301	930,497	(21,076,781)	
BUSINESS-TYPE ACTIVITIES:						
Workers' Compensation.....	4,088,796	2,184,192	575,402	—	(1,329,202)	
Lottery Commission.....	1,523,764	2,083,108	148,797	—	708,141	
Unemployment Compensation.....	1,838,949	50,634	1,170,969	—	(617,346)	
Ohio Building Authority.....	30,824	27,358	30	—	(3,436)	
Tuition Trust Authority.....	388,469	105,865	—	—	(282,604)	
Liquor Control.....	354,547	493,195	—	—	138,648	
Underground Parking Garage.....	2,515	2,526	48	956	1,015	
Office of Auditor of State.....	84,087	42,591	—	—	(41,496)	
TOTAL BUSINESS-TYPE ACTIVITIES...	8,311,951	4,989,469	1,895,246	956	(1,426,280)	
TOTAL PRIMARY GOVERNMENT.....	\$ 44,407,432	\$ 7,166,371	\$ 13,806,547	\$ 931,453	\$ (22,503,061)	
COMPONENT UNITS:						
School Facilities Commission.....	\$ 1,440,939	\$ 16	\$ 34,697	\$ —	\$ (1,406,226)	
Ohio Water Development Authority.....	92,337	122,319	109,889	—	139,871	
Ohio State University.....	2,495,148	1,480,641	482,228	97,357	(434,922)	
University of Cincinnati.....	785,917	283,560	223,852	7,609	(270,896)	
Other Component Units.....	3,599,133	2,000,054	369,216	50,815	(1,179,048)	
TOTAL COMPONENT UNITS.....	\$ 8,413,474	\$ 3,886,590	\$ 1,219,882	\$ 155,781	\$ (3,151,221)	

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.....	\$ (21,076,781)	\$ (1,426,280)	\$ (22,503,061)	\$ (3,151,221)
General Revenues:				
Taxes:				
Income.....	8,231,233	—	8,231,233	—
Sales.....	6,470,645	—	6,470,645	—
Corporate and Public Utility	1,682,945	—	1,682,945	—
Cigarette.....	599,943	—	599,943	—
Other.....	649,027	—	649,027	—
Restricted for Transportation Purposes:				
Motor Vehicle Fuel Taxes.....	1,462,608	—	1,462,608	—
Total Taxes.....	19,096,401	—	19,096,401	—
Tobacco Settlement.....	369,619	—	369,619	—
Escheat Property.....	43,173	—	43,173	—
Unrestricted Investment Income.....	5,285	29,726	35,011	125,377
State Assistance	—	—	—	2,382,389
Federal.....	193,033	44	193,077	—
Other.....	1,802	4,822	6,624	45,124
Contributions.....	—	—	—	59,817
Special Items.....	—	11	11	90,147
Transfers-Internal Activities.....	755,855	(755,855)	—	—
TOTAL GENERAL REVENUES CONTRIBUTIONS, SPECIAL ITEMS AND TRANSFERS.....	20,465,168	(721,252)	19,743,916	2,702,854
CHANGE IN NET ASSETS.....	(611,613)	(2,147,532)	(2,759,145)	(448,367)
NET ASSETS, JULY 1 (as restated)..	17,472,028	3,930,030	21,402,058	9,234,315
NET ASSETS, JUNE 30.....	\$ 16,860,415	\$ 1,782,498	\$ 18,642,913	\$ 8,785,948

STATE OF OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003
(dollars in thousands)

	MAJOR FUNDS		
	<u>GENERAL</u>	<u>JOB, FAMILY AND OTHER HUMAN SERVICES</u>	<u>EDUCATION</u>
ASSETS:			
Cash Equity with Treasurer	\$ 979,273	\$ 197,608	\$ 43,234
Cash and Cash Equivalents	11,799	5,654	437
Investments	195,724	28,791	4,039
Collateral on Lent Securities	350,946	72,599	15,333
Taxes Receivable	734,024	—	—
Intergovernmental Receivable	618,063	544,173	119,718
Loans Receivable, Net	24,754	—	8,980
Interfund Receivable	245,634	6	3
Other Receivables	227,121	41,812	1,142
Inventories	19,159	—	—
Other Assets	16,886	1,920	4,390
TOTAL ASSETS	\$ 3,423,383	\$ 892,563	\$ 197,276
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts Payable	\$ 111,740	\$ 44,704	\$ 3,408
Accrued Liabilities	83,079	9,952	1,228
Medicaid Claims Payable	1,046,634	—	—
Obligations Under Securities Lending	350,946	72,599	15,333
Intergovernmental Payable	286,726	233,144	78,654
Interfund Payable	560,554	15,012	3,033
Payable to Component Units	7,127	694	—
Deferred Revenue	104,209	218,207	73,064
Refund and Other Liabilities	675,540	9,276	—
Liability for Escheat Property	4,041	—	—
TOTAL LIABILITIES	3,230,596	603,588	174,720
FUND BALANCES:			
Reserved for:			
Debt Service	—	—	—
Encumbrances	276,566	1,202,707	66,333
Noncurrent Portion of Loans Receivable	24,134	—	8,423
Loan Commitments	—	—	—
Inventories	19,159	—	—
State and Local Highway Construction	—	—	—
Federal Programs	—	458	7,994
Other	275,166	33,914	203
Unreserved/Designated	—	—	—
Unreserved/Undesignated (Deficits):			
General Fund	(402,238)	—	—
Special Revenue Funds	—	(948,104)	(60,397)
Debt Service Funds	—	—	—
Capital Projects Funds	—	—	—
TOTAL FUND BALANCES	192,787	288,975	22,556
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,423,383	\$ 892,563	\$ 197,276

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

<u>HIGHWAY OPERATING</u>	<u>REVENUE DISTRIBUTION</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL</u>
\$ 694,863	\$ 286,981	\$ 1,965,734	\$ 4,167,693
229	5,206	53,472	76,797
—	—	511,524	740,078
233,084	95,972	717,894	1,485,828
38,238	205,679	4,393	982,334
85,505	—	221,074	1,588,533
63,695	—	750,409	847,838
—	—	3,311	248,954
1,823	39	27,225	299,162
24,349	—	—	43,508
3,185	—	11,571	37,952
<u>\$ 1,144,971</u>	<u>\$ 593,877</u>	<u>\$ 4,266,607</u>	<u>\$ 10,518,677</u>
\$ 144,007	\$ —	\$ 166,358	\$ 470,217
15,802	—	28,829	138,890
—	—	—	1,046,634
233,084	95,972	717,894	1,485,828
3,758	302,454	218,368	1,123,104
94,662	56	357,832	1,031,149
137	—	17,604	25,562
37,832	18,400	88,147	539,859
—	70,389	11,285	766,490
—	—	—	4,041
<u>529,282</u>	<u>487,271</u>	<u>1,606,317</u>	<u>6,631,774</u>
—	—	115,101	115,101
1,190,108	—	1,426,043	4,161,757
58,034	—	734,395	824,986
—	—	84,956	84,956
24,349	—	—	43,508
—	124,022	—	124,022
—	—	62,142	70,594
3,185	—	58,011	370,479
—	—	3,941	3,941
—	—	—	(402,238)
(659,987)	(17,416)	433,591	(1,252,313)
—	—	(49)	(49)
—	—	(257,841)	(257,841)
<u>615,689</u>	<u>106,606</u>	<u>2,660,290</u>	<u>3,886,903</u>
<u>\$ 1,144,971</u>	<u>\$ 593,877</u>	<u>\$ 4,266,607</u>	<u>\$ 10,518,677</u>

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STATE OF OHIO
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003
(dollars in thousands)

Total Fund Balances for Governmental Funds..... **\$ 3,886,903**

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

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

Infrastructure, net of \$727 accumulated depreciation.....	16,903,107
Land.....	1,530,958
Buildings and Improvements, net of \$1,125,318 accumulated depreciation.....	1,895,700
Land Improvements, net of \$115,784 accumulated depreciation.....	110,112
Machinery and Equipment, net of \$287,583 accumulated depreciation.....	141,753
Vehicles, net of \$104,917 accumulated depreciation.....	125,334
Construction-in-Progress.....	1,661,545
	<u>22,368,509</u>

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

Taxes Receivable.....	108,458
Intergovernmental Receivable.....	266,970
Other Receivables:	
Accounts.....	6,912
Interest.....	857
	<u>383,197</u>

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

18,733

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

Accrued Liabilities:	
Interest Payable.....	(96,822)
Other	(2,686)
Payable to Component Units.....	(512)
Refund and Other Liabilities.....	(5,671)
Bonds and Notes Payable:	
General Obligation Bonds.....	(4,603,842)
Revenue Bonds.....	(450,598)
Special Obligation Bonds.....	(4,093,614)
Certificates of Participation.....	(7,370)
Other Noncurrent Liabilities:	
Compensated Absences.....	(383,636)
Capital Leases Payable.....	(4,888)
Litigation Liabilities.....	(10,000)
Liability for Escheat Property.....	(137,288)
	<u>(9,796,927)</u>

Total Net Assets of Governmental Activities..... **\$ 16,860,415**

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, 2003
(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	EDUCATION
REVENUES:			
Income Taxes	\$ 7,374,239	\$ —	\$ —
Sales Taxes	6,153,743	—	—
Corporate and Public Utility Taxes	1,302,968	—	—
Motor Vehicle Fuel Taxes	—	—	—
Cigarette Taxes	599,941	—	—
Other Taxes	595,498	4,582	—
Licenses, Permits and Fees	115,199	424,294	791
Sales, Services and Charges	44,899	—	314
Federal Government	5,251,885	3,846,908	1,160,028
Tobacco Settlement	—	—	—
Escheat Property	84,642	—	—
Investment Income	33,095	10,584	3,568
Other	192,573	84,777	51,404
TOTAL REVENUES	21,748,682	4,371,145	1,216,105
EXPENDITURES:			
CURRENT OPERATING:			
Primary, Secondary and Other Education	6,646,595	135	1,799,514
Higher Education Support	2,096,533	649	18,292
Public Assistance and Medicaid	8,962,534	3,768,308	—
Health and Human Services	1,075,498	477,334	182
Justice and Public Protection	1,778,564	24,577	20,782
Environmental Protection and Natural Resources	115,971	—	—
Transportation	28,786	—	—
General Government	317,236	3,931	100
Community and Economic Development	110,066	4,911	—
INTERGOVERNMENTAL	1,294,797	—	—
CAPITAL OUTLAY	—	8,192	—
DEBT SERVICE	2,300	—	—
TOTAL EXPENDITURES	22,428,880	4,288,037	1,838,870
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(680,198)	83,108	(622,765)
OTHER FINANCING SOURCES (USES):			
Bonds Issued	470,000	—	—
Refunding Bonds Issued	—	—	—
Payment to Refunded Bond Escrow Agents	—	—	—
Bond Premiums	—	—	—
Bond Discounts	—	—	—
Capital Leases	2,692	—	—
Transfers-in	630,122	19,275	652,452
Transfers-out	(991,261)	(33,944)	(35,874)
TOTAL OTHER FINANCING SOURCES (USES)	111,553	(14,669)	616,578
NET CHANGE IN FUND BALANCES	(568,645)	68,439	(6,187)
FUND BALANCES, JULY 1 (as restated)	762,250	220,536	28,743
Increase (Decrease) for Changes in Inventories	(818)	—	—
FUND BALANCES, JUNE 30	\$ 192,787	\$ 288,975	\$ 22,556

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

<u>HIGHWAY OPERATING</u>	<u>REVENUE DISTRIBUTION</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL</u>
\$ —	\$ 829,840	\$ 6,051	\$ 8,210,130
—	301,263	15,637	6,470,643
—	366,275	13,700	1,682,943
370,092	1,047,119	45,397	1,462,608
—	—	2	599,943
—	11,252	37,695	649,027
70,772	351,965	601,408	1,564,429
2,048	22	40,345	87,628
954,797	—	1,757,095	12,970,713
—	—	369,619	369,619
—	—	—	84,642
16,414	1,149	56,782	121,592
25,889	64	171,457	526,164
<u>1,440,012</u>	<u>2,908,949</u>	<u>3,115,188</u>	<u>34,800,081</u>
—	—	4,920	8,451,164
—	—	292,585	2,408,059
—	—	306	12,731,148
—	—	1,341,307	2,894,321
—	—	524,309	2,348,232
—	—	253,148	369,119
1,913,070	—	184	1,942,040
—	—	180,699	501,966
—	—	603,111	718,088
—	2,095,194	183,236	3,573,227
—	—	489,874	498,066
—	—	1,248,704	1,251,004
<u>1,913,070</u>	<u>2,095,194</u>	<u>5,122,383</u>	<u>37,686,434</u>
<u>(473,058)</u>	<u>813,755</u>	<u>(2,007,195)</u>	<u>(2,886,353)</u>
—	—	935,000	1,405,000
—	—	1,025,040	1,025,040
—	—	(1,091,881)	(1,091,881)
—	—	188,952	188,952
—	—	(33,649)	(33,649)
—	—	699	3,391
524,079	1,786	1,423,283	3,250,997
(268,753)	(827,720)	(337,590)	(2,495,142)
<u>255,326</u>	<u>(825,934)</u>	<u>2,109,854</u>	<u>2,252,708</u>
<u>(217,732)</u>	<u>(12,179)</u>	<u>102,659</u>	<u>(633,645)</u>
840,746	118,785	2,557,631	4,528,691
(7,325)	—	—	(8,143)
<u>\$ 615,689</u>	<u>\$ 106,606</u>	<u>\$ 2,660,290</u>	<u>\$ 3,886,903</u>

STATE OF OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2003

(dollars in thousands)

Net Change in Fund Balances -- Total Governmental Funds.....	\$ (633,645)
Change in Inventories.....	(8,143)
	<u>(641,788)</u>

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

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

Capital Outlay Expenditures.....	905,520	
Depreciation Expense.....	(156,235)	
	<u>749,285</u>	<u>749,285</u>

Bond 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.....	(1,060,000)	
Revenue Bonds.....	(185,000)	
Special Obligation Bonds.....	(160,000)	
Refunding Bonds, including Bond Premium/Discount, Net.....	(1,162,494)	
Premiums and Discounts, Net:		
Revenue Bonds.....	(14,367)	
Special Obligation Bonds.....	(3,482)	
Deferred Refunding Loss.....	78,627	
	<u>78,627</u>	
Total Bond Proceeds.....		<u>(2,506,716)</u>

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

<i>Debt Principal Retirement and Defeasements:</i>		
General Obligation Bonds.....	853,200	
Revenue Bonds.....	43,380	
Special Obligation Bonds.....	919,029	
Certificates of Participation.....	2,530	
Capital Lease Payments.....	(955)	
	<u>1,817,184</u>	<u>1,817,184</u>

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. (42,865)

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

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

<i>Increase in Bond Issue Costs Included in Other Assets</i>	12,126	
<i>Increase in Accrued Interest and Other Accrued Liabilities</i>	(8,163)	
<i>Increase in Payable to Component Units</i>	(4)	
<i>Amortization of Bond Premiums/Accretion of Bond Discount, Net</i>	4,312	
<i>Amortization of Deferred Refunding Loss</i>	(3,390)	
<i>Decrease in Intergovernmental Payables</i>	19,689	
<i>Increase in Compensated Absences</i>	(1,708)	
<i>Decrease in Refund and Other Liabilities</i>	11,893	
<i>Decrease in Litigation Liabilities</i>	20,000	
<i>Increase in Liability for Escheat Property</i>	(41,468)	
	<hr/>	
<i>Total additional expenditures</i>		<u>13,287</u>
<i>Change in Net Assets of Governmental Activities</i>		<u>\$ (611,613)</u>

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, 2003

(dollars in thousands)

	GENERAL			
	BUDGET			VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES:				
Income Taxes	\$ 995,000	\$ 7,501,000	\$ 7,420,657	\$ (80,343)
Sales Taxes	1,077,490	6,361,499	6,397,945	36,446
Corporate and Public Utility Taxes	72,327	1,300,001	1,305,727	5,726
Motor Vehicle Fuel Taxes	—	—	—	—
Cigarette Taxes.....	75,002	583,200	599,941	16,741
Other Taxes	28,077	621,699	595,407	(26,292)
Licenses, Permits and Fees	95,396	121,465	122,139	674
Sales, Services and Charges	51,734	51,734	52,295	561
Federal Government	859,138	4,927,289	5,129,600	202,311
Tobacco Settlement.....	—	—	—	—
Investment Income	3,473	53,474	17,739	(35,735)
Other	976,885	1,742,556	1,323,573	(418,983)
TOTAL REVENUES.....	4,234,522	23,263,917	22,965,023	(298,894)
BUDGETARY EXPENDITURES:				
CURRENT OPERATING:				
Primary, Secondary and Other Education	6,669,105	6,515,744	6,334,376	181,368
Higher Education Support	2,391,231	2,100,627	2,091,756	8,871
Public Assistance and Medicaid	9,297,680	9,496,947	9,416,330	80,617
Health and Human Services	1,423,627	1,339,981	1,268,879	71,102
Justice and Public Protection	2,202,082	2,055,307	1,902,758	152,549
Environmental Protection and Natural Resources	193,851	169,500	147,429	22,071
Transportation	75,829	67,122	64,585	2,537
General Government	790,219	781,781	577,340	204,441
Community and Economic Development	266,027	243,555	222,354	21,201
INTERGOVERNMENTAL.....	1,384,797	1,389,489	1,316,176	73,313
CAPITAL OUTLAY	—	—	—	—
DEBT SERVICE.....	1,051,404	1,043,647	908,601	135,046
TOTAL BUDGETARY EXPENDITURES.....	25,745,852	25,203,700	24,250,584	953,116
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES.....	(21,511,330)	(1,939,783)	(1,285,561)	654,222
OTHER FINANCING SOURCES (USES):				
Bond Proceeds	—	—	—	—
Transfers-in	19,565	387,920	434,376	46,456
Transfers-out	(1,265)	(2,639)	(47,369)	(44,730)
TOTAL OTHER FINANCING SOURCES (USES).....	18,300	385,281	387,007	1,726
NET CHANGE IN FUND BALANCES.....	(21,493,030)	(1,554,502)	(898,554)	655,948
BUDGETARY FUND BALANCES				
(DEFICITS), JULY 1	847,562	847,562	847,562	—
Outstanding Encumbrances at Beginning of Fiscal Year	587,945	587,945	587,945	—
BUDGETARY FUND BALANCES				
(DEFICITS), JUNE 30	\$(20,057,523)	\$ (118,995)	\$ 536,953	\$ 655,948

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

JOB, FAMILY AND OTHER HUMAN SERVICES

EDUCATION

JOB, FAMILY AND OTHER HUMAN SERVICES				EDUCATION			
BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)	BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
ORIGINAL	FINAL			ORIGINAL	FINAL		
		\$ —				\$ —	
		—				—	
		—				—	
		—				—	
		—				—	
		4,582				—	
		416,681				791	
		—				314	
		3,060,557				1,155,873	
		—				—	
		10,562				3,026	
		150,796				25,668	
		3,643,178				1,185,672	
\$ 270	\$ 270	153	\$ 117	\$ 1,997,620	\$ 2,238,201	1,901,038	\$ 337,163
3,257	3,257	1,204	2,053	13,886	16,779	10,930	5,849
5,016,253	5,106,903	4,488,474	618,429	—	—	—	—
568,616	588,421	526,632	61,789	270	294	195	99
79,066	82,209	36,510	45,699	37,413	40,535	21,956	18,579
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
1,950	2,043	1,821	222	—	100	100	—
10,152	10,152	10,152	—	—	—	—	—
—	—	—	—	—	—	—	—
11,134	28,413	9,738	18,675	—	—	—	—
—	—	—	—	—	—	—	—
\$ 5,690,698	\$ 5,821,668	5,074,684	\$ 746,984	\$ 2,049,189	\$ 2,295,909	1,934,219	\$ 361,690
		(1,431,506)				(748,547)	
		—				—	
		—				671,659	
		(12,218)				(30,120)	
		(12,218)				641,539	
		(1,443,724)				(107,008)	
		(831,090)				58,093	
		1,008,142				12,447	
		\$ (1,266,672)				\$ (36,468)	

(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, 2003

(dollars in thousands)
(continued)

	HIGHWAY OPERATING			VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
	BUDGET		ACTUAL	
	ORIGINAL	FINAL		
REVENUES:				
Income Taxes			\$ —	
Sales Taxes			—	
Corporate and Public Utility Taxes			—	
Motor Vehicle Fuel Taxes			385,459	
Cigarette Taxes.....			—	
Other Taxes			—	
Licenses, Permits and Fees			70,816	
Sales, Services and Charges			2,048	
Federal Government			946,002	
Tobacco Settlement.....			—	
Investment Income			24,496	
Other			88,081	
TOTAL REVENUES.....			1,516,902	
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	4,158,155	4,246,360	3,297,801	948,559
General Government	—	—	—	—
Community and Economic Development	—	—	—	—
INTERGOVERNMENTAL.....	—	—	—	—
CAPITAL OUTLAY	—	—	—	—
DEBT SERVICE.....	80,054	83,354	62,994	20,360
TOTAL BUDGETARY EXPENDITURES.....	\$ 4,238,209	\$ 4,329,714	3,360,795	\$ 968,919
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES.....			(1,843,893)	
OTHER FINANCING SOURCES (USES):				
Bond Proceeds			—	
Transfers-in			524,003	
Transfers-out			(204,859)	
TOTAL OTHER FINANCING SOURCES (USES).....			319,144	
NET CHANGE IN FUND BALANCES.....			(1,524,749)	
BUDGETARY FUND BALANCES (DEFICITS), JULY 1.....			(558,174)	
Outstanding Encumbrances at Beginning of Fiscal Year			1,445,748	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30			\$ (637,175)	

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

REVENUE DISTRIBUTION

<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)</u>
<u>ORIGINAL</u>	<u>FINAL</u>		
		\$ 829,840	
		301,264	
		367,475	
		1,096,435	
		—	
		11,252	
		530,792	
		22	
		—	
		1,467	
		63	
		<u>3,138,610</u>	
\$ —	\$ —	—	\$ —
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
2,589,663	2,591,511	2,307,799	283,712
—	—	—	—
—	—	—	—
<u>\$ 2,589,663</u>	<u>\$ 2,591,511</u>	<u>2,307,799</u>	<u>\$ 283,712</u>
		<u>830,811</u>	
		—	
		1,786	
		(815,820)	
		<u>(814,034)</u>	
		16,777	
		263,049	
		—	
		<u>\$ 279,826</u>	

STATE OF OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS -- ENTERPRISE
JUNE 30, 2003
(dollars in thousands)

	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer.....	\$ 1,779	\$ 17,016	\$ —
Cash and Cash Equivalents.....	2,075,862	8,930	1,515
Investments.....	—	—	67,502
Collateral on Lent Securities.....	2,079,647	7,394	14,604
Restricted Assets:			
Cash Equity with Treasurer.....	—	16,654	—
Cash and Cash Equivalents.....	—	—	—
Investments.....	—	63,140	—
Collateral on Lent Securities.....	—	397,732	—
Other Receivables.....	—	2,815	—
Deposit with Federal Government.....	—	—	1,190,542
Intergovernmental Receivable.....	—	—	5,493
Premiums and Assessments Receivable.....	1,049,831	—	13,234
Investment Trade Receivable.....	381,989	—	—
Interfund Receivable.....	57,765	—	—
Other Receivables.....	273,108	45,136	8,492
Inventories.....	—	—	—
Other Assets.....	2,005	3,666	6,662
TOTAL CURRENT ASSETS.....	5,921,986	562,483	1,308,044
NONCURRENT ASSETS:			
Restricted Assets:			
Cash and Cash Equivalents.....	1,891	—	—
Investments.....	—	1,016,438	—
Investments.....	14,085,343	—	—
Premiums and Assessments Receivable.....	487,974	—	16,932
Interfund Receivable.....	723,687	—	—
Other Receivables.....	—	—	—
Capital Assets Being Depreciated, Net.....	141,921	44,887	—
Capital Assets Not Being Depreciated.....	12,631	—	—
TOTAL NONCURRENT ASSETS.....	15,453,447	1,061,325	16,932
TOTAL ASSETS.....	21,375,433	1,623,808	1,324,976
CURRENT LIABILITIES:			
Accounts Payable.....	5,490	8,949	—
Accrued Liabilities.....	—	—	—
Obligations Under Securities Lending.....	2,079,647	405,126	14,604
Investment Trade Payable.....	1,990,631	—	—
Intergovernmental Payable.....	—	—	—
Deferred Prize Awards Payable.....	—	82,609	—
Interfund Payable.....	—	390	—
Deferred Revenue.....	14,535	1,929	—
Benefits Payable.....	1,688,700	—	13,148
Refund and Other Liabilities.....	559,688	40,813	10,545
Bonds and Notes Payable.....	—	—	—
TOTAL CURRENT LIABILITIES.....	6,338,691	539,816	38,297
NONCURRENT LIABILITIES:			
Deferred Prize Awards Payable.....	—	846,616	—
Interfund Payable.....	—	4,143	—
Deferred Revenue.....	387,901	—	—
Benefits Payable.....	12,618,671	—	—
Refund and Other Liabilities.....	1,329,046	32,468	—
Bonds and Notes Payable.....	148,745	—	—
TOTAL NONCURRENT LIABILITIES.....	14,484,363	883,227	—
TOTAL LIABILITIES.....	20,823,054	1,423,043	38,297
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt.....	6,623	764	—
Restricted for Deferred Lottery Prizes.....	—	169,822	—
Unrestricted (Deficits).....	545,756	30,179	1,286,679
TOTAL NET ASSETS (DEFICITS).....	\$ 552,379	\$ 200,765	\$ 1,286,679

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

OHIO BUILDING AUTHORITY	TUITION TRUST AUTHORITY	LIQUOR CONTROL	UNDERGROUND PARKING GARAGE	OFFICE OF AUDITOR OF STATE	TOTAL
\$ —	\$ 45	\$ 5,335	\$ 2,120	\$ 6,555	\$ 32,850
451	908	7,320	—	—	2,094,986
24,517	—	—	—	—	92,019
7	347	1,009	712	—	2,103,720
—	—	—	—	—	16,654
—	271	—	—	—	271
—	70,629	—	—	—	133,769
—	—	—	—	—	397,732
—	—	—	—	—	2,815
—	—	—	—	—	1,190,542
—	—	—	—	—	5,493
—	—	—	—	—	1,063,065
—	—	—	—	—	381,989
—	—	—	—	1,823	59,588
5,480	1,179	—	34	8,525	341,954
—	—	29,043	—	—	29,043
596	—	152	—	412	13,493
31,051	73,379	42,859	2,866	17,315	7,959,983
—	—	—	—	—	1,891
—	618,009	—	—	—	1,634,447
—	71,442	—	—	—	14,156,785
—	—	—	—	—	504,906
14,835	—	—	—	7,385	731,072
—	—	—	—	—	14,835
—	117	1,032	6,452	3,912	198,321
—	—	—	956	—	13,587
14,835	689,568	1,032	7,408	11,297	17,255,844
45,886	762,947	43,891	10,274	28,612	25,215,827
2,198	376	16,856	14	382	34,265
326	74	744	52	2,703	3,899
7	347	1,009	712	—	2,501,452
—	—	—	—	—	1,990,631
—	—	375	—	—	375
—	—	—	—	—	82,609
—	—	1,429	2	—	1,821
81	—	—	7	—	16,552
—	70,900	—	—	—	1,772,748
109	600	1,370	10	1,261	614,396
3,730	—	—	—	—	3,730
6,451	72,297	21,783	797	4,346	7,022,478
—	—	—	—	—	846,616
—	—	2,279	222	—	6,644
—	—	—	—	—	387,901
—	1,009,600	—	—	—	13,628,271
—	—	2,346	107	13,872	1,377,839
14,835	—	—	—	—	163,580
14,835	1,009,600	4,625	329	13,872	16,410,851
21,286	1,081,897	26,408	1,126	18,218	23,433,329
—	117	1,032	7,408	3,883	19,827
—	—	—	—	—	169,822
24,600	(319,067)	16,451	1,740	6,511	1,592,849
\$ 24,600	\$ (318,950)	\$ 17,483	\$ 9,148	\$ 10,394	\$ 1,782,498

STATE OF OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS -- ENTERPRISE FOR THE FISCAL YEAR ENDED JUNE 30, 2003

(dollars in thousands)

	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
OPERATING REVENUES:			
Charges for Sales and Services.....	\$ —	\$ 2,078,254	\$ 20,905
Premium and Assessment Income.....	2,174,938	—	751,075
Federal Government.....	—	—	340,654
Investment Income.....	—	—	92,950
Other.....	9,254	4,854	16,019
TOTAL OPERATING REVENUES.....	2,184,192	2,083,108	1,221,603
OPERATING EXPENSES:			
Costs of Sales and Services.....	—	—	—
Administration.....	54,081	84,882	—
Premium Dividend Reductions and Refunds.....	640,563	—	—
Bonuses and Commissions.....	—	137,030	—
Prizes.....	—	1,208,193	—
Benefits and Claims.....	3,360,782	—	1,783,184
Depreciation.....	18,565	15,178	—
Other.....	14,805	639	55,765
TOTAL OPERATING EXPENSES.....	4,088,796	1,445,922	1,838,949
OPERATING INCOME (LOSS).....	(1,904,604)	637,186	(617,346)
NONOPERATING REVENUES (EXPENSES):			
Investment Income.....	575,402	148,797	585
Interest Expense.....	—	(3,075)	—
Federal Grants.....	—	11	44
Other.....	—	(74,767)	—
TOTAL NONOPERATING REVENUES (EXPENSES).....	575,402	70,966	629
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS.....	(1,329,202)	708,152	(616,717)
CAPITAL CONTRIBUTIONS AND TRANSFERS:			
Capital Contributions.....	—	—	—
Transfers-in.....	—	—	881
Transfers-out.....	(7,909)	(641,541)	(9,907)
TOTAL TRANSFERS.....	(7,909)	(641,541)	(9,026)
NET INCOME (LOSS).....	(1,337,111)	66,611	(625,743)
NET ASSETS (DEFICITS), JULY 1	1,889,490	134,154	1,912,422
NET ASSETS (DEFICITS), JUNE 30.....	\$ 552,379	\$ 200,765	\$ 1,286,679

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

OHIO BUILDING AUTHORITY	TUITION TRUST AUTHORITY	LIQUOR CONTROL	UNDERGROUND PARKING GARAGE	OFFICE OF AUDITOR OF STATE	TOTAL
\$ 24,788	\$ 110,655	\$ 492,098	\$ 2,526	\$ 42,443	\$ 2,771,669
—	—	—	—	—	2,926,013
—	—	—	—	—	340,654
—	29,141	—	—	—	122,091
2,570	6	1,097	2	148	33,950
27,358	139,802	493,195	2,528	42,591	6,194,377
24,054	—	301,750	—	71,847	397,651
3,551	7,101	52,224	1,976	9,234	213,049
—	—	—	—	—	640,563
—	—	—	—	—	137,030
—	—	—	—	—	1,208,193
—	381,239	—	—	—	5,525,205
—	129	229	539	2,988	37,628
1,725	—	344	—	18	73,296
29,330	388,469	354,547	2,515	84,087	8,232,615
(1,972)	(248,667)	138,648	13	(41,496)	(2,038,238)
30	—	—	46	—	724,860
(1,494)	—	—	—	—	(4,569)
—	—	—	—	—	55
—	—	—	—	26	(74,741)
(1,464)	—	—	46	26	645,605
(3,436)	(248,667)	138,648	59	(41,470)	(1,392,633)
—	—	—	956	—	956
27,874	—	—	—	41,917	70,672
(27,874)	—	(138,539)	(757)	—	(826,527)
—	—	(138,539)	199	41,917	(754,899)
(3,436)	(248,667)	109	258	447	(2,147,532)
28,036	(70,283)	17,374	8,890	9,947	3,930,030
\$ 24,600	\$ (318,950)	\$ 17,483	\$ 9,148	\$ 10,394	\$ 1,782,498

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(dollars in thousands)

	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers.....	\$ —	\$ 2,065,239	\$ 35,765
Cash Received from Premiums and Assessments.....	679,851	—	748,364
Cash Received from Reciprocal Transactions with Other Funds.....	43,767	63	—
Cash Received from the Federal Government for Extended Benefits..	—	—	326,944
Other Operating Cash Receipts.....	16,630	4,791	9,493
Cash Payments to Suppliers for Goods and Services.....	(74,922)	(62,292)	—
Cash Payments to Employees for Services.....	(243,379)	(22,880)	—
Cash Payments for Benefits and Claims.....	(2,079,895)	—	(1,784,768)
Cash Payments for Lottery Prizes.....	—	(1,346,120)	—
Cash Payments for Bonuses and Commissions.....	—	(136,994)	—
Cash Payments for Premium Reductions and Refunds.....	(125,775)	—	—
Cash Payments for Reciprocal Transactions with Other Funds.....	(3)	(434)	—
Other Operating Cash Payments.....	—	(639)	(14,749)
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES.....	(1,783,726)	500,734	(678,951)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers-in	—	—	881
Transfers-out	(7,909)	(641,541)	(9,907)
Federal Grants.....	—	—	44
NET CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES.....	(7,909)	(641,541)	(8,982)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal Payments on Bonds and Capital Leases.....	(10,000)	(13,049)	—
Payments for Bond Refunding-William Green Building.....	(10,460)	—	—
Interest Paid	(8,175)	(3,075)	—
Acquisition and Construction of Capital Assets	(7,564)	(983)	—
Proceeds from Sales of Capital Assets	100	56	—
NET CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES.....	(36,099)	(17,051)	—
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Investments.....	(38,387,011)	(503,785)	(12,109,067)
Proceeds from the Sales and Maturities of Investments	39,358,969	635,858	12,702,730
Investment Income Received	624,773	22,303	93,535
Borrower Rebates and Agent Fees.....	(79,429)	(5,827)	—
NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES.....	1,517,302	148,549	687,198
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(310,432)	(9,309)	(735)
CASH AND CASH EQUIVALENTS, JULY 1.....	2,389,964	51,909	2,250
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 2,079,532	\$ 42,600	\$ 1,515

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

OHIO BUILDING AUTHORITY	TUITION TRUST AUTHORITY	LIQUOR CONTROL	UNDERGROUND PARKING GARAGE	OFFICE OF AUDITOR OF STATE	TOTAL
\$ 24,054	\$ 105,865	\$ 490,244	\$ 1,969	\$ 34,551	\$ 2,757,687
—	—	—	—	—	1,428,215
1,182	—	3	560	8,204	53,779
—	—	—	—	—	326,944
1,854	—	1,086	2	289	34,145
(28,201)	(1,168)	(341,384)	(529)	(9,394)	(517,890)
(1,079)	(4,461)	(17,451)	(1,297)	(68,625)	(359,172)
—	—	—	—	—	(3,864,663)
—	—	—	—	—	(1,346,120)
—	—	—	—	—	(136,994)
—	—	—	—	—	(125,775)
—	(77)	(84)	(1)	—	(599)
—	(35,751)	(33)	(2)	(55)	(51,229)
(2,190)	64,408	132,381	702	(35,030)	(1,801,672)
27,874	—	—	—	—	28,755
(27,874)	—	(138,539)	(757)	34,163	(792,364)
—	—	—	—	—	44
—	—	(138,539)	(757)	34,163	(763,565)
(3,531)	—	—	—	—	(26,580)
—	—	—	—	—	(10,460)
(1,394)	—	—	—	—	(12,644)
3,531	(54)	(263)	(72)	(2,024)	(7,429)
—	—	10	—	68	234
(1,394)	(54)	(253)	(72)	(1,956)	(56,879)
(55,463)	(229,264)	—	—	—	(51,284,590)
58,926	139,527	—	—	—	52,896,010
245	21,376	—	62	—	762,294
—	—	—	—	—	(85,256)
3,708	(68,361)	—	62	—	2,288,458
124	(4,007)	(6,411)	(65)	(2,823)	(333,658)
327	5,231	19,066	2,185	9,378	2,480,310
\$ 451	\$ 1,224	\$ 12,655	\$ 2,120	\$ 6,555	\$ 2,146,652

(continued)

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

(dollars in thousands)

(continued)

	<u>WORKERS'</u> <u>COMPENSATION</u>	<u>OHIO</u> <u>LOTTERY</u> <u>COMMISSION</u>	<u>UNEMPLOYMENT</u> <u>COMPENSATION</u>
RECONCILIATION OF OPERATING INCOME TO NET			
CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss).....	\$ (1,904,604)	\$ 637,186	\$ (617,346)
Adjustments to Reconcile Operating Income (Loss) to			
Net Cash Provided (Used) by Operating Activities:			
Investment Income.....	—	—	(92,950)
Depreciation	18,565	15,178	—
Provision for Uncollectible Accounts.....	56,395	—	—
Amortization of Premiums and Discounts.....	435	—	—
Interest on Bonds, Notes and Capital Leases.....	8,175	—	—
Decrease (Increase) in Assets:			
Premiums and Assessments Receivable.....	(825,555)	—	(17,073)
Intergovernmental Receivable.....	—	—	1,148
Other Receivables	(81,395)	(13,456)	48,671
Interfund Receivable.....	(70,116)	—	—
Inventories	—	—	—
Other Assets	98	537	114
Increase (Decrease) in Liabilities:			
Accounts Payable	(6,145)	(2,268)	—
Accrued Liabilities.....	—	—	—
Intergovernmental Payable.....	—	—	(911)
Deferred Prize Awards Payable.....	—	(137,648)	—
Interfund Payable.....	—	931	—
Deferred Revenue	(10,650)	441	—
Benefits Payable.....	1,040,199	—	(672)
Refund and Other Liabilities.....	(9,128)	(167)	68
NET CASH FLOWS PROVIDED (USED) BY			
 OPERATING ACTIVITIES.....	<u>\$ (1,783,726)</u>	<u>\$ 500,734</u>	<u>\$ (678,951)</u>
NONCASH INVESTING,			
CAPITAL AND FINANCING ACTIVITIES:			
Change in Fair Value of Investments.....	\$ 42,871	\$ 78,830	\$ —
Refunding Bond Proceeds for Defeasance of Debt.....	154,150	—	—
Contributions of Capital Assets from Other Funds.....	—	—	—

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

<u>OHIO BUILDING AUTHORITY</u>	<u>TUITION TRUST AUTHORITY</u>	<u>LIQUOR CONTROL</u>	<u>UNDERGROUND PARKING GARAGE</u>	<u>OFFICE OF AUDITOR OF STATE</u>	<u>TOTAL</u>
\$ (1,972)	\$ (248,667)	\$ 138,648	\$ 13	\$ (41,496)	\$ (2,038,238)
—	(29,141)	—	—	—	(122,091)
—	129	229	539	2,988	37,628
—	—	—	—	—	56,395
(144)	—	—	—	—	291
—	—	—	—	—	8,175
—	—	—	—	—	(842,628)
—	—	—	—	—	1,148
(92)	(560)	—	(7)	141	(46,698)
—	—	10	—	—	(70,106)
—	—	(3,293)	—	—	(3,293)
(29)	—	(30)	—	(413)	277
155	85	(2,923)	(34)	(207)	(11,337)
—	6	95	1	192	294
—	—	8	—	—	(903)
—	—	—	—	—	(137,648)
—	—	407	205	—	1,543
(105)	—	—	1	—	(10,313)
—	342,300	—	—	—	1,381,827
(3)	256	(770)	(16)	3,765	(5,995)
<u>\$ (2,190)</u>	<u>\$ 64,408</u>	<u>\$ 132,381</u>	<u>\$ 702</u>	<u>\$ (35,030)</u>	<u>\$ (1,801,672)</u>

\$ —	\$ —	\$ —	\$ —	\$ —	\$ 121,701
—	—	—	—	—	154,150
—	—	—	956	—	956

STATE OF OHIO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003
(dollars in thousands)

	PENSION TRUST	PRIVATE- PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (as of 12/31/02)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ASSETS:			
Cash Equity with Treasurer.....	\$ —	\$ —	\$ —
Cash and Cash Equivalents.....	12,794	189,566	—
Investments (at fair value):			
U.S. Government and Agency Obligations.....	24,299	—	4,789,195
Common and Preferred Stock.....	238,362	—	—
Corporate Bonds and Notes.....	46,264	—	—
Foreign Stocks and Bonds.....	56,327	—	—
Commercial Paper.....	—	—	554,465
Repurchase Agreements.....	—	—	23,655
Mutual Funds.....	—	2,233,310	—
Real Estate.....	79,223	—	—
Venture Capital.....	—	—	—
Direct Mortgage Loans.....	53,988	—	—
State Treasury Asset Reserve of Ohio (STAROhio).....	—	—	—
Collateral on Lent Securities.....	110,188	—	1,161,154
Employer Contributions Receivable.....	1,503	—	—
Employee Contributions Receivable.....	1,426	—	—
Investment Trade Receivable.....	—	33,139	—
Other Receivables.....	1,291	—	—
Other Assets.....	43	—	—
Capital Assets, Net.....	135	—	—
TOTAL ASSETS.....	625,843	2,456,015	6,528,469
LIABILITIES:			
Accounts Payable.....	1,156	—	—
Accrued Liabilities.....	1,033	3,498	—
Obligations Under Securities Lending.....	110,188	—	1,161,154
Investment Trade Payable.....	—	33,756	—
Intergovernmental Payable.....	—	—	—
Refund and Other Liabilities.....	50	—	409
TOTAL LIABILITIES.....	112,427	37,254	1,161,563
NET ASSETS:			
Held in Trust for:			
Employees' Pension Benefits.....	439,670	—	—
Employees' Postemployment Healthcare Benefits.....	73,746	—	—
Individuals, Organizations and Other Governments.....	—	2,418,761	—
Pool Participants.....	—	—	5,366,906
TOTAL NET ASSETS.....	\$ 513,416	\$ 2,418,761	\$ 5,366,906

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

AGENCY

\$ 168,377
246,551

12,713,864
46,985,355
10,175,722
20,215,452
2,056,095
122,598
5,363,618
11,144,649
1,470,209
120,501
39,938
197,673

—
—
—
1,274
426,509

111,448,385

—
—
197,673

—
66,811
111,183,901

111,448,385

\$ —

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STATE OF OHIO
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(dollars in thousands)

	<u>PENSION TRUST</u>	<u>PRIVATE- PURPOSE TRUST</u>	<u>INVESTMENT TRUST</u>
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (for the fiscal year ended 12/31/02)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ADDITIONS:			
Contributions from:			
Employer.....	\$ 18,705	\$ —	\$ —
Employees.....	7,563	—	—
Plan Participants.....	—	839,709	—
Other.....	999	—	—
Total Contributions.....	<u>27,267</u>	<u>839,709</u>	<u>—</u>
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments.....	(62,878)	12,603	—
Interest, Dividends and Other.....	16,622	37,836	92,441
Total Investment Income.....	<u>(46,256)</u>	<u>50,439</u>	<u>92,441</u>
Less: Investment Expense.....	3,340	15,358	4,688
Net Investment Income.....	<u>(49,596)</u>	<u>35,081</u>	<u>87,753</u>
Capital Share and Individual Account Transactions:			
Shares Sold.....	—	—	20,743,364
Reinvested Distributions.....	—	—	87,754
Shares Redeemed.....	—	—	(21,746,082)
Net Capital Share and Individual Account Transactions.....	<u>—</u>	<u>—</u>	<u>(914,964)</u>
TOTAL ADDITIONS.....	<u>(22,329)</u>	<u>874,790</u>	<u>(827,211)</u>
DEDUCTIONS:			
Pension Benefits Paid to Participants or Beneficiaries.....	31,325	—	—
Healthcare Benefits Paid to Participants or Beneficiaries....	7,025	—	—
Refunds of Employee Contributions.....	266	—	—
Administrative Expense.....	541	—	—
Transfers to Other Retirement Systems.....	1,054	—	—
Distributions to Shareholders and Plan Participants.....	—	185,551	87,754
TOTAL DEDUCTIONS.....	<u>40,211</u>	<u>185,551</u>	<u>87,754</u>
CHANGE IN NET ASSETS HELD FOR:			
Employees' Pension Benefits.....	(52,544)	—	—
Employees' Postemployment Healthcare Benefits.....	(9,996)	—	—
Individuals, Organizations and Other Governments.....	—	689,239	—
Pool Participants.....	—	—	(914,965)
NET ASSETS, JULY 1.....	<u>575,956</u>	<u>1,729,522</u>	<u>6,281,871</u>
NET ASSETS, JUNE 30.....	<u>\$ 513,416</u>	<u>\$ 2,418,761</u>	<u>\$ 5,366,906</u>

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, 2003
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (as of 12/31/02)	OHIO STATE UNIVERSITY
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer.....	\$ 310,326	\$ 15	\$ —
Cash and Cash Equivalents.....	—	56	255,223
Investments.....	—	90,662	581,482
Collateral on Lent Securities.....	103,846	—	—
Intergovernmental Receivable.....	18,264	267	4,804
Loans Receivable, Net.....	—	1,450	10,400
Receivable from Primary Government.....	—	—	7,135
Other Receivables.....	365	12	300,621
Inventories.....	—	—	18,129
Other Assets.....	26	—	43,595
TOTAL CURRENT ASSETS.....	432,827	92,462	1,221,389
NONCURRENT ASSETS:			
Restricted Assets:			
Cash Equity with Treasurer.....	—	—	—
Cash and Cash Equivalents.....	—	14,066	16,125
Investments.....	—	961,744	—
Collateral on Lent Securities.....	—	—	—
Loans Receivable, Net.....	—	2,520,041	—
Investments.....	—	30,093	1,017,094
Loans Receivable, Net.....	—	20,214	49,016
Other Receivables.....	—	1,775	43,499
Other Assets.....	—	16,370	—
Capital Assets Being Depreciated, Net.....	25	1,251	1,589,687
Capital Assets Not Being Depreciated.....	—	539	279,668
TOTAL NONCURRENT ASSETS.....	25	3,566,093	2,995,089
TOTAL ASSETS.....	432,852	3,658,555	4,216,478
CURRENT LIABILITIES:			
Accounts Payable.....	6,773	40,872	159,709
Accrued Liabilities.....	161	6,910	112,927
Obligations Under Securities Lending.....	103,846	—	—
Intergovernmental Payable.....	748,200	2,240	—
Deferred Revenue.....	—	—	89,674
Refund and Other Liabilities.....	62	43	63,364
Bonds and Notes Payable.....	—	105,653	343,471
Certificates of Participation.....	—	—	980
TOTAL CURRENT LIABILITIES.....	859,042	155,718	770,125
NONCURRENT LIABILITIES:			
Intergovernmental Payable.....	1,385,342	—	—
Deferred Revenue.....	—	—	8,000
Refund and Other Liabilities.....	349	134	176,748
Bonds and Notes Payable.....	—	1,509,311	217,160
Certificates of Participation.....	—	—	6,900
TOTAL NONCURRENT LIABILITIES.....	1,385,691	1,509,445	408,808
TOTAL LIABILITIES.....	2,244,733	1,665,163	1,178,933
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt.....	25	1,790	1,266,371
Restricted for:			
Federal Programs.....	—	—	—
Debt Service.....	—	1,838,858	—
Intergovernmental and Capital Purposes.....	—	—	—
Nonexpendable:			
Scholarships and Fellowships.....	—	—	—
Research.....	—	—	—
Endowments and Quasi-Endowments.....	—	—	791,188
Affiliated Organizations.....	—	—	—
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.....	—	—	4,944
Endowments and Quasi-Endowments.....	—	—	113,806
Current Operations.....	—	—	289,216
Affiliated Organizations.....	—	—	—
Loans, Grants and Other College and University Purposes.....	—	—	37,272
Unrestricted (Deficits).....	(1,811,906)	152,744	534,748
TOTAL NET ASSETS (DEFICITS).....	\$ (1,811,881)	\$ 1,993,392	\$ 3,037,545

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
\$ —	\$ 20,830	\$ 331,171
62,156	408,489	725,924
72,937	611,268	1,356,349
—	6,990	110,836
—	24,592	47,927
3,292	20,899	36,041
379	18,560	26,074
60,479	223,816	585,293
4,772	23,857	46,758
20,692	49,429	113,742
224,707	1,408,730	3,380,115
—	16,351	16,351
—	60,237	90,428
—	193,130	1,154,874
—	5,485	5,485
—	—	2,520,041
984,667	349,070	2,380,924
28,072	92,946	190,248
35,276	8,465	89,015
200,134	11,721	228,225
802,588	3,056,181	5,449,732
278,858	454,041	1,013,106
2,329,595	4,247,627	13,138,429
2,554,302	5,656,357	16,518,544
47,870	113,725	368,949
65,283	143,236	328,517
—	12,475	116,321
379	388	751,207
12,769	201,841	304,284
35,187	85,057	183,713
35,531	58,775	543,430
90	—	1,070
197,109	615,497	2,597,491
—	—	1,385,342
—	1,698	9,698
190,887	160,168	528,286
474,245	1,003,323	3,204,039
840	—	7,740
665,972	1,165,189	5,135,105
863,081	1,780,686	7,732,596
585,748	2,725,094	4,579,028
—	36	36
—	—	1,838,858
—	16,351	16,351
90,107	53,783	143,890
71,618	1,107	72,725
465,541	62,471	1,319,200
193,058	—	193,058
—	7,712	7,712
31,447	34,235	65,682
90,877	8,439	99,316
26,178	17,306	43,484
22,532	7,376	29,908
27,569	5,530	33,099
8,124	2,388	10,512
—	34,860	39,804
107,233	12,384	233,423
2,944	17,296	309,456
25,456	—	25,456
16,242	102,182	155,696
(73,453)	767,121	(430,746)
\$ 1,691,221	\$ 3,875,671	\$ 8,785,948

STATE OF OHIO
COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (for the year ended 12/31/02)	OHIO STATE UNIVERSITY
EXPENSES:			
Primary, Secondary and Other Education.....	\$ 28,349	\$ —	\$ —
Community and Economic Development.....	—	—	—
Intergovernmental	1,412,575	842	—
Cost of Services.....	—	81,317	—
Administration.....	—	9,891	—
Education and General:			
Instruction and Departmental Research.....	—	—	569,710
Separately Budgeted Research.....	—	—	303,057
Public Service.....	—	—	114,916
Academic Support.....	—	—	90,786
Student Services.....	—	—	62,356
Institutional Support.....	—	—	110,144
Operation and Maintenance of Plant.....	—	—	68,154
Scholarships and Fellowships.....	—	—	41,489
Auxiliary Services.....	—	—	164,130
Hospitals.....	—	—	809,584
Interest on Long-Term Debt.....	—	—	17,594
Depreciation.....	15	255	140,608
Other.....	—	32	2,620
TOTAL EXPENSES.....	1,440,939	92,337	2,495,148
PROGRAM REVENUES:			
Charges for Services, Fees, Fines and Forfeitures.....	16	122,319	1,480,641
Operating Grants, Contributions and Restricted Investment Income.....	34,697	109,889	482,228
Capital Grants, Contributions and Restricted Investment Income.....	—	—	97,357
TOTAL PROGRAM REVENUES.....	34,713	232,208	2,060,226
NET PROGRAM (EXPENSE) REVENUE	(1,406,226)	139,871	(434,922)
GENERAL REVENUES:			
Unrestricted Investment Income.....	—	2,986	69,754
State Assistance.....	460,804	—	494,241
Other.....	—	—	1,178
TOTAL GENERAL REVENUES.....	460,804	2,986	565,173
CONTRIBUTIONS TO ENDOWMENTS AND PERMANENT FUND PRINCIPAL.....	—	—	46,026
SPECIAL ITEMS.....	—	—	53,489
CHANGE IN NET ASSETS.....	(945,422)	142,857	229,766
NET ASSETS (DEFICITS), JULY 1 (as restated).....	(866,459)	1,850,535	2,807,779
NET ASSETS (DEFICITS), JUNE 30.....	\$ (1,811,881)	\$ 1,993,392	\$ 3,037,545

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
\$ —	\$ 56,418	\$ 84,767
—	2,445	2,445
—	46,853	1,460,270
—	—	81,317
—	—	9,891
234,615	1,197,068	2,001,393
119,596	139,371	562,024
45,520	112,985	273,421
57,623	278,926	427,335
31,904	195,854	290,114
64,577	325,829	500,550
50,596	228,571	347,321
11,281	133,420	186,190
70,611	441,886	676,627
—	169,445	979,029
16,995	39,355	73,944
57,389	212,862	411,129
25,210	17,845	45,707
785,917	3,599,133	8,413,474
283,560	2,000,054	3,886,590
223,852	369,216	1,219,882
7,609	50,815	155,781
515,021	2,420,085	5,262,253
(270,896)	(1,179,048)	(3,151,221)
—	52,637	125,377
219,263	1,208,081	2,382,389
9,998	33,948	45,124
229,261	1,294,666	2,552,890
12,774	1,017	59,817
8,137	28,521	90,147
(20,724)	145,156	(448,367)
1,711,945	3,730,515	9,234,315
\$ 1,691,221	\$ 3,875,671	\$ 8,785,948



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Ohio, as of June 30, 2003, and for the year then ended, conform with generally accepted accounting principles (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are included in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. The State's significant accounting policies are as follows.

A. Financial Reporting Entity

The State of Ohio's primary government includes all funds, elected officials, departments and agencies, bureaus, boards, commissions, and authorities that make up the State's legal entity. Component units, legally separate organizations for which the State's elected officials are financially accountable, also comprise, in part, the State's reporting entity. Additionally, other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete should be included in a government's financial reporting entity.

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

- appointment of a voting majority of an organization's governing authority and the ability of the primary government to either impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government, or
- an organization is fiscally dependent on the primary government.

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.

1. Blended Component Units

The Ohio Building Authority and the State Highway Patrol Retirement System are legally separate organizations that provide services entirely, or almost entirely, to the State or otherwise exclusively, or almost exclusively, benefit the State. Therefore, the State reports these organizations' balances and transactions as though they were part of the primary government using the blending method.

2. Discretely Presented Component Units

The component units' columns in the basic financial statements include the financial data of the organizations listed below. The separate discrete column labeled, "Component Units," emphasizes these organizations' separateness from the State's primary government. Officials of the primary government appoint a voting majority of each organization's governing board.

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

- School Facilities Commission
- Arts and Sports Facilities Commission
- SchoolNet Commission

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

Ohio Water Development Authority

- Ohio State University
- University of Cincinnati
- Ohio University
- Miami University
- University of Akron
- Bowling Green State University
- Kent State University
- University of Toledo
- Cleveland State University
- Youngstown State University
- Wright State University
- Shawnee State University
- Central State University

Medical College of Ohio at Toledo

- Terra State Community College
- Columbus State Community College
- Clark State Community College
- Edison State Community College
- Southern State Community College
- Washington State Community College
- Cincinnati State Community College
- Northwest State Community College
- Owens State Community College

3. Joint Ventures and Related Organizations

As discussed in more detail in NOTE 18, the State participates in several joint ventures and has related organizations. The State does not include the financial activities of these organizations in its financial statements, in conformity with GASB Statement No. 14.



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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* 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 are not included in the calculation of this net assets component.
- The *Restricted Net Assets* component represents net assets with constraints placed on their use that are either 1.) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2.) imposed by law through constitutional provisions or enabling legislation. For component units with permanent endowments, restricted net assets are displayed in two additional components — expendable and nonexpendable. Nonexpendable net assets are those that are required to be retained in perpetuity.
- The *Unrestricted Net Assets* component consists of net assets that do not meet the definition of the preceding two components.

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

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

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

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

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

Operating revenues for the State's proprietary funds mainly consist of charges for sales and services and premium and assessment income since these revenues result from exchange transactions associated with the principal activity of the respective enterprise fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Investment income and revenue from the federal government for extended unemployment benefits are also reported as operating revenues for the Unemployment Compensation Fund, since these



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

sources provide significant funding for the payment of unemployment benefits – the fund’s principal activity. Investment income for the Tuition Trust Authority Fund is also reported as operating revenue, since this source provides significant funding for the payment of tuition benefits. Nonoperating revenues for the proprietary funds result from nonexchange transactions or ancillary activities; nonoperating revenues are primarily comprised of investment income and federal operating grants.

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

The State reports the following major governmental funds:

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

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

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

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

Revenue Distribution Special Revenue Fund — This fund accounts for tax relief and aid to local government programs, which derive funding from tax and

other revenues levied, collected, and designated by the State for these purposes.

The State reports the following major proprietary funds:

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

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

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

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

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

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

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

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

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, 2002.



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 STAROhio Investment Trust Fund accounts for the state-sponsored external investment pool, which the Treasurer of State administers for local government participants.

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

The State reports the following major component unit funds:

The *School Facilities Commission*, which accounts for grants that provide assistance to local school districts for the construction of school buildings, is a discretely presented governmental component unit that uses special revenue fund reporting.

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, 2002. The Ohio State University Fund accounts for the university's operations, including its health system, super-computer center, agricultural research and development center, and other legally separate entities subject to the control of the university's board. The University of Cincinnati Fund accounts for the university's operations, including its related foundation.

C. Measurement Focus and Basis of Accounting
Government-wide, Enterprise Fund, and Fiduciary Fund Financial Statements — The State reports the government-wide financial statements and the proprietary fund and fiduciary fund financial statements using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

For revenue arising from exchange transactions (i.e., charges for goods and services), the State recognizes revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions when the exchange takes

place. The State defers revenue recognition when resources are received in advance of the exchange.

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

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

Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Resources transmitted in advance of the State meeting eligibility requirements are reported as deferred 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 all revenues reported in the governmental funds to be available when the revenues are collected 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



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Federal government grants
- Investment income

The State recognizes assets from derived tax revenues (e.g., personal income, sales, motor vehicle fuel taxes) in the fiscal year when the exchange transaction on which the tax is imposed occurs or when the resources are received, whichever occurs first. The State recognizes derived tax revenues, net of estimated refunds and estimated uncollectible amounts, in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred and the revenues are collected during the 60-day availability period.

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

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 deferred revenue. Also, the State defers revenue recognition for reimbursement-type grant programs if the reimbursement is not received during the availability period (within 60-days of year-end or soon enough thereafter to be used to pay liabilities of the current period).

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

Licenses, permits, fees, and certain other miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash. The "Other" revenue account is comprised of refunds, reimbursements, recoveries, and other miscellaneous income.

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

General capital asset acquisitions are reported as expenditures in the governmental funds. Proceeds from general long-term debt issuances, including refunding bond proceeds, bond premiums, and ac-

quisitions under capital leases are reported as other financing sources while bond discounts and payments to bond escrow agents are reported as other financing uses.

D. Budgetary Process

As the Ohio Revised Code requires, the Governor submits biennial operating and capital budgets to the General Assembly. All proposed expenditures for the State and estimated revenues and borrowings for a biennium comprise the budget, which includes those funds of the State subject to appropriation pursuant to state law.

The General Assembly enacts the budget through passage of specific departmental line-item appropriations, the legal level of budgetary control. Line-item appropriations are established within funds by program or major object of expenditure. The Governor may veto any item in an appropriation bill. Such vetoes are subject to legislative override.

Biennially, the General Assembly approves operating and capital appropriations. The legislature specifies operating appropriations in annual amounts and capital appropriations in two-year amounts.

The State's Controlling Board, comprised of six members of the General Assembly and the director of the Office of Budget and Management (OBM) or an employee of OBM designated by the director, can transfer or increase a line-item appropriation within the limitations set under Sections 127.14 and 131.35, Ohio Revised Code. As provided by Sections 127.14 and 127.16, Ohio Revised Code, the Board has delegated to the director of OBM authority to approve transfers within a state agency among items of appropriations for the same fiscal year not to exceed a cumulative fiscal year transfer of \$50,000 (or \$75,000 for certain institutional departments) from each item of appropriation. The OBM director cannot make transfers for the purpose of effecting new or changed levels of program service not authorized by the General Assembly.

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

- Vietnam Conflict Compensation
- General Obligations
- Economic Development Revenue Bonds
- Infrastructure Bank Revenue Bonds
- Revitalization Project Revenue Bonds
- Higher Education Facilities Special Obligations
- Mental Health Facilities Special Obligations
- Parks and Recreation Facilities Special Obligations



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

School Building Program Special Obligations
Ohio Building Authority Special Obligations
Transportation Certificates of Participation

For budgeted funds, the State's Central Accounting System controls expenditures by appropriation line-item, so at no time can expenditures exceed appropriations and financial-related legal compliance is assured. The State uses the modified cash basis of accounting for budgetary purposes.

The *Detailed Appropriation Summary by Fund Report*, which is available for public inspection at the Ohio Office of Budget and Management, 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 budgeted revenues and other financing sources and uses for the General Fund only; the State does not budget revenue and other financing sources and uses for the major special revenue funds or its budgeted nonmajor governmental funds.

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

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

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

E. Cash Equity with Treasurer and Cash and Cash Equivalents

Cash equity with Treasurer consists of pooled demand deposits and investments carried at fair value. The State's cash pool under the Treasurer of State's administration has the general characteristics of a demand deposit account whereby additional cash can be deposited at any time and can also be effec-

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

Cash and cash equivalents include amounts on deposit with financial institutions and cash on hand. The cash and cash equivalents account also includes investments with original maturities of three months or less from the date of acquisition for the Bureau of Workers' Compensation, Lottery Commission, and Tuition Trust Authority enterprise funds and the Medical College of Ohio and the Columbus State Community College component unit funds.

Cash equity with Treasurer and cash and cash equivalents, including the portions reported under "Restricted Assets," are considered to be cash equivalents, as defined in GASB Statement No. 9, for purposes of the Statement of Cash Flows.

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



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

revenue. Additional disclosures on taxes receivable can be found in NOTE 5A.

H. Intergovernmental Receivable

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

I. Inventories

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

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

J. Restricted Assets

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

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

K. Capital Assets

Primary Government

The State reports capital assets purchased with governmental fund resources in the government-wide financial statements at historical cost, or at estimated historical cost when no historical records exist. Donated fixed 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 his-

torical treasures, including historical land improvements and buildings. Infrastructure assets are reported using the "modified approach," as discussed below, and therefore are not depreciable. Individual works of art and historical treasures, including historical land improvements and buildings, are considered to be inexhaustible, and therefore, are not depreciable.

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

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

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

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

The State does not capitalize collections of works of art or historical treasures that can be found at the Governor's residence, Malabar Farm (i.e., Louis Bromfield estate), which the Ohio Department of Natural Resources operates, the Ohio Arts Council,



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the State Library of Ohio, and the Capitol Square Review and Advisory Board for the following reasons:

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

The State has established the following capitalization thresholds:

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

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

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

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

Discretely Presented Component Unit Funds

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

L. Noncurrent Liabilities

Government-wide Financial Statements — Liabilities whose average maturities are greater than one year are reported in two components — the amount due in one year and the amount due in more than one year. Additional disclosures as to the specific liabilities included in noncurrent liabilities can be found in NOTES 10 through 15.

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

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

M. Compensated Absences

Employees of the State's primary government earn vacation leave, sick leave, and personal leave at various rates within limits specified under collective bargaining agreements or under law. Generally, employees accrue vacation leave at a rate of 3.1 hours every two weeks for the first five years of employment, up to a maximum rate of 9.2 hours every two weeks after 25 years of employment. Employees may accrue a maximum of three years vacation leave credit. At termination or retirement, the State pays employees, at their full rate, 100 percent of unused vacation leave, personal leave, and, in certain cases, compensatory time and 50 to 55 percent of unused sick leave.

Such leave is liquidated in cash, under certain restrictions, either annually in December, or at the time of termination from employment.

For the governmental funds, the State reports the compensated absences liability as a fund liability (included in the "Accrued Liabilities" account as a component of wages payable) to the extent it will be liquidated with expendable, available financial resources. For the primary government's proprietary funds and its discretely presented component unit funds, the State reports the compensated absences liability as a fund liability included in the "Refund and Other Liabilities" account.

The State's primary government accrues vacation, compensatory time, and personal leaves as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as at termination or retirement.



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

N. Fund Balance

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

Reserved

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

Unreserved/Designated

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

Unreserved/Undesignated

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

O. Risk Management

The State's primary government is self-insured for claims under its traditional healthcare plans and for vehicle liability while it has placed public official fidelity bonding with a private insurer. The State self-funds tort liability and most property losses on a pay-as-you-go basis; however, selected state agencies have acquired private insurance for their property losses. While not the predominant participants, the State's primary government and its discretely presented component units participate in a public entity

risk pool, which is accounted for in the Bureau of Workers' Compensation Enterprise Fund, for the financing of their respective workers' compensation liabilities. These liabilities are reported in the governmental funds as an interfund payable. (See NOTE 7).

P. Interfund Balances and Activities

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

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

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

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

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

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

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



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Q. Intra-Entity Balances and Activities

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

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

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

NOTE 2 RESTATEMENTS AND CHANGES IN ACCOUNTING PRINCIPLES AND STANDARDS

A. Restatements — Primary Government

Restatements of fund balances/net assets, as of June 30, 2002, for the primary government are presented in the following table (dollars in thousands).

The increase in the intergovernmental receivable balance was a correction to the calculation of reim-

bursements due from the federal government for childcare programs at the Ohio Department of Job and Family Services. The increase in the interfund payable balance resulted from a change in the application of accounting principle that restated amounts owed to the Ohio Bureau of Workers' Compensation for workers' compensation claims.

	Governmental Funds						Total
	General	Job, Family and Other Human Services	Highway Operating	Other Major Governmental Funds	Total Major Governmental Funds	Nonmajor Governmental Funds	
Fund Balance, as of June 30, 2002, As Previously Reported	\$875,457	\$143,359	\$814,692	\$147,528	\$1,981,036	\$2,567,502	\$4,548,538
Corrections:							
Increase/(Decrease) to Assets:							
Cash Equity with Treasurer	5,696	—	—	—	5,696	—	5,696
Intergovernmental Receivable	—	77,177	—	—	77,177	—	77,177
Other Receivable-Interest	1,348	—	—	—	1,348	—	1,348
Inventories	(1,306)	—	1,306	—	—	—	—
	5,738	77,177	1,306	—	84,221	—	84,221
Change in the Application of Principle: (Increase)/Decrease to Liabilities:							
Interfund Payable	(118,945)	—	24,748	—	(94,197)	(9,871)	(104,068)
Fund Balance, July 1, 2002, As Restated	\$762,250	\$220,536	\$840,746	\$147,528	\$1,971,060	\$2,557,631	\$4,528,691
		Govern- mental Activities					
Net Assets, as of June 30, 2002, As Previously Reported	\$17,467,070						
Corrections:							
Increase/(Decrease) to Assets:							
Cash Equity with Treasurer	5,696						
Intergovernmental Receivable	101,671						
Other Receivable-Interest	1,659						
	109,026						
Change in the Application of Principle: (Increase)/Decrease to Liabilities:							
Interfund Payable	(104,068)						
	4,958						
Net Assets, July 1, 2002, As Restated ..	\$17,472,028						



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

B. Restatements — Component Unit Funds

Restatements of net assets, as of June 30, 2002, are summarized for the discretely presented component unit funds below (dollars in thousands).

	Major Component Units					Total
	School Facilities Commission	Ohio Water Development Authority (12/31/02)	Ohio State University	University of Cincinnati	Nonmajor Component Units	
Net Assets, as of June 30, 2002, As Previously Reported	\$(866,459)	\$1,850,535	\$2,807,779	\$1,711,945	\$3,739,245	\$9,243,045
Change in Accounting Principle: (Increase)/Decrease to Liabilities:						
Deferred Revenue	—	—	—	—	4,896	4,896
Refund and Other Liabilities	—	—	—	—	(9,602)	(9,602)
	—	—	—	—	(4,706)	(4,706)
Corrections:						
Increase/(Decrease) to Assets:						
Capital Assets Being Depreciated, Net....	—	—	—	—	(2,194)	(2,194)
(Increase)/Decrease to Liabilities:						
Interfund Payable.....	—	—	—	—	—	—
Refund and Other Liabilities	—	—	—	—	(1,830)	(1,830)
	—	—	—	—	(4,024)	(4,024)
Increase/(Decrease) for Restatement	—	—	—	—	(8,730)	(8,730)
Net Assets, July 1, 2002, As Restated	\$(866,459)	\$1,850,535	\$2,807,779	\$1,711,945	\$3,730,515	\$9,234,315

C. Recently Issued Accounting Pronouncements

In May 2002, the GASB amended GASB Statement No. 14, *The Financial Reporting Entity*, and established additional guidance on the application of existing standards for the assessment of potential component units in determining a government's financial reporting entity when it issued GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The provisions of GASB Statement No. 39 are effective for financial statements presented for periods beginning after June 15, 2003.

In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*. exposed to risks that have the potential to result in losses. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2004.

Management has not yet determined the impact that the two new GASB Statements 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 2003.

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 2003, whenever signed into law or otherwise legally authorized.

For fiscal year 2003, 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, 2003
(dollars in thousands)

	Major Special Revenue Funds				
	General	Job, Family, and Other Human Services	Education	Highway Operating	Revenue Distribution
Total Fund Balances - GAAP Basis	\$ 192,787	\$ 288,975	\$ 22,556	\$ 615,689	\$ 106,606
Less: Reserved Fund Balances	595,025	1,237,079	82,953	1,275,676	124,022
Unreserved/Undesignated Fund Balances — GAAP Basis	(402,238)	(948,104)	(60,397)	(659,987)	(17,416)
Revenue Accruals/Adjustments:					
Cash Equity with Treasurer	(31,158)	(3,172)	(591)	(7,383)	(8,697)
Taxes Receivable	(734,024)	—	—	(38,238)	(205,679)
Intergovernmental Receivable	(618,063)	(544,173)	(119,718)	(85,505)	—
Loans Receivable, Net	(24,754)	—	(8,980)	(63,695)	—
Interfund Receivable	(245,634)	(6)	(3)	—	—
Other Receivables	(227,121)	(41,812)	(1,142)	(1,823)	(39)
Inventories	(19,159)	—	—	(24,349)	—
Other Assets	(16,886)	(1,920)	(4,390)	(3,185)	—
Deferred Revenue	104,209	218,207	73,064	37,832	18,400
Total Revenue Accruals/Adjustments	(1,812,590)	(372,876)	(61,760)	(186,346)	(196,015)
Expenditure Accruals/Adjustments:					
Accounts Payable	111,740	44,704	3,408	144,007	—
Accrued Liabilities	83,079	9,952	1,228	15,802	—
Medicaid Claims Payable	1,046,634	—	—	—	—
Intergovernmental Payable	286,726	233,144	78,654	3,758	302,454
Interfund Payable	560,554	15,012	3,033	94,662	56
Payable to Component Units	7,127	694	—	137	—
Refund and Other Liabilities	675,540	9,276	—	—	70,389
Liability for Escheat Property	4,041	—	—	—	—
Total Expenditure Accruals/Adjustments	2,775,441	312,782	86,323	258,366	372,899
Other Adjustments:					
Fund Balance Reclassifications:					
From Unreserved (Non-GAAP Budgetary Basis) to Reserved for:					
Noncurrent Portion of Loans Receivable	24,134	—	8,423	58,034	—
Inventories	19,159	—	—	24,349	—
State and Local Highway Construction	—	—	—	—	124,022
Federal Programs	—	458	7,994	—	—
Other	275,166	33,914	203	3,185	—
Cash and Investments Held Outside of State Treasury	(207,523)	(34,445)	(4,476)	(229)	(3,664)
Total Other Adjustments	110,936	(73)	12,144	85,339	120,358
Total Basis Differences	1,073,787	(60,167)	36,707	157,359	297,242
TIMING DIFFERENCES					
Encumbrances	(134,596)	(258,401)	(12,778)	(134,547)	—
Budgetary Fund Balances (Deficits) — Non-GAAP Basis	\$ 536,953	\$(1,266,672)	\$ (36,468)	\$ (637,175)	\$ 279,826



NOTE 4 DEPOSITS AND INVESTMENTS

A. Legal Requirements

The deposit and investment policies of the Treasurer of State and the State Board of Deposit are governed by the Uniform Depository Act, Chapter 135, Ohio Revised Code, which requires state moneys to be maintained in one of the following three classifications:

Active Deposits — Moneys required to be kept in a cash or near-cash status to meet current demands. Such moneys must be maintained either as cash in the State's treasury or in one of the following: a commercial account that is payable or withdrawable, in whole or in part, on demand, a negotiable order of withdrawal account, a money market deposit account, or a designated warrant clearance account.

Inactive Deposits — Those moneys not required for use within the current two-year period of designation of depositories. Inactive moneys may be deposited or invested only in certificates of deposit maturing not later than the end of the current period of designation of depositories.

Interim Deposits — Those moneys not required for immediate use, but needed before the end of the current period of designation of depositories. Interim deposits may be deposited or invested in the following instruments:

- Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest;
- Bonds, notes, debentures, or other obligations or securities issued by any federal government agency, or the Export-Import Bank of Washington;
- Repurchase agreements in the securities enumerated above;
- Interim deposits in the eligible institutions applying for interim moneys;
- Bonds and other obligations of the State of Ohio;
- The Treasurer of State's investment pool;
- Linked deposits, reduced-rate deposits at financial institutions that provide reduced-rate loans to small businesses, as authorized under Section 135.63, Ohio Revised Code;

- Agricultural linked deposits, reduced-rate deposits at financial institutions that provide reduced-rate loans to agricultural businesses, as authorized under Section 135.74, Ohio Revised Code;
- Reverse repurchase agreements with any eligible financial institution that is a member of the Federal Reserve System or federal home loan bank, or any recognized U.S. government securities dealer;
- Securities lending agreements with any eligible financial institution that is a member of the federal reserve system or federal home loan bank, or any recognized U.S. government securities dealer;
- Commercial paper, rated in one of the two highest rating categories by two nationally recognized rating agencies and not exceeding five percent of the investment portfolio;
- Bankers' acceptances maturing in 270 days or less and not exceeding 10 percent of the investment portfolio;
- Debt of domestic corporations and foreign nations diplomatically recognized by the United States, rated investment grade by nationally recognized rating agencies and, in the aggregate, not exceeding five percent of the investment portfolio; and
- No-load money market funds consisting of U.S. government and agency obligations and repurchase agreements secured by such obligations.

The primary government's deposits must be held in insured depositories approved by the State Board of Deposit and must be fully collateralized.

In some cases, deposit and investment policies of certain individual funds and component units are established by Ohio Revised Code provisions other than the Uniform Depository Act and by bond trust agreements. In accordance with applicable statutory authority, the State Highway Patrol Retirement System Pension Trust Fund, the Tuition Trust Authority Enterprise Fund, the Workers' Compensation Enterprise Fund, the Retirement Systems Agency Fund, and the higher education institutions may also invest in common and preferred stocks, domestic and foreign corporate/government bonds and notes,



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

mortgage loans, limited partnerships, venture capital, real estate, and/or 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 <http://www.ohiotreasurer.org>.

C. Deposits

1. Primary Government

As of June 30, 2003, the carrying amount of deposits was (dollars in thousands) \$756,843 and the bank balance was \$774,795. Of the bank balance, \$28,890 was fully insured or collateralized with securities held by the primary government or its agent in the primary government's name (Category 1), \$723,214 was collateralized with securities held by the pledging financial institution's trust department or its agent in the primary government's name (Category 2), and \$22,691, although meeting legal collateralization requirements, was categorized as uninsured and uncollateralized (Category 3).

2. Component Units

As of June 30, 2003, the carrying amount of deposits was (dollars in thousands) \$575,384, and the bank balance was \$639,096. Of the bank balance, \$52,605 was fully insured or collateralized with securities held by the respective component units or their agents in the component unit's name (Category 1), \$437,195 was collateralized with securities held by

the pledging financial institution's trust department or its agent in the respective component unit's name (Category 2), and \$149,296, although meeting legal collateralization requirements, was categorized as uninsured and uncollateralized (Category 3).

D. Investments

The State categorizes investments to give an indication of the levels of credit risk associated with the State's custodial arrangements at year-end. *Category 1* includes investments that are insured, registered, or held by the State or its agent in the State's name. *Category 2* includes uninsured and unregistered investments held by the counterparty's trust department or its agent in the State's name. *Category 3* includes uninsured and unregistered investments held by the counterparty, its trust department, or its agent, but not in the State's name.

Certain investments have not been categorized because the securities are not used as evidence of the investment. These uncategorized investments include ownership in mutual funds, real estate, venture capital and limited partnerships, direct mortgage loans, life insurance, investment contracts, and the deposit with the federal government. In conformity with Governmental Accounting Standards Board Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, securities lent at year-end for cash collateral have not been categorized by custodial credit risk, while securities lent for securities collateral have been categorized.

The levels of credit risk assumed by the primary government and its discretely presented component units and the carrying amount and fair value of investments, as of June 30, 2003, are detailed in the tables on the following page.



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Primary Government
(dollars in thousands)

	Category 1	Category 2	Category 3	Total Fair Value
U.S. Government & Agency Obligations:				
Not on Securities Loan	\$ 15,752,022	\$ —	\$ 6,194,770	\$ 21,946,792
On Securities Loan	—	—	52,295	52,295
Common and Preferred Stock	47,569,188	—	3,088,375	50,657,563
Corporate Bonds and Notes:				
Not on Securities Loan	9,464,055	—	1,688,304	11,152,359
On Securities Loan	—	—	41,327	41,327
Foreign Stocks and Bonds	20,306,779	—	1,222,847	21,529,626
Commercial Paper	3,202,869	—	2,075,471	5,278,340
Repurchase Agreements	151,049	23,646	357	175,052
High-Yield & Emerging Markets				
Fixed Income Securities	906,741	—	—	906,741
Mortgage and Asset-Backed Securities	4,767,667	—	—	4,767,667
Securities Lending Collateral:				
U.S. Government & Agency Obligations	9,977	—	1,226,844	1,236,821
Repurchase Agreements	1,202,552	—	—	1,202,552
Common and Preferred Stock	—	—	325,994	325,994
Corporate Bonds and Notes	563,225	—	343,674	906,899
Foreign Stocks and Bonds	—	—	182,536	182,536
Commercial Paper	1,465,277	—	—	1,465,277
	<u>\$105,361,401</u>	<u>\$23,646</u>	<u>\$16,442,794</u>	<u>121,827,841</u>
Investments Held by Broker-dealers under Securities Loans with Cash Collateral:				
U.S. Government and Agency Obligations				4,539,032
Common and Preferred Stock				387,689
Corporate Bonds and Notes				353,936
Foreign Stocks and Bonds				168,539
Mortgage and Asset-Backed Securities				16,966
Mutual Funds				7,424,631
Real Estate				11,223,872
Venture Capital				1,470,209
Limited Partnerships				631,556
Investment Contracts				887
Securities Lending Collateral — Mutual Funds				254,299
Deposit with Federal Government				1,190,542
Component Units' Equity in State Treasurer's Cash and Investment Pool				
(including associated Collateral on Lent Securities)				(463,843)
Component Units' Equity in the State Treasury Asset Reserve of Ohio (STAR Ohio)				(699,512)
Total Investments — Primary Government				<u>\$148,326,644</u>

Component Units
(dollars in thousands)

	Category 1	Category 2	Category 3	Total Fair Value
U.S. Government & Agency Obligations	\$207,498	\$ 642,518	\$500,032	\$1,350,048
Common and Preferred Stock	577,080	920,528	9,069	1,506,677
Corporate Bonds and Notes	128,435	196,513	58,543	383,491
Commercial Paper	48	—	—	48
Repurchase Agreements	—	113,734	58,976	172,710
Negotiable Certificates of Deposit	—	30,000	21,500	51,500
Other Investments	1,235	—	19	1,254
	<u>\$914,296</u>	<u>\$1,903,293</u>	<u>\$648,139</u>	<u>3,465,728</u>
Investment in State Treasurer's Cash and Investment Pool				
(including associated Collateral on Lent Securities)				463,843
Investment in the State Treasury Asset Reserve of Ohio (STAR Ohio)				699,512
Mutual Funds				790,099
Real Estate				66,001
Direct Mortgages				24,911
Life Insurance				1,271
Limited Partnerships				7,054
Investment Contracts				78,539
Total Investments — Component Units				<u>\$5,596,958</u>



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The total carrying amount of deposits and investments, as of June 30, 2003, reported for the primary government and its component units is (dollars in thousands) \$155,091,796. The total carrying amount of deposits and investments categorized and disclosed in this note is \$155,255,829. A reconciliation of the difference is presented in the table below.

E. Securities Lending Transactions

The Treasurer of State, Bureau of Workers' Compensation (BWC), and the State Highway Patrol Retirement System participate in securities lending programs for securities included in the "Cash Equity with Treasurer" and "Investments" accounts and the STAR Ohio program. Each lending program is administered by a custodial agent bank, whereby certain securities are transferred to an independent broker-dealer (borrower) in exchange for collateral. The State requires its custodial agents to ensure that the State's lent securities are collateralized at no less than 102 percent of fair value. Consequently, as of June 30, 2003, the State had no credit exposure since the amount the State owed to borrowers exceeded the amount borrowers owed the State.

For loan contracts the Treasurer executes for the

State's cash and investment pool, which is reported in the financial statements as "Cash Equity with Treasurer," and for the Ohio Lottery Commission's Structured Investment Portfolio, which is reported as "Restricted Investments," the lending agent may not lend more than 50 percent of the total average portfolio. For the STAR Ohio program, no more than 25 percent of the STAR Ohio investment portfolio may be lent up to seven days and no more than 10 percent of the portfolio for terms up to 30 days. For securities lending contracts the Treasurer of State executes for the Tobacco Use Prevention and Control Foundation, the financial activities of which are reported in the Tobacco Settlement Special Revenue Fund, a minimum of 10 percent of the portfolio must be invested overnight and the following limits must be met:

- 25 percent of the portfolio may be on loan for up to seven days,
- 25 percent of the portfolio may be on loan from seven to 14 days,
- 25 percent of the portfolio may be on loan from 15 to 30 days, and
- 25 percent of the portfolio may be on loan for greater than 30 days, but not more than 90 days.

**Reconciliation of Deposit and Investments Disclosures
With Financial Statements
As of June 30, 2003
(dollars in thousands)**

	Government-Wide Statement of Net Assets			Fiduciary Funds Statement of Net Assets	Total
	Governmental Activities	Business-Type Activities	Component Units		
Cash Equity with Treasurer.....	\$4,167,693	\$ 49,504	\$ 331,171	\$ 168,377	\$ 4,716,745
Cash and Cash Equivalents.....	76,797	2,095,257	725,924	448,911	3,346,889
Investments.....	740,078	14,382,573	3,737,273	118,507,089	137,367,013
Collateral on Lent Securities.....	1,485,828	2,501,452	110,836	1,469,015	5,567,131
Deposit with Federal Government.....	—	1,190,542	—	—	1,190,542
Restricted Assets:					
Cash Equity with Treasurer.....	—	—	16,351	—	16,351
Cash and Cash Equivalents.....	—	1,891	90,428	—	92,319
Investments.....	—	1,634,447	1,154,874	—	2,789,321
Collateral on Lent Securities.....	—	—	5,485	—	5,485
Total Reporting Entity.....	\$6,470,396	\$21,855,666	\$6,172,342	\$120,593,392	\$155,091,796
			Primary Government:		
			Deposits.....		\$ 756,843
			Investments.....		148,326,644
					149,083,487
			Component Units:		
			Deposits.....		575,384
			Investments.....		5,596,958
					6,172,342
			Total Carrying Amount of Deposits and Investments.....		155,255,829
			Outstanding Warrants and Other Reconciling Items.....		(164,033)
			Total Reporting Entity.....		\$155,091,796



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The State invests cash collateral in short-term obligations, which have a weighted average maturity of 45 days or less and generally match the maturities of securities loans.

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

According to the lending contracts the Treasurer of State executes for the State's cash and investment pool and for the Ohio Lottery Commission, the securities lending agent is to indemnify the Treasurer of State for any losses resulting from either the default of a borrower or any violations of the security lending policy. Security lending agents for the STAR Ohio Program have an errors and omissions policy for loan losses of up to a maximum of \$250 thousand per loss, not to exceed \$5 million in total. As of June 30, 2003, the lending agent had deposited collateral with the Treasurer of State to cover a total loan loss of up to \$252 thousand under the securities lending agreement executed for the Tobacco Use Prevention and Control Foundation. Loan contracts for the Bureau of Workers Compensation do not provide any loss indemnification by securities lending agents in cases of borrower default. During fiscal year 2003, the State had not experienced any losses due to credit or market risk on securities lending activities.

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

F. Derivatives

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

As of June 30, 2003, the Bureau of Workers' Compensation Enterprise Fund held approximately \$5.2 billion in certain mortgage and asset-backed securities (primarily classified under the "U.S. Government and Agency Obligations" investment type), which the fund classified as derivatives. The overall return or yield on mortgage and asset-backed securities depends on the interest amount collected over the life of the security and the change in the fair value. Although the Bureau will receive the full principal amount, if prepaid, the interest income that would have been collected during the remaining period to maturity is lost. Accordingly, the yields and maturities of mortgage and asset-backed securities generally depend on when the underlying loan principal and interest are repaid. If the market rates fall below a loan's contractual rate, it is generally to the borrower's advantage to repay the existing loan and obtain new, lower interest rate financing.

Through the use of international money managers, the Bureau of Workers' Compensation also enters into various foreign currency exchange contracts to manage exposure to changes in foreign currency exchange rates on its international securities holdings. A forward currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risk associated with such contracts includes movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. The fair value of the forward currency contracts receivable for the Bureau was \$478 thousand, as of June 30, 2003.

Additionally, during the reporting period, the retirement systems reported in the Retirement Systems Agency Fund had investments in derivatives that were held in the Treasurer of State's custody. Specific information on the nature of the transactions and the reasons for entering into them can be found in each respective system's Comprehensive Annual Financial Report.



NOTE 5 RECEIVABLES

A. Taxes Receivables — Primary Government

Current taxes receivable are expected to be collected in the next fiscal year while noncurrent taxes receivable are not expected to be collected until more than one year from the balance sheet date. As of June 30, 2003, approximately \$108.5 million of the net taxes receivable balance is also reported as deferred revenue on the governmental funds' balance sheet, of which \$97.1 million is reported in the General Fund and \$11.4 million is reported in the Revenue Distribution Special Revenue Fund.

Refund liabilities for income, corporation franchise, and sales taxes, totaling approximately \$745.9 million, are reported for governmental activities as "Refunds and Other Liabilities" on the Statement of Net Assets, of which, \$675.5 million is reported in the General Fund and \$70.4 million is reported in the Revenue Distribution Special Revenue Fund on the governmental funds' balance sheet.

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

	Governmental Activities				
	Major Governmental Funds			Nonmajor Govern- mental Funds	Total Primary Government
	General	Highway Operating	Revenue Distribution		
Current-Due Within One Year:					
Income Taxes	\$279,425	\$ —	\$ 43,313	\$ 174	\$322,912
Sales Taxes	348,813	—	28,655	544	378,012
Motor Vehicle Fuel Taxes	—	38,238	98,581	1,875	138,694
Public Utility Taxes	66,425	—	30,513	—	96,938
Other Taxes	—	—	—	1,800	1,800
	694,663	38,238	201,062	4,393	938,356
Noncurrent-Due in More Than One Year:					
Income Taxes	39,361	—	4,617	—	43,978
Taxes Receivable, Net.....	<u>\$734,024</u>	<u>\$38,238</u>	<u>\$205,679</u>	<u>\$4,393</u>	<u>\$982,334</u>

B. Intergovernmental Receivables — Primary Government

The intergovernmental receivable balance reported for the primary government, all of which is expected to be collected within the next fiscal year, consisted of the following, as of June 30, 2003 (dollars in thousands).

	From Nonexchange Programs		From Sales of Goods and Services		Total Primary Government
	Federal Government	Local Government	Other State Governments	Local Government	
	Governmental Activities:				
Major Governmental Funds:					
General	\$ 588,041	\$ 21,074	\$ —	\$ 8,948	\$ 618,063
Job, Family and Other Human Services	449,323	94,850	—	—	544,173
Education	57,938	61,780	—	—	119,718
Highway Operating	85,505	—	—	—	85,505
Nonmajor Governmental Funds	201,635	16,860	—	2,579	221,074
Total Governmental Activities	1,382,442	194,564	—	11,527	1,588,533
Business-Type Activities:					
Unemployment Compensation	—	—	5,493	—	5,493
Intergovernmental Receivable	<u>\$1,382,442</u>	<u>\$194,564</u>	<u>\$5,493</u>	<u>\$11,527</u>	<u>\$1,594,026</u>



NOTE 5 RECEIVABLES (Continued)

C. Loans Receivable

Loans receivable for the primary government and its discretely presented component units, as of June 30, 2003, are detailed in the following tables (dollars in thousands).

Primary Government — Loans Receivable

Loan Program	Governmental Activities				
	Major Governmental Funds			Nonmajor Governmental Funds	Total Primary Government
	General	Education	Highway Operating		
School District Solvency Assistance.....	\$ 9,201	\$ —	\$ —	\$ —	\$ 9,201
Vocational Education.....	209	59	—	—	268
Wayne Trace Local School District.....	4,838	—	—	—	4,838
Vocational School Assistance	—	8,341	—	—	8,341
Physician Loan Repayment.....	—	295	—	—	295
Nurses Education Assistance.....	—	285	—	—	285
Office of Minority Financial Incentives	1,681	—	—	—	1,681
Rail Development.....	—	—	—	3,668	3,668
Office of Business Development	—	—	—	303,482	303,482
Ohio Housing Finance Agency	—	—	—	237,787	237,787
Small Government Fire Departments	329	—	—	—	329
Higher Education Research Investment Loans	—	—	—	1,316	1,316
Highway, Transit, & Aviation Infrastructure Bank ..	—	—	63,695	—	63,695
Natural Resources.....	—	—	—	86	86
Local Infrastructure Improvements	—	—	—	226,337	226,337
Columbiana County Economic Stabilization	1,806	—	—	—	1,806
State Workforce Development.....	6,678	—	—	—	6,678
Professional Development	742	—	—	—	742
Loans Receivable, Gross	25,484	8,980	63,695	772,676	870,835
Estimated Uncollectible	(730)	—	—	(22,267)	(22,997)
Loans Receivable, Net	<u>\$24,754</u>	<u>\$8,980</u>	<u>\$63,695</u>	<u>\$750,409</u>	<u>\$847,838</u>
Current-Due Within One Year	\$ 9,809	\$1,788	\$ 5,661	\$102,170	\$119,428
Noncurrent-Due in More Than One Year.....	14,945	7,192	58,034	648,239	728,410
Loans Receivable, Net	<u>\$24,754</u>	<u>\$8,980</u>	<u>\$63,695</u>	<u>\$750,409</u>	<u>\$847,838</u>

Component Units — Loans Receivable

Loan Program	Ohio Water Development Authority (12/31/02)	Ohio State University	University of Cincinnati	Other Component Units	Total Component Units
Water and Wastewater Treatment (including restricted portion)	\$21,664	\$ —	\$ —	\$ —	\$ 21,664
Student.....	—	70,571	35,185	122,640	228,396
Other	—	—	590	1,409	1,999
Loans Receivable, Gross	21,664	70,571	35,775	124,049	252,059
Estimated Uncollectible	—	(11,155)	(4,411)	(10,204)	(25,770)
Loans Receivable, Net	<u>\$21,664</u>	<u>\$59,416</u>	<u>\$31,364</u>	<u>\$113,845</u>	<u>\$226,289</u>
Current-Due Within One Year	\$ 1,450	\$10,400	\$ 3,292	\$ 20,899	\$ 36,041
Noncurrent-Due in More Than One Year.....	20,214	49,016	28,072	92,946	190,248
Loans Receivable, Net	<u>\$21,664</u>	<u>\$59,416</u>	<u>\$31,364</u>	<u>\$113,845</u>	<u>\$226,289</u>



NOTE 5 RECEIVABLES (Continued)

D. Other Receivables

Other receivables for the primary government and its discretely presented components, as of June 30, 2003, consisted of the following (dollars in thousands).

Primary Government — Other Receivables

Type of Receivable	Governmental Activities							Total
	Major Governmental Funds							
	General	Job, Family & Other Human Services	Education	Highway Operating	Revenue Distribution	Nonmajor Govern- mental Funds		
Accounts	\$ 4,036	\$ —	\$1,114	\$1,107	\$—	\$10,062	\$ 16,319	
Drug Manufacturers' Rebates Women, Infants and Children Program Rebates	202,770	—	—	—	—	—	202,770	
Health Facility Bed Assessments	—	39,407	—	—	—	12,051	12,051	
Interest	1,438	94	28	716	39	3,196	5,511	
Leases	—	—	—	—	—	1,662	1,662	
Miscellaneous	18,877	2,311	—	—	—	254	21,442	
Other Receivables, Net- Due Within One Year	<u>\$227,121</u>	<u>\$41,812</u>	<u>\$1,142</u>	<u>\$1,823</u>	<u>\$39</u>	<u>\$27,225</u>	<u>\$299,162</u>	
Type of Receivable	Workers' Compen- sation	Lottery Commis- sion	Unemploy- ment Compen- sation	Ohio Building Authority	Office of Auditor of State	Other Proprietary Funds	Total	
Accounts	\$785,812	\$ —	\$63,689	\$ 904	\$8,555	\$1,179	\$860,139	
Interest and Dividends (including restricted portion)	87,570	2,815	—	846	—	2	91,233	
Leases	—	—	—	18,565	—	—	18,565	
Lottery Sales Agents	—	45,592	—	—	—	—	45,592	
Miscellaneous	—	—	—	—	—	32	32	
Other Receivables, Gross	873,382	48,407	63,689	20,315	8,555	1,213	1,015,561	
Estimated Uncollectible	(600,274)	(456)	(55,197)	—	(30)	—	(655,957)	
Other Receivables, Net	<u>\$273,108</u>	<u>\$47,951</u>	<u>\$ 8,492</u>	<u>\$20,315</u>	<u>\$8,525</u>	<u>\$1,213</u>	<u>\$359,604</u>	
Current-Due Within One Year	\$273,108	\$47,951	\$ 8,492	\$ 5,480	\$8,525	\$1,213	\$344,769	
Noncurrent-Due in More Than One Year	—	—	—	14,835	—	—	14,835	
Other Receivables, Net	<u>\$273,108</u>	<u>\$47,951</u>	<u>\$ 8,492</u>	<u>\$20,315</u>	<u>\$8,525</u>	<u>\$1,213</u>	<u>\$359,604</u>	
Total Primary Government							<u>\$658,766</u>	

Component Units — Other Receivables

Type of Receivable	School Facilities Com- mission	Ohio Water Develop- ment Authority (12/31/02)	Ohio State University	University of Cincinnati	Other Com- ponent Units	Total Com- ponent Units
Accounts	\$ —	\$ —	\$425,938	\$22,565	\$174,908	\$623,411
Interest	365	—	15,752	5,825	5,395	27,337
Pledges	—	—	62,322	49,382	17,145	128,849
Miscellaneous	—	1,787	—	20,200	66,558	88,545
Other Receivables, Gross	365	1,787	504,012	97,972	264,006	868,142
Estimated Uncollectible	—	—	(159,892)	(2,217)	(31,725)	(193,834)
Other Receivables, Net	<u>\$365</u>	<u>\$1,787</u>	<u>\$344,120</u>	<u>\$95,755</u>	<u>\$232,281</u>	<u>\$674,308</u>
Current-Due Within One Year	\$365	\$ 12	\$300,621	\$60,479	\$223,816	\$585,293
Noncurrent-Due in More Than One Year	—	1,775	43,499	35,276	8,465	89,015
Other Receivables, Net	<u>\$365</u>	<u>\$1,787</u>	<u>\$344,120</u>	<u>\$95,755</u>	<u>\$232,281</u>	<u>\$674,308</u>



NOTE 5 RECEIVABLES (Continued)

The "Other Receivables" balance reported in the fiduciary funds in the amount of \$2.6 million is comprised of interest due, as of June 30, 2003.

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

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

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

Year Ending June 30,	Leases Receivable		
	Governmental Activities	Business- Type Activities	Total
2004	\$ 169	\$ 4,926	\$ 5,095
2005	169	4,923	5,092
2006	169	4,922	5,091
2007	169	4,860	5,029
2008	169	2,719	2,888
Thereafter ..	1,159	—	1,159
Total Minimum Lease Pay- ments.....	2,004	22,350	24,354
Amount for interest	(342)	(6,154)	(6,496)
Present Value of Net Mini- mum Lease Payments	1,662	16,196	17,858
Unearned Income.....	—	2,369	2,369
	<u>\$1,662</u>	<u>\$18,565</u>	<u>\$20,227</u>

NOTE 6 PAYABLES

A. Accrued Liabilities

Details on accrued liabilities for the primary government and its discretely presented component units, as of June 30, 2003, follow (dollars in thousands).

Primary Government — Accrued Liabilities

	Wages	Health Benefit Claims	Accrued Interest	Vehicle Liability Claims	Total Accrued Liabilities
Governmental Activities:					
Major Governmental Funds:					
General.....	\$ 79,032	\$4,047	\$ —	\$ —	\$ 83,079
Job, Family and Other Human Services	9,517	435	—	—	9,952
Education	1,157	71	—	—	1,228
Highway Operating	15,347	455	—	—	15,802
Nonmajor Governmental Funds	27,274	1,237	318	—	28,829
	<u>132,327</u>	<u>6,245</u>	<u>318</u>	<u>—</u>	<u>138,890</u>
Reconciliation of balances in fund financial statements to government-wide financial statements due to basis differences.....	—	—	96,822	2,686	99,508
Total Governmental Activities.....	<u>132,327</u>	<u>6,245</u>	<u>97,140</u>	<u>2,686</u>	<u>238,398</u>
Business-Type Activities:					
Ohio Building Authority.....	—	—	326	—	326
Tuition Trust Authority	74	—	—	—	74
Liquor Control.....	710	34	—	—	744
Underground Parking Garage	48	4	—	—	52
Office of Auditor of State	2,617	86	—	—	2,703
Total Business-Type Activities.....	<u>3,449</u>	<u>124</u>	<u>326</u>	<u>—</u>	<u>3,899</u>
Total Primary Government.....	<u>\$135,776</u>	<u>\$6,369</u>	<u>\$97,466</u>	<u>\$2,686</u>	<u>\$242,297</u>



NOTE 6 PAYABLES (Continued)

Primary Government — Accrued Liabilities (Continued)

	Wages	Health Benefit Claims	Management and Administrative Expenses	Total Accrued Liabilities
Fiduciary Activities:				
State Highway Patrol Retirement System Pension Trust (12/31/02).....	\$914	\$119	\$ —	\$1,033
Variable College Savings Plan Private-Purpose Trust	—	—	3,498	3,498
Total Fiduciary Activities.....	<u>\$914</u>	<u>\$119</u>	<u>\$3,498</u>	<u>\$4,531</u>

Component Units — Accrued Liabilities

	Wages and Employee Benefits	Accrued Interest	Other	Total Accrued Liabilities
Major Component Units:				
School Facilities Commission.....	\$ 149	\$ —	\$ 12	\$ 161
Ohio Water Development Authority (12/31/02)...	—	6,910	—	6,910
Ohio State University.....	111,584	1,343	—	112,927
University of Cincinnati.....	62,586	2,697	—	65,283
Nonmajor Component Units.....	118,183	7,528	17,525	143,236
Total Component Units.....	<u>\$292,502</u>	<u>\$18,478</u>	<u>\$17,537</u>	<u>\$328,517</u>

B. Intergovernmental Payable

The intergovernmental payable balances for the primary government and its discretely presented component units, as of June 30, 2003, are comprised of the following (dollars in thousands).

Primary Government — Intergovernmental Payable

	Local Government			Other State Governments	Total
	Shared Revenue and Local Permissive Taxes	Subsidies and Other	Federal Government		
Governmental Activities:					
Major Governmental Funds:					
General.....	\$235,565	\$ 51,161	\$ —	\$ —	\$ 286,726
Job, Family and Other Human Services	—	232,861	283	—	233,144
Education	—	78,245	409	—	78,654
Highway Operating	—	3,758	—	—	3,758
Revenue Distribution	300,271	—	—	2,183	302,454
Nonmajor Governmental Funds	—	218,368	—	—	218,368
Total Governmental Activities.....	<u>535,836</u>	<u>584,393</u>	<u>692</u>	<u>2,183</u>	<u>1,123,104</u>
Business-Type Activities:					
Liquor Control.....	—	375	—	—	375
Total Business-Type Activities.....	—	375	—	—	375
Total Primary Government.....	<u>\$535,836</u>	<u>\$584,768</u>	<u>\$692</u>	<u>\$2,183</u>	<u>\$1,123,479</u>
Fiduciary Activities:					
Holding and Distribution Agency Fund	\$ —	\$ —	\$1,934	\$7,313	\$ 9,247
Payroll Withholding and Fringe Benefits Agency Fund	—	359	—	—	359
Other Agency Fund	53,017	4,188	—	—	57,205
Total Fiduciary Activities.....	<u>\$53,017</u>	<u>\$4,547</u>	<u>\$1,934</u>	<u>\$7,313</u>	<u>\$66,811</u>



NOTE 6 PAYABLES (Continued)

Component Units — Intergovernmental Payable

	Local Government			Total
	Subsidies to Local Government	Other	Federal Arbitrage	
Major Component Units:				
School Facilities Commission	\$2,133,542	\$ —	\$ —	\$ 2,133,542
Ohio Water Development Authority (12/31/02)	—	—	2,240	2,240
University of Cincinnati	—	379	—	379
Nonmajor Component Units	—	388	—	388
	2,133,542	767	2,240	2,136,549
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-wide financial statements ...	(2,133,542)	—	—	(2,133,542)
Total Component Units	\$ —	\$767	\$2,240	\$ 3,007

C. Refund and Other Liabilities

Refund and other liabilities for the primary government and its discretely presented component units, as of June 30, 2003, were comprised of the following (dollars in thousands).

Primary Government — Refund and Other Liabilities

	Estimated Tax Refund Claims			Interest on Lawyers' Trust Accounts	Other	Total
	Personal Income Tax	Corporation Franchise Tax	Total Tax Refund Liabilities			
Governmental Activities:						
Major Governmental Funds:						
General	\$500,777	\$174,729	\$675,506	\$ —	\$ 34	\$675,540
Job, Family and Other Human Services	—	—	—	7,245	2,031	9,276
Revenue Distribution	64,766	5,623	70,389	—	—	70,389
Nonmajor Governmental Funds	—	—	—	—	11,285	11,285
	565,543	180,352	745,895	7,245	13,350	766,490
Reconciliation of balances in fund financial statements to government-wide financial statements due to basis differences	—	—	—	—	5,671	5,671
Total Governmental Activities	\$565,543	\$180,352	\$745,895	\$7,245	\$19,021	\$772,161
Business-Type Activities:						
Workers' Compensation	\$1,673,704	\$82,991	\$22,015	\$ —	\$110,024	\$1,888,734
Lottery Commission	—	—	2,376	44,122	26,783	73,281
Unemployment Compensation	—	10,545	—	—	—	10,545
Ohio Building Authority	—	—	109	—	—	109
Tuition Trust Authority	—	—	138	—	462	600
Liquor Control	—	—	2,879	—	837	3,716
Underground Parking Garage	—	—	117	—	—	117
Office of Auditor of State	—	48	7,193	29	7,863	15,133
	1,673,704	93,584	34,827	44,151	145,969	1,992,235
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-wide financial statements	(1,673,704)	(82,991)	(34,580)	(44,151)	(83,404)	(1,918,830)
Total Business-Type Activities	\$ —	\$10,593	\$ 247	\$ —	\$ 62,565	\$ 73,405



NOTE 6 PAYABLES (Continued)

Primary Government — Refund and Other Liabilities (Continued)

	Child Support Collections	Refund & Security Deposits	Payroll Withholdings	Retirement Systems' Assets	Other	Total
Fiduciary Activities:						
State Highway Patrol Retirement System Pension Trust (12/31/02) ..	\$ —	\$ —	\$ —	\$ —	\$ 50	\$ 50
STAR Ohio Investment Trust	—	—	—	—	409	409
Agency Funds	113,739	477,508	97,467	110,456,320	38,867	111,183,901
Total Fiduciary Activities	<u>\$113,739</u>	<u>\$477,508</u>	<u>\$97,467</u>	<u>\$110,456,320</u>	<u>\$39,326</u>	<u>\$111,184,360</u>

Component Units — Refund and Other Liabilities

	Refund & Security Deposits	Compensated Absences	Capital Leases	Obligations Under Annuity Life Agreements	Other	Total
Major Component Units:						
School Facilities Commission	\$ —	\$ 411	\$ —	\$ —	\$ —	\$ 411
Ohio Water Development Authority (12/31/02)	—	177	—	—	—	177
Ohio State University	80,283	64,541	17,723	48,485	29,080	240,112
University of Cincinnati	30,627	58,465	135,262	—	1,720	226,074
Nonmajor Component Units	42,398	97,346	48,205	2,514	54,762	245,225
	153,308	220,940	201,190	50,999	85,562	711,999
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-wide financial statements	(89,510)	(217,875)	(201,190)	(50,999)	(56,667)	(616,241)
Total Component Units	<u>\$63,798</u>	<u>\$ 3,065</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$28,895</u>	<u>\$ 95,758</u>



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

A. Interfund Balances

Interfund balances, as of June 30, 2003, consisted of the following (dollars in thousands):

Due from	Due to				Total
	Governmental Activities				
	Major Governmental Funds				
General	Job, Family and Other Human Services	Education	Nonmajor Governmental Funds		
Major Governmental Funds:					
General.....	\$ —	\$ 6	\$ 3	\$ 2,905	\$ 2,914
Job, Family and Other Human Services.....	—	—	—	—	—
Education.....	—	—	—	—	—
Highway Operating.....	—	—	—	—	—
Revenue Distribution.....	—	—	—	56	56
Nonmajor Governmental Funds.....	244,400	—	—	350	244,750
Total Governmental Activities.....	244,400	6	3	3,311	247,720
Business-Type Activities:					
Lottery Commission.....	—	—	—	—	—
Liquor Control.....	1,234	—	—	—	1,234
Underground Parking Garage.....	—	—	—	—	—
Total Business-Type Activities.....	1,234	—	—	—	1,234
Total Primary Government.....	\$245,634	\$ 6	\$ 3	\$ 3,311	\$248,954

	Business-Type Activities			Total Primary Government
	Workers' Compensation	Office of Auditor of State	Total	
Major Governmental Funds:				
General.....	\$548,432	\$9,208	\$557,640	\$ 560,554
Job, Family and Other Human Services.....	15,012	—	15,012	15,012
Education.....	3,033	—	3,033	3,033
Highway Operating.....	94,662	—	94,662	94,662
Revenue Distribution.....	—	—	—	56
Nonmajor Governmental Funds.....	113,082	—	113,082	357,832
Total Governmental Activities.....	774,221	9,208	783,429	1,031,149
Business-Type Activities:				
Lottery Commission.....	4,533	—	4,533	4,533
Liquor Control.....	2,474	—	2,474	3,708
Underground Parking Garage.....	224	—	224	224
Total Business-Type Activities.....	7,231	—	7,231	8,465
Total Primary Government.....	\$781,452	\$9,208	\$790,660	\$1,039,614

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

Included in the interfund balances above is \$244.4 million due to the General Fund from the nonmajor governmental funds for interfund loans made to support housing programs at the Ohio Housing Finance Agency, which is accounted for in the Community and Economic Development Special Revenue Fund. Of the total interfund loan balance, ap-

proximately \$214.3 million is not expected to be collected in the subsequent fiscal year.

Additionally, the State's primary government is permitted to pay its workers' compensation liability on a terminal-funding (pay-as-you-go) basis. As a result, the Workers' Compensation Enterprise Fund recognized \$781.5 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 \$774.2 million in the internal balance reported for governmental activities.



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

C. Component Units

For fiscal year 2003, the component units reported \$2.38 billion in state assistance revenue from the primary government in the Statement of Activities.

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

Additionally, the primary government provided financial support to the colleges and universities in the

form of state appropriations for instructional and non-instructional purposes and capital appropriations for construction. This assistance is included in "Higher Education Support" expenses reported for governmental activities.

Finally, "Community and Economic Development" expenses reported for governmental activities includes amounts that the primary government provided to the Arts and Sports Facilities Commission for its capital construction projects.

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	Payable to Component Units	Program Expenses for State Assistance to Component Units			
		Primary, Secondary and Other Education Function	Higher Education Support Function	Community and Economic Development Function	Total State Assistance to Component Units
Major Governmental Funds:					
General.....	\$ 7,127	\$491,879	\$1,660,050	\$20,200	\$2,172,129
Job, Family and Other Human Services	694	—	—	—	—
Education	—	—	—	—	—
Highway Operating	137	—	—	—	—
Nonmajor Governmental Funds	17,604	10,804	199,453	—	210,257
	25,562	502,683	1,859,503	20,200	\$2,382,386
Reconciliation of balances included in the "Payable to Component Units" balance in the government-wide financial statements	512	2	—	1	3
Total Governmental Activities.....	\$26,074	\$502,685	\$1,859,503	\$20,201	\$2,382,389
Component Unit	Receivable from Primary Government	Total State Assistance From the Primary Government			
Major Governmental Component Unit:					
School Facilities Commission.....	\$ —	\$ 460,804			
Nonmajor Governmental Component Units:					
Arts and Sports Facilities Commission	—	20,200			
SchoolNet Commission	387	41,879			
	387	522,883			
Reconciling Items to Balance with Government-wide Financial Statements:					
Arts and Sports Facilities Commission	7	1			
SchoolNet Commission	505	2			
	899	522,886			
Other Major Component Units:					
Ohio State University	7,135	494,241			
University of Cincinnati	379	219,263			
Other Nonmajor Component Units	17,661	1,145,999			
	25,175	1,859,503			
Total Component Units.....	\$26,074	\$2,382,389			



NOTE 8 CAPITAL ASSETS

Capital asset activity reported for the primary government and its discretely presented component units, for the year ended June 30, 2003, was as follows (dollars in thousands):

	Primary Government			Balance June 30, 2003
	Balance July 1, 2002	Increases	Decreases	
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Buildings	\$ 47,780	\$ 6,822	\$ —	\$ 54,602
Land	1,479,858	59,324	(8,224)	1,530,958
Land Improvements	930	—	—	930
Construction-in-Progress	1,302,502	781,575	(422,532)	1,661,545
Infrastructure:				
Highway Network:				
General Subsystem	8,049,949	9,127	—	8,059,076
Priority Subsystem	6,351,727	224,205	(5,304)	6,570,628
Bridge Network	2,223,044	32,523	—	2,255,567
Total Capital Assets Not Being Depreciated	<u>19,455,790</u>	<u>1,113,576</u>	<u>(436,060)</u>	<u>20,133,306</u>
Other Capital Assets:				
Buildings	2,881,142	87,979	(2,705)	2,966,416
Land Improvements	194,699	31,976	(1,709)	224,966
Machinery and Equipment	361,693	83,264	(15,621)	429,336
Vehicles	219,094	29,639	(18,482)	230,251
Infrastructure:				
Parks, Recreation and Natural Resources Network	<u>14,686</u>	<u>8,956</u>	<u>(5,079)</u>	<u>18,563</u>
Total Other Capital Assets at historical cost	<u>3,671,314</u>	<u>241,814</u>	<u>(43,596)</u>	<u>3,869,532</u>
Less Accumulated Depreciation for:				
Buildings	1,042,555	85,012	(2,249)	1,125,318
Land Improvements	108,422	8,790	(1,428)	115,784
Machinery and Equipment	258,862	41,908	(13,187)	287,583
Vehicles	98,017	19,822	(12,922)	104,917
Infrastructure:				
Parks, Recreation and Naturals Resources Network	<u>24</u>	<u>703</u>	<u>—</u>	<u>727</u>
Total Accumulated Depreciation	<u>1,507,880</u>	<u>156,235</u>	<u>(29,786)</u>	<u>1,634,329</u>
Other Capital Assets, Net	<u>2,163,434</u>	<u>85,579</u>	<u>(13,810)</u>	<u>2,235,203</u>
Governmental Activities- Capital Assets, Net	<u>\$21,619,224</u>	<u>\$1,199,155</u>	<u>\$(449,870)</u>	<u>\$22,368,509</u>

For fiscal year 2003, the State charged depreciation expense to the following governmental functions:

Governmental Activities:	
Primary, Secondary and Other Education	\$ 1,545
Higher Education Support	15
Public Assistance and Medicaid	3,027
Health and Human Services	24,313
Justice and Public Protection	54,151
Environmental Protection and Natural Resources	11,423
Transportation	23,291
General Government	35,810
Community and Economic Development	2,660
Total Depreciation Expense for Governmental Activities	<u>\$156,235</u>



NOTE 8 CAPITAL ASSETS (Continued)

	Primary Government			Balance June 30, 2003
	Balance July 1, 2002	Increases	Decreases	
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land.....	\$ 12,631	\$ —	\$ —	\$ 12,631
Construction-in-Progress	8,827	4,640	(12,511)	956
Total Capital Assets Not Being Depreciated.....	21,458	4,640	(12,511)	13,587
Other Capital Assets:				
Buildings	243,473	13,255	—	256,728
Land Improvements	66	—	—	66
Machinery and Equipment	171,116	5,778	(13,559)	163,335
Vehicles	4,927	648	(723)	4,852
Total Other Capital Assets at historical cost.....	419,582	19,681	(14,282)	424,981
Less Accumulated Depreciation for:				
Buildings	107,407	8,210	—	115,617
Land Improvements	47	1	—	48
Machinery and Equipment	92,775	24,821	(9,060)	108,536
Vehicles	2,473	589	(603)	2,459
Total Accumulated Depreciation	202,702	33,621	(9,663)	226,660
Other Capital Assets, Net	216,880	(13,940)	(4,619)	198,321
Business-Type Activities- Capital Assets, Net	\$238,338	\$(9,300)	\$(17,130)	\$211,908

For fiscal year 2003, the State charged depreciation expense to the following business-type functions:

Business-Type Activities:	
Workers' Compensation	\$18,565
Lottery Commission	15,178
Tuition Trust Authority	129
Liquor Control.....	229
Underground Parking Garage	539
Office of Auditor of State	2,988
Total Depreciation Expense for Business-Type Activities	37,628
Losses on Capital Asset Disposals Included in Depreciation ...	(4,007)
Fiscal Year 2003 Increases to Accumulated Depreciation	\$33,621

Component Units

	Balance July 1, 2002 (as restated)	Increases	Decreases	Balance June 30, 2003
	Capital Assets Not Being Depreciated:			
Land:				
Ohio State University	\$ 37,654	\$ 4,371	\$ —	\$ 42,025
University of Cincinnati	17,912	50	—	17,962
All Other Component Units	191,805	3,420	(670)	194,555
Total Land.....	247,371	7,841	(670)	254,542
Land Improvements:				
All Other Component Units	15,104	1,695	—	16,799
Total Land Improvements	15,104	1,695	—	16,799

(Continued)



NOTE 8 CAPITAL ASSETS (Continued)

	Component Units (Continued)			Balance June 30, 2003
	Balance July 1, 2002 (as restated)	Increases	Decreases	
Construction-in-Progress:				
Ohio State University	104,309	141,450	(8,116)	237,643
University of Cincinnati	141,788	114,529	—	256,317
All Other Component Units	369,070	230,092	(374,869)	224,293
Total Construction-in-Progress	615,167	486,071	(382,985)	718,253
Collections of Works of Art and Historical Treasures:				
University of Cincinnati	4,264	315	—	4,579
All Other Component Units	18,178	758	(3)	18,933
Total Collections of Works of Art and Historical Treasures	22,442	1,073	(3)	23,512
Total Capital Assets Not Being Depreciated	900,084	496,680	(383,658)	1,013,106
Other Capital Assets:				
Buildings:				
Ohio State University	2,085,107	60,372	(4,105)	2,141,374
University of Cincinnati	1,039,424	78,941	(40,153)	1,078,212
All Other Component Units	3,642,550	353,913	(12,202)	3,984,261
Total Buildings	6,767,081	493,226	(56,460)	7,203,847
Land Improvements:				
Ohio State University	180,291	1,668	—	181,959
University of Cincinnati	21,591	215	—	21,806
All Other Component Units	126,231	4,649	—	130,880
Total Land Improvements	328,113	6,532	—	334,645
Machinery, Equipment and Vehicles:				
Ohio State University	680,175	62,482	(86,782)	655,875
University of Cincinnati	132,943	17,514	(9,002)	141,455
All Other Component Units	817,234	100,559	(44,492)	873,301
Total Machinery, Equipment and Vehicles	1,630,352	180,555	(140,276)	1,670,631
Library Books and Publications:				
Ohio State University	159,763	3,427	(4,718)	158,472
University of Cincinnati	109,789	9,050	(1,165)	117,674
All Other Component Units	360,264	16,379	(3,682)	372,961
Total Library Books and Publications	629,816	28,856	(9,565)	649,107
Infrastructure:				
University of Cincinnati	54,633	207	—	54,840
All Other Component Units	273,035	56,611	(1)	329,645
Total Infrastructure	327,668	56,818	(1)	384,485
Total Other Capital Assets at historical cost	9,683,030	765,987	(206,302)	10,242,715

(Continued)



NOTE 8 CAPITAL ASSETS (Continued)

	Component Units (Continued)			Balance June 30, 2003
	Balance July 1, 2002 (as restated)	Increases	Decreases	
Less Accumulated Depreciation for:				
Buildings:				
Ohio State University	801,423	63,618	(1)	865,040
University of Cincinnati	390,250	35,411	(25,331)	400,330
All Other Component Units	1,536,643	99,007	(8,775)	1,626,875
Total Buildings	<u>2,728,316</u>	<u>198,036</u>	<u>(34,107)</u>	<u>2,892,245</u>
Land Improvements:				
Ohio State University	96,382	8,033	—	104,415
University of Cincinnati	4,549	999	—	5,548
All Other Component Units	55,453	5,637	—	61,090
Total Land Improvements	<u>156,384</u>	<u>14,669</u>	<u>—</u>	<u>171,053</u>
Machinery, Equipment and Vehicles:				
Ohio State University	467,572	60,766	(77,099)	451,239
University of Cincinnati	91,905	12,138	(9,389)	94,654
All Other Component Units	547,049	73,540	(39,877)	580,712
Total Machinery, Equipment and Vehicles	<u>1,106,526</u>	<u>146,444</u>	<u>(126,365)</u>	<u>1,126,605</u>
Library Books and Publications:				
Ohio State University	119,108	8,191	—	127,299
University of Cincinnati	70,807	5,963	(1,165)	75,605
All Other Component Units	228,107	18,086	(2,903)	243,290
Total Library Books and Publications.....	<u>418,022</u>	<u>32,240</u>	<u>(4,068)</u>	<u>446,194</u>
Infrastructure:				
University of Cincinnati	32,384	2,878	—	35,262
All Other Component Units	109,211	12,414	(1)	121,624
Total Infrastructure.....	<u>141,595</u>	<u>15,292</u>	<u>(1)</u>	<u>156,886</u>
Total Accumulated Depreciation.....	<u>4,550,843</u>	<u>406,681</u>	<u>(164,541)</u>	<u>4,792,983</u>
Other Capital Assets, Net.....	<u>5,132,187</u>	<u>359,306</u>	<u>(41,761)</u>	<u>5,449,732</u>
Component Units- Capital Assets, Net.....	<u>\$6,032,271</u>	<u>\$855,986</u>	<u>\$(425,419)</u>	<u>\$6,462,838</u>

For fiscal year 2003, depreciation expense for the State's component units was as follows:

Component Units:	
School Facilities Commission.....	\$ 15
Ohio Water Development Authority (for the year ended 12/31/02).....	255
Ohio State University.....	140,608
University of Cincinnati.....	57,389
Other Component Units.....	<u>212,862</u>
Total Depreciation Expense for Component Units.....	411,129
Net Gains/(Losses) on Capital Asset Disposals Included in Depreciation	<u>(4,448)</u>
Fiscal Year 2003 Increases to Accumulated Depreciation.....	<u>\$406,681</u>



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, defined benefit multiple-employer public employee retirement plan, and, beginning January 1, 2003, includes a defined contribution plan, and a combined plan that includes features of both the defined benefit plan and the defined contribution plan.

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

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

Regular employees who participate in the defined benefit plan or the combined plan may retire after 30 years of credited service regardless of age, at age 55 or after with 25 years of credited service, or at age 60 or after 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. Employees who participate in the defined contribution plan may retire at age 55.

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

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

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

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 2003, which are the same for the defined benefit, defined contribution, and combined plans, were as follows:

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



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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, for the year ended June 30, 2003, the combined plan) follow (dollars in thousands):

Primary Government		
For the Year Ended June 30,	Employer's Contribution for Regular Employees	Employer's Contribution for Law Enforcement Employees
2003	\$224,267	\$3,596
2002	228,637	3,646
2001	164,474	3,177

Component Units	
For the Year Ended June 30,	Employer's Contribution for Regular Employees
2003	\$112,547
2002	109,668
2001	72,686

Employer and employee contributions required and made for the fiscal year 2003 for the defined contribution program and the defined contribution part of the combined plan follow (dollars in thousands):

For the Fiscal Year Ended June 30, 2003		
	Employer's Contribution	Employee's Contribution
Primary Government:	\$530	\$1,137
Component Units:	448	879

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) 466-2085 or 1-800-222-PERS.

Other Postemployment Benefits

Members of the defined contribution plan may access a Retiree Medical Account upon retirement. During fiscal year 2003, employers paid 4.81 percent of their share into members' accounts. An employee's interest in the medical account for qualify-

ing 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 are as follows (dollars in thousands):

Employers' Contribution For the Fiscal Year Ended June 30, 2003	
Primary Government:	\$300
Component Units:	253

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 fiscal year 2003, the portion of the employer rate that is used to fund healthcare is 5.0 percent of covered payroll for law enforcement and regular employees. Employees do not fund any portion of healthcare costs.

Benefits in the defined benefit and combined plans are advance-funded using the entry-age, normal cost method. Significant actuarial assumptions, based on the latest actuarial review performed as of December 31, 2001 (the latest information available), include a rate of return on investments of 8.0 percent, an annual increase in total payroll for active employees of 4.0 percent compounded annually for inflation (assuming no change in the number of active employees), and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Healthcare premiums were assumed to increase 4.0 percent annually.



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Net assets available for payment of benefits at December 31, 2001 were \$11.6 billion. The actuarially accrued liability and the assets in excess of actuarial accrued liability were \$16.4 billion and \$4.8 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.

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

Primary Government:	
(for the fiscal year ended June 30, 2003)	
Regular Employees	\$134,938
Law Enforcement Employees	<u>1,537</u>
Total.....	<u><u>\$136,475</u></u>

Component Units:	
(for the fiscal year ended June 30, 2003).	
	<u><u>\$67,718</u></u>

The number of active contributing participants for the primary government was 59,831, as of June 30, 2003.

B. State Teachers Retirement System of Ohio (STRS)

Pension Benefits

STRS is a cost-sharing, defined benefit multiple-employer public employee retirement plan, which includes a defined contribution plan, and a combined plan that includes 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 ser-

vice and the final average salary, which is the average of the member's three highest salary years. The annual allowance is determined by multiplying the final average salary by 2.5 percent for each year of Ohio contributing service in excess of 30 years and by 2.2 percent for all other years of credited service up to a maximum annual allowance of 100 percent of final average salary. Each year over 30 years is increased incrementally by .1 percent starting at 2.5 percent for the 31st year of Ohio service. For teachers with 35 or more years of earned service, the annual allowance is determined by multiplying the final average salary by 2.5 percent for the first 31 years of service.

Under the "money-purchase benefit" calculation, a member's lifetime contributions, plus interest at specified rates, are matched by an equal amount from contributed employer funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance. Retirement benefits increase three percent annually regardless of changes in the Consumer Price Index.

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

Employees hired after July 1, 2001 may choose to participate in the combined plan or the defined contribution plan, in lieu of participation in the defined benefit plan. Participants in the defined contribution plan are eligible to retire at age 50. Employee and employer contributions are placed into individual member accounts, and members direct the investment of their accounts by selecting from nine professionally managed investment options. Retirees may choose to receive either a lump-sum distribution or a monthly annuity for life.

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



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

as a lump sum or as a lifetime monthly annuity at age 50.

A retiree of STRS or any other Ohio public retirement system is eligible for re-employment as a teacher after two months from the date of retirement. Members and the employer make contributions during the period of re-employment. Upon termination or the retiree reaches the age of 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

STRS also provides death, survivors', disability, healthcare, and supplemental benefits to members in the defined benefit and combined plans. STRS benefits are established under Chapter 3307, Ohio Revised Code.

Employer and employee required contributions to STRS are established by the Board and limited under the Ohio Revised Code to employer and employee rates of 14 percent and 10 percent, respectively, and are based on percentages of covered employees' gross salaries, which are calculated annually by the retirement system's actuary.

Contribution rates for fiscal year 2003 were 14 percent for employers and 9.3 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 to the defined benefit plan (and, for the year ended June 30, 2003, the defined benefit part of the combined plan) are as follows (dollars in thousands):

For the Year Ended June 30,	Primary Government	Component Units
2003	\$7,248	\$128,174
2002	5,420	88,184
2001	5,177	93,410

Employer and employee contributions required and made for fiscal year 2003 for the defined contribution plan and the defined contribution part of the combined plan follow (dollars in thousands):

For the Fiscal Year Ended June 30, 2003		
	Employer's Contribution	Employee's Contribution
Primary Government:	\$ 96	\$ 138
Component Units:	2,224	2,734

STRS issues a stand-alone financial report, copies of which may be obtained by making a written request to: State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling 1-888-227-7877.

Other Postemployment Benefits

The STRS plan provides comprehensive healthcare benefits to retirees and their dependents that are enrolled in the defined benefit and combined plans. Retirees are required to make healthcare premium payments at amounts that vary according to each retiree's years of credited service and choice of healthcare provider. Retirees must pay additional premiums for covered spouses and dependents. Chapter 3307, Ohio Revised Code, gives the STRS board discretionary authority over how much, if any, of associated healthcare costs are absorbed by the plan. Currently, employer contributions equal to 1.0 percent of covered payroll are allocated to pay for healthcare benefits.

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, 2002 (the most recent information available), net assets available for future healthcare benefits were \$3.0 billion. Net healthcare costs paid by the primary government and its component units, for the year ended June 30, 2003, totaled approximately \$557 thousand and \$9.86 million, respectively. The number of eligible benefit recipients for STRS as a whole was 105,300, as of June 30, 2002; a breakout of the number of eligible recipients for the primary government and its component units, as of June 30, 2003, is unavailable.

C. State Highway Patrol Retirement System (SHPRS)

Pension Benefits

SHPRS, a component unit of the State, was established in 1944 by the General Assembly as a single-employer, defined benefit pension plan and is administered by the State.

The plan issues a stand-alone financial report that includes financial statements and required supplementary information, and the State reports the plan



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

as a pension trust fund. Copies of the financial report may be obtained by writing to the Ohio State Highway Patrol Retirement System, 6161 Busch Boulevard, Suite 119, Columbus, Ohio 43229-2553, or by calling (614) 431-0781 or 1-800-860-2268.

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

Contribution rates for calendar year 2002 are as follows:

Contribution Rates	
Employee Share	Employer Share
9.50%	23.50%

During calendar year 2002, all of the employees' contributions funded pension benefits while 18.75 percent of the employer's contributions funded pension benefits. The difference in the total employer rates charged and the employer rates applicable to the funding of pension benefits is applied to the funding of postemployment healthcare benefits.

SHPRS' financial statements are prepared using the accrual basis of accounting, under which expenses are recorded when the liability is incurred and revenues are recorded when they are earned and become measurable.

All investments are reported at fair value. Fair value is, "the amount that the plan can reasonably expect to receive for an investment in a current sale, between a willing buyer and a willing seller – that is, other than in a forced or liquidation sale." Short-term investments are reported at cost, which approximates fair value. Corporate bonds are valued at the median price by the brokerage firms.

Securities traded on a national exchange are valued at the last reported sales price at the current exchange rate. The fair value of real estate investments is based on independent appraisals. For ac-

tuarial purposes, assets are valued with a method that amortizes each year's investment gain or loss over a closed, four-year period.

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

For the Year Ended December 31,	Primary Government	Percentage of Employer's Annual Pension Cost Contributed
2002	\$15,393	100%
2001	13,765	100%
2000	11,686	100%

SHPRS used the entry-age, normal actuarial cost method for the Schedule of Funding Progress for the actuarial valuation, dated December 31, 2002. Assumptions used in preparing the Schedule of Funding Progress and in determining the annual required contribution include: an 8.0 percent rate of return on investments; projected salary increase of 4.0 percent attributable to inflation and additional projected salary increases ranging from .3 percent to 3.7 percent a year attributable to seniority and merit; price inflation was assumed to be at least 3.0 percent a year; and postretirement increases each year equal to 3.0 percent after the retiree reaches age 53.

The unfunded actuarial accrued liability is being amortized using the level-percentage of projected payroll method over a closed period of 32 years.

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

Other Postemployment Benefits

In addition to providing pension benefits, SHPRS pays health insurance claims on behalf of all persons receiving a monthly pension or survivor benefit and Medicare Part B basic premiums for those eligible benefit recipients upon proof of coverage. The number of active contributing plan participants, as of December 31, 2002, was 1,548. The cost of retiree healthcare benefits is recognized as claims are incurred and premiums are paid. The calendar year 2002 expense was \$7.0 million.

Healthcare benefits are established in Chapter 5505, Ohio Revised Code, and are advance funded by the employer on the same actuarially determined basis (using the same assumptions) as are the SHPRS pension benefits, as previously discussed. In addition, the assumption that projected healthcare premiums would increase at a rate of 4.0 percent,



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

(A)	(B)	(C)	(D)	(E)	(F)	(G)
Valuation Year	Actuarial Accrued Liability (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liability (UAAL) (B) – (C)	Ratio of Assets to AAL (C)/(B)	Active Member Payroll	UAAL as Percentage of Active Member Payroll (D)/(F)
2002 (a)	\$663,070	\$527,604	\$135,466	79.6%	\$78,997	171.5%
2002	668,606	492,431	176,175	73.7	78,997	223.0
2001	636,715	551,279	85,436	86.6	76,344	111.9
2000 (a)	594,223	570,040	24,183	95.9	69,028	35.0
2000	607,411	570,040	37,371	93.8	69,028	54.1

(a) Change in assumption or method.

compounded annually, due to inflation, was also used in the valuation. Net assets available for benefits allocated to healthcare costs at December 31, 2002 were \$88.5 million, and included investments carried at fair value, as previously described.

As of December 31, 2002, 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 \$73.6 million; the actuarial accrued liability for healthcare benefits at that date was \$162.1 million.

Employer contributions are made in accordance with actuarially determined requirements. The employer contribution requirement was approximately \$3.9 million or 4.75 percent of active member payroll for the period, January 1 through December 31, 2002.

D. Alternative Retirement Plan (ARP)

Pension Benefits

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

The Board of Trustees of each public institution of higher education enters into contracts with each approved retirement plan provider. Once established, full-time faculty and unclassified employees who are hired subsequent to the establishment of the ARP, or who had less than five years of service credit under the existing retirement plans, may choose to enroll in the ARP. The choice is irrevocable for as long

as the employee remains continuously employed in a position for which the ARP is available. For those employees that choose to join the ARP, any prior employee contributions that had been made to STRS or OPERS would be transferred to the ARP. The Ohio Department of Insurance has designated eight companies as being eligible to serve as plan providers for the ARP.

Ohio law requires that employee contributions be made to the ARP in an amount equal to those that would otherwise have been required by the retirement system that applies to the employee's position. Therefore, employees who would have otherwise been enrolled in STRS or OPERS would contribute 9.3 percent or 8.5 percent of their gross salaries', respectively. Employees may also voluntarily make additional contributions to the ARP.

Ohio law also requires each public institution of higher education contribute 3.5 percent of a participating employee's gross salary for the year ended June 30, 2003 to STRS in cases when the employee would have otherwise been enrolled in STRS.

For the year ended June 30, 2003, employers were not required to contribute to the ARP on behalf of employees that would otherwise have been enrolled in OPERS.

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



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

and related investment income generated by each participant's choice of investment options.

Employer and employee contributions required and paid for the year ended June 30, 2003, totaled \$52.8 million and \$41.0 million, respectively.

NOTE 10 GENERAL OBLIGATION BONDS

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

amounts for unaccreted discount on capital appreciation bonds at issuance), of which \$1.80 billion had been issued (net of \$214 million in unaccreted discounts at issuance).

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

A 1968 constitutional amendment authorized the issuance of Highway Obligations in amounts up to \$100 million in any calendar year, with no more than \$500 million in principal amount outstanding at any one time. The aggregate of General Assembly authorizations, as of June 30, 2003, for Highway Obligations, was approximately \$1.75 billion, all of which had been issued.

A 1999 constitutional amendment provided for the issuance of Common Schools Capital Facilities Bonds and Higher Education Capital Facilities Bonds. As of June 30, 2003, the General Assembly had authorized the issuance of \$1.98 billion in Common Schools Capital Facilities Bonds, of which \$1.19 billion had been issued. As of June 30, 2003, the General Assembly had also authorized the issuance of \$1.80 billion in Higher Education Capital Facilities Bonds, of which \$1.10 billion had been issued.

Coal Research and Development Bonds and Parks, Recreation, and Natural Resources Bonds may be issued as long as the outstanding principal amounts do not exceed \$100 and \$200 million, respectively. As of June 30, 2003, the General Assembly had authorized the issuance of \$150 million in Coal Research and Development Bonds, of which \$137 million had been issued. Legislative authorizations for the issuance of Natural Resources Capital Facilities Bonds totaled \$287 million, as of June 30, 2003 of which \$240 million 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, 2003, the General Assembly had authorized the issuance of approximately \$1.35 billion in Highway Capital Improvements Bonds, of which \$1.14 billion had been issued.

During fiscal year 2002, the State issued \$50 million in Conservation Projects Bonds for the first time. Not more than \$50 million in Conservation Projects Bonds may be issued in a fiscal year and not more than \$200 million may be issued. As of June 30, 2003, the General Assembly had authorized the issuance of approximately \$100 million in Conservation Projects Bonds, of which \$50 million had been issued.

General obligation bonds outstanding and future general obligation debt service requirements, as of June 30, 2003, are presented in the table on the following page.

Constitutional amendments in 1987 and 1995 allowed for the issuance of \$2.4 billion of general obligation bonds for infrastructure improvements (Infrastructure Bonds), of which no more than \$120 million may be issued in any fiscal year. As of June 30, 2003, the General Assembly had authorized \$2.04 billion of these bonds to be sold (excluding any

For the year ended June 30, 2003, 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, 2003
(dollars in thousands)**

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Common Schools Capital Facilities	2000-03	4.2%-5.4%	2023	\$1,158,993	\$ 793,000
Higher Education Capital Facilities	2000-03	3.9%-5.4%	2023	1,057,607	698,000
Highway Capital Improvements	1997-03	3.4%-5.0%	2013	747,739	215,000
Infrastructure Improvements	1990-03	2.0%-7.6%	2023	1,320,340	240,014
Highway Obligations	1994-97	4.5%-4.8%	2005	43,500	—
Coal Research and Development	1996-02	3.9%-5.0%	2013	41,428	13,000
Natural Resources Capital Facilities	1995-03	3.0%-5.6%	2018	185,214	47,000
Conservation Projects	2002	4.3%	2017	49,021	50,000
Total General Obligation Bonds				<u>\$4,603,842</u>	<u>\$2,056,014</u>

Future Funding of Current Interest and Capital Appreciation Bonds:

Year Ending June 30,	Principal	Interest	Total
2004	\$ 344,760	\$ 195,590	\$ 540,350
2005	333,225	181,172	514,397
2006	323,035	167,140	490,175
2007	322,915	153,595	476,510
2008	324,095	139,675	463,770
2009-2013	1,363,500	501,675	1,865,175
2014-2018	783,500	246,512	1,030,012
2019-2023	602,470	75,897	678,367
Total Current Interest and Capital Appreciation Bonds	<u>4,397,500</u>	<u>\$1,661,256</u>	<u>\$6,058,756</u>

Future Funding of Variable-Rate Bonds:

Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2004	—	\$ 1,974	\$ 5,330	\$ 7,304
2005	—	2,118	5,640	7,758
2006	—	2,118	5,640	7,758
2007	—	2,118	5,640	7,758
2008	—	2,118	5,640	7,758
2009-2013	8,055	10,402	15,132	33,589
2014-2018	173,515	6,789	9,598	189,902
2019-2023	44,730	739	2,613	48,082
Total Variable-Rate Bonds	<u>226,300</u>	<u>\$28,376</u>	<u>\$55,233</u>	<u>\$309,909</u>
Total General Obligation Bonds	4,623,800			
Unamortized Discount/ (Premium), Net	34,106			
Deferred Refunding Loss	(54,064)			
Total Carrying Amount	<u>\$4,603,842</u>			

For the variable-rate bonds, using the assumption that current interest rates remain the same over their term, the above interest and net swap payment amounts are based on rates, as of June 30, 2003. As rates vary, variable-rate bond interest payments and net swap payments vary.



NOTE 10 GENERAL OBLIGATION BONDS (Continued)

As of June 30, 2003, the outstanding balance reported for Infrastructure Improvement Bonds included approximately \$226.3 million in variable-rate bonds with interest-rate swaps.

The swap counterparty with 14.1 percent of the State's total swap portfolio is rated Aaa/AAA and the swap counterparty with 85.9 percent of the State's total swap portfolio is rated Aa3/A+. Each counterparty is required to pledge 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 were 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.

Other details on each variable-rate bond issue are discussed below.

Infrastructure Improvements-Series 2001B

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

The bonds and the related swap agreement mature on August 1, 2021, and the swap's notional amount of \$63.9 million matches the \$63.9 million variable-

rate bonds. The swap was entered into at the same time the bonds were issued in November 2001. Starting in fiscal year 2015, the notional value of the swap and the principal amount of the associated debt decline. Under the swap, the State pays the counterparty a fixed payment of 3.65 percent and receives a variable payment based on The Bond Market Association Municipal Swap Index™ (BMA). As of June 30, 2003, the BMA index rate was .98 percent while the variable-rate on the bonds was .90 percent. In the event, the 180-day average of the BMA index rate exceeds seven percent, the counterparty can knock-out (cancel) the swap. If the counterparty exercises its option to cancel, the State would be exposed to higher floating rates.

Because interest rates have declined since execution of the swap, the swap had a negative fair value of \$9.5 million, as of June 30, 2003, based on quoted market prices. Consequently, the State was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

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

Infrastructure Improvements-Refunding Series 2003B

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

The swap's notional amount of \$104.3 million matches the \$104.3 million variable-rate bonds. The swap was entered into at the same time the bonds were issued in February 2003. The swap matures on August 1, 2008, and the Series 2003 variable-rate bonds mature on August 1, 2018. This mismatch in terms allows the State to increase its variable rate exposure after August 1, 2008, which is



NOTE 10 GENERAL OBLIGATION BONDS (Continued)

consistent with its long-term asset/liability management policy objective.

Under the swap, the State pays the counterparty a fixed payment of 2.01 percent and receives a variable payment based on the actual bond rate. As of June 30, 2003, the variable-rate on the bonds was .95 percent.

Because interest rates have declined since execution of the swap, the swap had a negative fair value of \$3.3 million, as of June 30, 2003, based on quoted market prices. Consequently, the State was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

*Infrastructure Improvements-
Refunding Series 2003D*

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

The swap's notional amount of \$58.1 million matches the \$58.1 million variable-rate bonds. The swap was entered into at the same time the bonds were issued in March 2003. The swap matures on February 1, 2010, and the Series 2003 variable-rate bonds mature on February 1, 2019. This mismatch in terms allows the State to increase its variable rate exposure after February 1, 2010, which is

consistent with its long-term asset/liability management policy objective.

Under the swap, the State pays the counterparty a fixed payment of 2.09 percent and receives a variable payment based on the actual bond rate. As of June 30, 2003, the variable-rate on the bonds was .95 percent.

Because interest rates have declined since execution of the swap, the swap had a negative fair value of \$1.5 million, as of June 30, 2003, based on quoted market prices. Consequently, the State was not exposed to credit risk because the swap had a negative fair value. 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.

During fiscal year 2003, the State defeased a number of general obligation bond issues *in substance* when the net proceeds of refunding bonds (after payment of underwriting fees and bond issue costs) were deposited with escrow agents to provide for all future principal and interest payments on the old bonds. A resulting economic gain/(loss) from an advance refunding represents the difference between the present values of the debt service payments on the old and new debt. Details on the advance refundings for fiscal year 2003 are presented in the table on the following page.

In prior years, the Treasurer of State defeased certain Infrastructure Improvement Bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the various trust accounts' assets and liabilities for the defeased bonds are not included in the State's financial statements. As of June 30, 2003, \$32.5 million of Infrastructure Improvement Bonds are considered defeased and no longer outstanding.



NOTE 10 GENERAL OBLIGATION BONDS (Continued)

**Governmental Activities
General Obligation Bonds
Details of Advance Refundings
For the Year Ended June 30, 2003**
(dollars in thousands)

Refunding Bond Issue	Date of Refunding	Amount of Refunding Bonds Issued	Average Interest Rates of Refunding Bonds	Carrying Amount of Bonds Refunded <i>(in substance)</i>	Refunding Bond Proceeds Placed in Escrow	Reduction in Debt Service Payments	Economic Gain Resulting from Refunding
Higher Education Facilities Series 2002C	11/21/02	\$ 54,975	5.42%	\$ 56,200	\$ 63,084	\$4,896 over next 12 years	\$ 3,015
Infrastructure Improvements Series 2002A	8/15/02	59,920	5.44%	60,450	66,598	\$3,220 over next 17 years	2,791
Infrastructure Improvements Series 2003A	2/1/03	233,585	4.86%	235,680	253,837	\$9,144 over next 13 years	7,206
Infrastructure Improvements Series 2003B & C	2/26/03	122,187 ^A	3.25% ^C	122,195	134,157	\$9,161 over next 15 years	8,437
Infrastructure Improvements Series 2003D & E	3/20/03	60,804 ^B	3.21% ^C	60,805	71,089	\$5,193 over next 16 years	4,961
Natural Resources Capital Facilities Series H	8/15/02	17,640	3.48%	16,760	18,029	\$1,152 over next 8 years	901
Total.....		<u>\$549,111</u>		<u>\$552,090</u>	<u>\$606,794</u>		<u>\$27,311</u>

^A Series B is comprised of \$11,630 in serial bonds and \$104,315 in term bonds; Series C is comprised of \$6,242 in capital appreciation bonds, net of unaccrued discount of \$19,673 at issuance.

^B Series D is comprised of \$58,085 in term bonds; Series E is comprised of \$2,719 in capital appreciation bonds, net of unaccrued discount of \$13,976 at issuance.

^C True interest cost rate.

NOTE 11 REVENUE BONDS AND NOTES

The State Constitution permits state agencies and authorities to issue bonds that are not supported by the full faith and credit of the State. These bonds pledge income derived from user fees and rentals on the acquired or constructed assets to pay the debt service. Issuers for the primary government include the Ohio Building Authority (OBA), which has issued revenue bonds on its own behalf and for the Ohio Bureau of Workers' Compensation, the Treasurer of State for the Ohio Department of Development's Office of Business Development, and the Ohio Department of Transportation. Major issuers for the State's component units include the Ohio Water Development Authority, the Ohio State University, the University of Cincinnati, and Kent State University.

A. Primary Government

Economic development bonds, issued by the Treasurer of State for the Office of Business Development's Direct Loan Program, provide financing for loans and loan guarantees to businesses within the

State for economic development projects that create or retain jobs in the State. The taxable bonds are backed with profits derived from the sale of spirituous liquor by the Division of Liquor Control and pledged moneys and related investment earnings held in reserve under a trust agreement with a financial institution.

Revitalization Project revenue bonds provide financing to enable the remediation or clean up of contaminated publicly or privately owned lands to allow for their environmentally safe and productive development. During fiscal year 2003, the Treasurer of State issued \$50 million in Revitalization Project bonds, which are also backed with profits derived from the sale of spirituous liquor by the Division of Liquor Control.

Since fiscal year 1998, the Treasurer of State has issued a total of \$190 million in State Infrastructure Bank Bonds for various highway construction



NOTE 11 REVENUE BONDS AND NOTES (Continued)

**Primary Government
Revenue Bonds
As of June 30, 2003**
(dollars in thousands)

	Fiscal Year Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Governmental Activities:				
Treasurer of State:				
Economic Development	1997	6.9%-7.8%	2022	\$139,345
State Infrastructure Bank	1998-03	2.0%-5.0%	2010	256,856
Revitalization Project	2003	3.0%-5.0%	2018	54,397
Total Governmental Activities				<u>450,598</u>
Business-Type Activities:				
Bureau of Workers' Compensation	2003	1.6%-4.0%	2014	148,745
Ohio Building Authority	1986-97	4.8%-9.8%	2008	18,565
Total Business-Type Activities				<u>167,310</u>
Total Revenue Bonds				<u>\$617,908</u>

projects sponsored by the Department of Transportation. The State has pledged federal highway receipts as the primary source of moneys for meeting the principal and interest requirements on the bonds.

Revenue bonds accounted for in business-type activities finance the costs of the William Green Building, which houses the main operations of the Ohio Bureau of Workers' Compensation in Columbus and other office buildings and related facilities constructed by the OBA for shared use by local governments. The principal and interest requirements on the OBA bonds are paid from rentals received under the long-term lease agreements discussed in NOTE 5D.

Revenue bonds outstanding for the primary government, as of June 30, 2003, are presented in the table at the top of the following page.

For the year ended June 30, 2003, NOTE 15 summarizes changes in revenue bonds. Future bond service requirements for revenue bonds of the primary government, as of June 30, 2003, are presented in the table below.

In December 1998, the Treasurer of State entered into a forward purchase refunding agreement to advance refund approximately \$102 million in Series 1996 Taxable Development Assistance Bonds on October 1, 2006. Under the terms of the bond purchase agreement, the underwriter has agreed to purchase approximately \$102 million in Series 1998

**Primary Government
Future Funding Requirements for Revenue Bonds
As of June 30, 2003**
(dollars in thousands)

Year Ending June 30,	Governmental Activities			Business-Type Activities			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 46,575	\$ 24,115	\$ 70,690	\$ 3,730	\$ 7,390	\$ 11,120	\$ 50,305	\$ 31,505	\$ 81,810
2005	47,515	21,895	69,410	9,187	9,024	18,211	56,702	30,919	87,621
2006	48,500	19,488	67,988	17,511	8,551	26,062	66,011	28,039	94,050
2007	49,585	17,060	66,645	18,656	6,255	24,911	68,241	23,315	91,556
2008	50,750	14,468	65,218	17,695	5,386	23,081	68,445	19,854	88,299
2009-2013	93,810	46,163	139,973	79,605	15,451	95,056	173,415	61,614	235,029
2014-2018	60,195	26,118	86,313	15,200	751	15,951	75,395	26,869	102,264
2019-2023	37,840	6,074	43,914	—	—	—	37,840	6,074	43,914
	434,770	175,381	610,151	161,584	52,808	214,392	596,354	228,189	824,543
Net Unamortized Premium/(Discount)....	15,828	—	15,828	11,023	—	11,023	26,851	—	26,851
Deferred Refunding Loss.....	—	—	—	(5,297)	—	(5,297)	(5,297)	—	(5,297)
Total	<u>\$450,598</u>	<u>\$175,381</u>	<u>\$625,979</u>	<u>\$167,310</u>	<u>\$52,808</u>	<u>\$220,118</u>	<u>\$617,908</u>	<u>\$228,189</u>	<u>\$846,097</u>



NOTE 11 REVENUE BONDS AND NOTES (Continued)

Taxable Development Assistance Refunding Bonds and deliver to the escrow agent on or before August 25, 2006 cash and/or direct U.S. government obligations sufficient to provide for the redemption of the refunded bonds on October 1, 2006. Because the State has not taken delivery of the proceeds from the issuance of the Series 1998 Taxable Development Assistance Refunding Bonds, as of June 30, 2003, no obligation for the refunding bonds has been included in the financial statements.

During fiscal year 2003, the Bureau of Workers' Compensation issued \$142.5 million in revenue bonds through the Ohio Building Authority. The net refunding bond proceeds in the amount of \$152.8 million (after payment of \$1.3 million in bond issue costs and underwriter's discount) and \$10.3 million in existing debt service reserve moneys were placed with an escrow agent to defease *in substance* approximately \$160 million in principal and interest for the Series 1993A William Green Building revenue bonds.

The reacquisition price of the new debt exceeded the net carrying amount of the old debt by \$5.1 million, thus resulting in a deferred refunding loss that is amortized over the life of the new debt. Interest rates on the new bonds range from 1.6 to 4.0 percent compared to interest rates on the old bonds that ranged from 3.25 to 5.13 percent.

As a result of the refunding, the Bureau reduced its total debt service requirements by \$19.3 million and obtained an economic gain of \$8.9 million.

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, 2002, approximately \$736.7 million in bonds were outstanding for this program.

Future bond service requirements for the Water Pollution Control Loan Program revenue bonds, as of December 31, 2002, are as follows (dollars in thousands):

Year Ending December 31,	Principal	Interest	Total
2003	\$ 37,315	\$ 37,729	\$ 75,044
2004	33,355	35,866	69,221
2005	34,925	34,010	68,935
2006	36,585	32,099	68,684
2007	37,950	30,156	68,106
2008-2012	212,225	119,473	331,698
2013-2017	205,885	63,015	268,900
2018-2022	129,375	17,249	146,624
2023-2027	5,985	150	6,135
	733,600	369,747	1,103,347
Net Unamortized Premium/(Discount).	7,131	—	7,131
Deferred Refunding Loss	(4,022)	—	(4,022)
Total	\$736,709	\$369,747	\$1,106,456

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

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

Of the outstanding revenue bonds and notes reported for the OWDA component unit fund, approximately \$107.4 million in bonds had adjustable interest rates that are reset weekly at rates determined by the remarketing agency. As of December 31, 2002, the rates for \$100.4 million and \$7 million of the variable-rate bonds were 1.5 percent and 1.64 percent, respectively.

Future bond service requirements for revenue bonds and notes reported for the discretely presented component units, as of June 30, 2003, are presented in the table on the following page.



NOTE 11 REVENUE BONDS AND NOTES (Continued)

**Component Units
Future Funding Requirements for Revenue Bonds
As of June 30, 2003
(dollars in thousands)**

Year Ending December 31 or June 30,	Ohio Water Development Authority (12/31/02)			Ohio State University			University of Cincinnati		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2003.....	\$ 105,895	\$ 80,411	\$ 186,306						
2004.....	110,790	75,222	186,012	\$343,471	\$ 13,220	\$356,691	\$ 35,407	\$ 24,850	\$ 60,257
2005.....	103,995	70,152	174,147	9,790	10,605	20,395	17,746	23,929	41,675
2006.....	102,390	65,019	167,409	9,462	10,235	19,697	21,121	23,178	44,299
2007.....	103,345	59,921	163,266	9,624	9,856	19,480	21,935	22,255	44,190
2008.....	—	—	—	12,085	9,452	21,537	20,705	21,221	41,926
2008-2012.....	446,680	230,409	677,089	—	—	—	—	—	—
2009-2013.....	—	—	—	52,865	39,476	92,341	101,360	91,297	192,657
2013-2017.....	374,670	121,195	495,865	—	—	—	—	—	—
2014-2018.....	—	—	—	39,434	27,541	66,975	113,989	64,137	178,126
2018-2022.....	237,865	38,628	276,493	—	—	—	—	—	—
2019-2023.....	—	—	—	34,165	17,389	51,554	91,405	34,950	126,355
2023-2027.....	34,635	2,881	37,516	—	—	—	—	—	—
2024-2028.....	—	—	—	27,780	9,708	37,488	64,574	14,623	79,197
2029-2033.....	—	—	—	21,955	2,051	24,006	23,420	2,080	25,500
	<u>1,620,265</u>	<u>743,838</u>	<u>2,364,103</u>	<u>560,631</u>	<u>149,533</u>	<u>710,164</u>	<u>511,662</u>	<u>322,520</u>	<u>834,182</u>
Net Unamortized Premium/(Discount)....	18,984	—	18,984	—	—	—	(1,886)	—	(1,886)
Deferred Refunding Loss.....	(24,285)	—	(24,285)	—	—	—	—	—	—
Total.....	<u>\$1,614,964</u>	<u>\$743,838</u>	<u>\$2,358,802</u>	<u>\$560,631</u>	<u>\$149,533</u>	<u>\$710,164</u>	<u>\$509,776</u>	<u>\$322,520</u>	<u>\$832,296</u>

Year Ending December 31 or June 30,	Kent State University			Other Component Units			Total Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2003.....							\$ 105,895	\$ 80,411	\$ 186,306
2004.....	\$ 1,815	\$ 11,946	\$ 13,761	\$ 56,635	\$ 36,575	\$ 93,210	548,118	161,813	709,931
2005.....	1,860	11,860	13,720	33,204	34,487	67,691	166,595	151,033	317,628
2006.....	1,715	11,771	13,486	33,181	33,050	66,231	167,869	143,253	311,122
2007.....	2,790	11,689	14,479	34,293	32,447	66,740	171,987	136,168	308,155
2008.....	2,720	11,543	14,263	32,552	31,004	63,556	68,062	73,220	141,282
2008-2012.....	—	—	—	—	—	—	446,680	230,409	677,089
2009-2013.....	22,290	55,399	77,689	164,369	129,047	293,416	340,884	315,219	656,103
2013-2017.....	—	—	—	—	—	—	374,670	121,195	495,865
2014-2018.....	40,515	47,432	87,947	146,190	87,626	233,816	340,128	226,736	566,864
2018-2022.....	—	—	—	—	—	—	237,865	38,628	276,493
2019-2023.....	52,290	35,858	88,148	97,866	55,630	153,496	275,726	143,827	419,553
2023-2027.....	—	—	—	—	—	—	34,635	2,881	37,516
2024-2028.....	67,495	22,018	89,513	91,443	31,513	122,956	251,292	77,862	329,154
2029-2033.....	80,900	7,395	88,295	91,469	11,515	102,984	217,744	23,041	240,785
	<u>274,390</u>	<u>226,911</u>	<u>501,301</u>	<u>781,202</u>	<u>482,894</u>	<u>1,264,096</u>	<u>3,748,150</u>	<u>1,925,696</u>	<u>5,673,846</u>
Net Unamortized Premium/(Discount)....	—	—	—	6,506	—	6,506	23,604	—	23,604
Deferred Refunding Loss.....	—	—	—	—	—	—	(24,285)	—	(24,285)
Total.....	<u>\$274,390</u>	<u>\$226,911</u>	<u>\$501,301</u>	<u>\$787,708</u>	<u>\$482,894</u>	<u>\$1,270,602</u>	<u>\$3,747,469</u>	<u>\$1,925,696</u>	<u>\$5,673,165</u>



NOTE 12 SPECIAL OBLIGATION BONDS

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

OBA bonds finance the capital costs of categories of facilities including correctional facilities and office buildings for state departments and agencies and, in some cases, related facilities for local governments.

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

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

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

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

Special obligation bonds outstanding and bonds authorized but unissued, as of June 30, 2003, are presented in the table below.

For the year ended June 30, 2003, NOTE 15 summarizes changes in special obligation bonds.

**Primary Government-Governmental Activities
Special Obligation Bonds
As of June 30, 2003
(dollars in thousands)**

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Ohio Building Authority	1986-03	2.0%-9.8%	2022	\$2,234,175	\$603,710
Treasurer of State:					
Chapter 154 Bonds:					
Higher Education Facilities	1994-03	3.2%-6.0%	2013	1,319,818	—
Mental Health Facilities	1993-03	3.1%-6.0%	2018	300,994	77,915
Parks and Recreation Facilities	1993-03	2.5%-5.5%	2017	106,392	48,100
Elementary and Secondary Education ...	1997-99	4.0%-5.6%	2008	132,235	—
Total Special Obligation Bonds				<u>\$4,093,614</u>	<u>\$729,725</u>



NOTE 12 SPECIAL OBLIGATION BONDS (Continued)

Future special obligation debt service requirements, as of June 30, 2003, are as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2004	\$ 463,570	\$ 197,051	\$ 660,621
2005	448,708	182,732	631,440
2006	438,569	159,911	598,480
2007	436,249	130,200	566,449
2008	420,640	109,380	530,020
2009-2013	1,312,735	307,924	1,620,659
2014-2018	470,855	81,860	552,715
2019-2023	90,289	7,514	97,803
	<u>4,081,615</u>	<u>1,176,572</u>	<u>5,258,187</u>
Net Unamortized Premium/ (Discount).....	76,446	—	76,446
Deferred Refunding Loss	<u>(64,447)</u>	—	<u>(64,447)</u>
Total	<u>\$4,093,614</u>	<u>\$1,176,572</u>	<u>\$5,270,186</u>

bond issues *in substance* when the net proceeds of refunding bonds (after payment of underwriting fees and bond issue costs) were deposited with escrow agents to provide for all future principal and interest payments on the old bonds. A resulting economic gain/(loss) from an advance refunding represents the difference between the present values of the debt service payments on the old and new debt. Details on the advance refundings for fiscal year 2003 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, 2003, \$379.3 million and \$567.4 million of OBA and Chapter 154 special obligation bonds, respectively, are considered defeased and no longer outstanding.

During fiscal year 2003, the OBA and the Treasurer of State defeased a number of special obligation

**Governmental Activities
Special Obligation Bonds
Details of Advance Refundings
For the Year Ended June 30, 2003**
(dollars in thousands)

Refunding Bond Issue	Date of Refunding	Amount of Refunding Bonds Issued	Average Interest Rates of Refunding Bonds	Carrying Amount of Bonds Refunded <i>(in substance)</i>	Refunding Bond Proceeds Placed in Escrow	Reduction in Debt Service Payments	Economic Gain Resulting from Refunding
Ohio Building Authority:							
Adult Correctional Building 2002 Series B	9/27/02	\$ 90,560	3.7%	\$ 91,000	\$102,441	\$5,235 over next 14 years	\$ 4,064
Chapter 154 Bonds:							
Higher Education Facilities Series II-2002A	8/15/02	253,275	3.5%	260,300	276,854	\$7,218 over next 10 years	6,657
Mental Health Facilities Series II-2002B	8/15/02	38,065	3.1%	39,175	41,133	\$1,051 over next 8 years	896
Parks & Recreation Facilities Series II-2002B	8/15/02	9,675	2.5%	9,400	9,770	\$323 over next 5 years	331
Higher Education Facilities Series II-2003A	2/1/03	36,065	3.2%	37,000	39,561	\$826 over next 7 years	369
Mental Health Facilities Series II-2003A	2/1/03	8,215	3.4%	8,310	8,992	\$154 over next 8 years	92
Parks & Recreation Facilities Series II-2003A	2/1/03	6,425	3.6%	5,830	6,335	\$193 over next 9 years	92
Total.....		<u>\$442,280</u>		<u>\$451,015</u>	<u>\$485,086</u>		<u>\$12,501</u>



NOTE 13 CERTIFICATES OF PARTICIPATION

As of June 30, 2003, approximately \$7.4 million in certificate of participation (COP) obligations were reported in governmental activities.

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

Under the COP financing arrangements, the State is required to make rental payments from the Transportation Certificates of Participation Debt Service Fund and the General Fund (subject to biennial appropriations) that approximate the interest and principal payments made by trustees to certificate holders.

Obligations outstanding for the primary government under COP financing arrangements, as of June 30, 2003, are presented in the first table below.

As of June 30, 2003, the primary government's future commitments under the COP financing arrangements are as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2004	\$ 890	\$ 465	\$1,355
2005	945	408	1,353
2006	1,005	348	1,353
2007	800	285	1,085
2008	520	242	762
2009-2012..	3,210	609	3,819
Total	<u>\$7,370</u>	<u>\$2,357</u>	<u>\$9,727</u>

For the year ended June 30, 2003, NOTE 15 summarizes changes in COP obligations.

For the State's component units, approximately \$8.8 million in COP obligations are reported in the component unit funds. The obligations finance building construction costs at the Ohio State University and University of Cincinnati.

As of June 30, 2003, future commitments under the COP financing arrangements for the State's component units are detailed in the second table below.

**Primary Government — Governmental Activities
Certificate of Participation Obligations
As of June 30, 2003
(dollars in thousands)**

	Fiscal Year Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Department of Transportation:				
Panhandle Rail Line Project	1992	6.5%	2012	\$5,510
Rickenbacker Port Authority Improvements.....	1996	6.1%	2007	1,860
Total Certificates of Participation				<u>\$7,370</u>

**Component Units
Future Funding Requirements for Certificate of Participation Obligations
As of June 30, 2003
(dollars in thousands)**

Year Ending June 30,	Ohio State University			University of Cincinnati			Total Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 980	\$ 361	\$ 1,341	\$ 90	\$ 51	\$ 141	\$1,070	\$ 412	\$ 1,482
2005	720	321	1,041	90	46	136	810	367	1,177
2006	355	293	648	90	41	131	445	334	779
2007	360	277	637	90	36	126	450	313	763
2008	390	260	650	95	31	126	485	291	776
2009-2013.....	2,230	1,001	3,231	475	78	553	2,705	1,079	3,784
2014-2018.....	2,845	373	3,218	—	—	—	2,845	373	3,218
Total	<u>\$7,880</u>	<u>\$2,886</u>	<u>\$10,766</u>	<u>\$ 930</u>	<u>\$ 283</u>	<u>\$1,213</u>	<u>\$8,810</u>	<u>\$3,169</u>	<u>\$11,979</u>



NOTE 14 OTHER NONCURRENT LIABILITIES

As of June 30, 2003, in addition to bonds and certificate of participation obligations discussed in NOTES 10 through 13, the State reports the following non-current liabilities in its financial statements (dollars in thousands):

Governmental Activities:

Compensated Absences	\$ 383,637
Capital Leases Payable	4,888
Litigation Liabilities	10,000
Liability for Escheat Property	141,328
Total Governmental Activities	539,853

Business-Type Activities:

Compensated Absences	34,580
Capital Leases Payable	44,151
Workers' Compensation:	
Deferred Revenue	402,436
Benefits Payable	14,307,371
Other	1,832,271
Deferred Prize Awards Payable	929,225
Tuition Benefits Payable	1,080,500
Workers Compensation Claims- Auditor of State's Office	7,828
Total Business-Type Activities	18,638,362

Total Primary Government **\$19,178,215**

Component Units:

Compensated Absences	\$ 220,940
Capital Leases Payable	201,190
Intergovernmental Payable	2,133,542
Deferred Revenue	129,223
Other	194,111
Total Component Units	\$ 2,879,006

For the year ended June 30, 2003, 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, 2003, was \$418.2 million, of which \$383.6 million is allocable to governmental activities and \$34.6 million is allocable to business-type activities.

As of June 30, 2003, \$220.9 million of the "Other Noncurrent Liabilities" balance reported for component units represents compensated absences.

B. Lease Agreements

The State's primary government leases office buildings and office and computer equipment. Although the lease terms vary, most leases are renewable subject to biennial appropriations by the General Assembly. If the likelihood of the exercise of a fiscal funding clause in the lease agreement is, in the management's judgment, remote, then the lease is

considered noncancelable for financial reporting purposes and is reported as a fund expenditure/expense for operating leases or as a liability for capital leases.

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

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

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

The primary government's total operating lease expenditures/expenses for fiscal year 2003 were approximately \$94.3 million.

Future minimum lease commitments for operating leases and capital leases judged to be noncancelable, as of June 30, 2003, are as follows (dollars in thousands):

<u>Primary Government</u>	
Year Ending June 30,	Operating Leases
2004	\$4,596
2005	1,372
2006	82
2007	8
2008	3
Total minimum lease payments	\$6,061

<u>Capital Leases</u>			
Year Ending June 30,	Govern- mental Activities	Business- Type Activities	Total
2004	\$1,971	\$16,115	\$18,086
2005	1,470	16,115	17,585
2006	1,158	16,114	17,272
2007	740	7	747
2008	413	6	419
Total Mini- mum Lease Payments	5,752	48,357	54,109
Amount for interest	(864)	(4,206)	(5,070)
Present Value of Net Mini- mum Lease Payments	\$4,888	\$44,151	\$49,039



NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

As of June 30, 2003, the primary government had the following capital assets under capital leases (dollars in thousands):

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Equipment....	\$7,748	\$69,460	\$77,208
Vehicles.....	113	—	113
Total	<u>\$7,861</u>	<u>\$69,460</u>	<u>\$77,321</u>

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

Capital leases are reported under the "Refund and Other Liabilities" account in the proprietary funds. For the component units, capital lease obligations are included under the "Other Liabilities" account. Future minimum lease commitments for capital leases judged to be noncancelable and capital assets under capital leases for the component unit funds, as of June 30, 2003, are presented in the table below.

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, 2003, \$10 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 litigation, see NOTE 19.

D. Liability for Escheat Property

The State records a liability for escheat property to the extent that it is probable that the escheat property will be reclaimed and paid to claimants. As of June 30, 2003, this liability totaled approximately \$141.3 million.

E. Workers' Compensation

Deferred Revenue

Deferred revenue in the amount of \$402.4 million is reported as a noncurrent liability in the Workers' Compensation Enterprise Fund. This balance represents employer assessments for disabled workers benefits and for self-insuring employers guaranty deposits received or in the course of collection, but not yet recognized.

Benefits Payable

As discussed in NOTE 20A., the Workers' Compensation Enterprise Fund provides benefits to employees for losses sustained from job-related injury, disease, or death. The Bureau has computed a reserve for compensation, as of June 30, 2003, in the amount of approximately \$14.3 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.

**Component Units
Future Funding Requirements for Capital Lease Obligations
and Capital Assets Acquired Under Leases
As of June 30, 2003
(dollars in thousands)**

Year Ending June 30,	Ohio State University	University of Cincinnati	Other Component Units	Total Component Units
2004.....	\$ 5,411	\$ 11,047	\$12,729	\$ 29,187
2005.....	4,750	11,046	9,561	25,357
2006.....	4,605	11,197	8,155	23,957
2007.....	3,065	11,647	6,662	21,374
2008.....	740	11,862	5,254	17,856
2009-2013	822	58,729	12,126	71,677
2014-2018	—	46,584	394	46,978
2019-2023	—	59,434	—	59,434
Total Minimum Lease Payments	19,393	221,546	54,881	295,820
Amount for Interest.....	(1,670)	(86,284)	(6,676)	(94,630)
Present Value of Net Minimum Lease Payments.....	<u>\$17,723</u>	<u>\$135,262</u>	<u>\$48,205</u>	<u>\$201,190</u>
Land.....	\$ —	\$ —	\$ 140	\$ 140
Buildings.....	—	140,338	7,441	147,779
Land Improvements.....	—	—	785	785
Equipment.....	31,740	—	73,697	105,437
Total.....	<u>\$31,740</u>	<u>\$140,338</u>	<u>\$82,063</u>	<u>\$254,141</u>



NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

F. Deferred Prize Awards Payable

Deferred prize awards payable in installments over future years totaling approximately \$929.2 million, as of June 30, 2003, are reported at present value based upon interest rates the Treasurer of State provides the Lottery Commission Enterprise Fund. The interest rates, ranging from 4.0 to 11.7 percent, represent the expected long-term rate of return on the assets restricted for the payment of deferred prize awards. Once established for a particular deferred prize award, the interest rate does not fluctuate with changes in the expected long-term rate of return. The difference between the present value and gross amount of the obligations is amortized into income over the terms of the obligations using the interest method.

The present value of future payments of unpaid prize awards, as of June 30, 2003, is as follows (dollars in thousands):

Year Ending June 30,	
2004.....	\$ 142,713
2005.....	136,504
2006.....	127,126
2007.....	116,039
2008.....	100,569
2009-2013.....	349,280
2014-2018.....	302,376
2019-2023.....	177,370
	1,451,977
Unamortized Discount.....	(522,752)
Net Prize Liability	<u>\$ 929,225</u>

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

G. Tuition Benefits Payable

The actuarial present value of future tuition benefits payable from the Tuition Trust Authority Enterprise Fund were \$1.08 billion, as of June 30, 2003. The valuation method reflects the present value of estimated tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition increases at state universities and state community colleges and termination of plan participation.

The following assumptions were used in the actuarial determination of tuition benefits payable: 7 percent rate of return, compounded annually, on the investment of current and future assets; a projected annual tuition increase of 16.2 percent and 10 percent annually thereafter; and a 2.5 percent Consumer Price Index inflation rate. The projected tuition growth rates represent a change in the assumption for annual tuition growth from 10 percent for

2004, nine percent for 2005, and 6.5 percent annually thereafter. The effect of changes in assumptions are summarized below (dollars in millions):

Actuarial Deficit, as of June 30, 2002	\$ (23.8)
Interest on the Deficit at 7.5 Percent	(1.8)
Recognition of Shortfall	
in Investment Returns	(25.0)
Additional Deficit from New Unit Purchases ..	(12.5)
Credits Redeemed at Lower Rate2
Higher-Than-Assumed Tuition Increase	(.8)
Budget Savings6
Fewer-Than-Expected Units/	
Credits Redeemed	(5.5)
Interest Gain on Late Tuition Payouts4
Change in Investment Return	(31.1)
Changes in Annual Tuition Growth Assumption ..	(174.3)
Other	2.4
	<hr/>
Actuarial Deficit, as of June 30, 2003 -Before	
Actuarial Present Value (APV) Basis Points	
Revenue	(271.2)
APV of Payments from Variable Program	34.8
	<hr/>
Actuarial Deficit, as of June 30, 2003	<u>\$ (236.4)</u>

As of June 30, 2003, the actuarial value of net assets available for payment of the tuition benefits payable was \$809.3 million. In determining the actuarial value of net assets available, the Authority has applied the smoothed methodology. This methodology recognizes annually one-third of the difference between assets at fair value and the expected assets based on the actuarial investment return assumption. Consequently, the assets used to determine the program's surplus are not the same as the market or cost value of the program's assets reported in the Authority's financial statements.

Other Liabilities

The Workers' Compensation Enterprise Fund reports approximately \$1.83 billion in other noncurrent liabilities, as of June 30, 2003, of which 1.) \$1.67 billion is comprised of the compensation adjustment expenses liability for estimated future expenses to be incurred in the settlement of claims, as discussed further in NOTE 20A., 2.) \$82.9 million represents premium payment security deposits collected in advance from private employers to reduce credit risk for premiums collected in subsequent periods, and 3.) \$75.5 million consists of other miscellaneous liabilities.

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



NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

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, 2003 (See NOTE 7A.).

mental payable balance totaling approximately \$2.13 billion for long-term funding contracts the Commission has with local school districts. The contracts commit the State to cover the costs of construction of facilities of the school districts once the districts have met certain eligibility requirements.

H. Intergovernmental Payable

As of June 30, 2003, the School Facilities Commission Component Unit Fund reports an intergovern-

NOTE 15 CHANGES IN NONCURRENT LIABILITIES

Primary Government

Changes in noncurrent liabilities, for the year ended June 30, 2003, are presented for the primary government in the following table.

**Primary Government
Changes in Noncurrent Liabilities
For the Fiscal Year Ended June 30, 2003**
(dollars in thousands)

	Balance July 1, 2002 (as restated)	Additions	Reductions	Balance June 30, 2003	Amount Due Within One Year
Governmental Activities:					
Bonds and Notes Payable:					
General Obligation Bonds (NOTE 10)	\$ 3,771,129	\$1,756,488	\$ (923,775)	\$ 4,603,842	\$ 344,835
Revenue Bonds (NOTE 11)	297,638	199,367	(46,407)	450,598	46,985
Special Obligations (NOTE 12)	4,389,102	669,617	(965,105)	4,093,614	473,184
Total Bonds and Notes Payable	<u>8,457,869</u>	<u>2,625,472</u>	<u>(1,935,287)</u>	<u>9,148,054</u>	<u>865,004</u>
Certificates of Participation (NOTE 13)	9,900	—	(2,530)	7,370	890
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	381,929	335,659	(333,951)	383,637	50,235
Capital Leases Payable	3,933	3,391	(2,436)	4,888	1,593
Litigation Liabilities	30,000	10,000	(30,000)	10,000	—
Liability for Escheat Property	103,590	80,346	(42,608)	141,328	44,440
Total Other Noncurrent Liabilities	<u>519,452</u>	<u>429,396</u>	<u>(408,995)</u>	<u>539,853</u>	<u>96,268</u>
Governmental Activities-Noncurrent Liabilities	<u>8,987,221</u>	<u>3,054,868</u>	<u>(2,346,812)</u>	<u>9,695,277</u>	<u>962,162</u>
Business-Type Activities:					
Bonds and Notes Payable:					
Revenue Bonds (NOTE 11)	190,723	196,895	(220,308)	167,310	3,730
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	33,551	32,193	(31,164)	34,580	1,467
Capital Leases Payable	57,171	29	(13,049)	44,151	13,841
Workers' Compensation:					
Deferred Revenue	413,086	40,263	(50,913)	402,436	14,535
Benefits Payable	13,267,172	3,196,199	(2,156,000)	14,307,371	1,688,700
Other:					
Adjustment Expenses Liability	1,620,334	164,370	(111,000)	1,673,704	450,738
Premium Payment Security Deposits	81,272	4,397	(2,678)	82,991	—
Miscellaneous	74,513	70,594	(69,531)	75,576	74,502
Deferred Prize Awards Payable	997,944	76,963	(145,682)	929,225	82,609
Tuition Benefits Payable	738,200	381,239	(38,939)	1,080,500	70,900
Workers' Compensation Claims-					
Auditor of State's Office	4,013	3,815	—	7,828	443
Total Other Noncurrent Liabilities	<u>17,287,256</u>	<u>3,970,062</u>	<u>(2,618,956)</u>	<u>18,638,362</u>	<u>2,397,735</u>
Business-Type Activities-Noncurrent Liabilities	<u>17,477,979</u>	<u>4,166,957</u>	<u>(2,839,264)</u>	<u>18,805,672</u>	<u>2,401,465</u>
Total Primary Government	<u>\$26,465,200</u>	<u>\$7,221,825</u>	<u>\$(5,186,076)</u>	<u>\$28,500,949</u>	<u>\$3,363,627</u>



NOTE 15 CHANGES IN NONCURRENT LIABILITIES (Continued)

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

For fiscal year 2003, the State's primary government included interest expense on its debt issues in the following governmental functions rather than reporting it separately as interest expense. The related borrowings are essential to the creation or continuing existence of the programs they finance. The various state subsidy programs supported by the borrowings provide direct state assistance to local governments for their respective capital construction or research projects. None of the financing provided under these programs benefits the general operations of the primary government, and accordingly, such expense is not reported separately on

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

	<i>(dollars in thousands)</i>
Governmental Activities:	
Primary, Secondary and Other Education	\$ 59,010
Higher Education Support	115,611
Environmental Protection and Natural Resources	368
Transportation	4
Community and Economic Development	17,256
Intergovernmental	87,716
	<hr/>
Total Interest Expense	
Charged to Governmental Functions .	<u>\$279,965</u>

Component Units

Changes in noncurrent liabilities, for the year ended June 30, 2003 (December 31, 2002 for the Ohio Water Development Authority), are presented in the following table for the State's discretely presented component units.

**Component Units
Changes in Noncurrent Liabilities
For the Fiscal Year Ended June 30, 2003**
(dollars in thousands)

	Balance July 1, 2002 (as restated)	Additions	Reductions	Balance June 30, 2003	Amount Due Within One Year
Bonds and Notes Payable:					
Revenue Bonds (NOTE 11):					
Ohio Water Development Authority	\$ 1,420,920	\$ 624,097	\$ (430,053)	\$ 1,614,964	\$ 105,653
Ohio State University	551,319	124,497	(115,185)	560,631	343,471
University of Cincinnati	427,684	117,806	(35,714)	509,776	35,531
All Other Component Units	880,333	320,390	(138,625)	1,062,098	58,775
Total Bonds and Notes Payable	<u>3,280,256</u>	<u>1,186,790</u>	<u>(719,577)</u>	<u>3,747,469</u>	<u>543,430</u>
Certificates of Participation (NOTE 13):					
Ohio State University	8,805	—	(925)	7,880	980
University of Cincinnati	1,180	—	(250)	930	90
Total Certificates of Participation	<u>9,985</u>	<u>—</u>	<u>(1,175)</u>	<u>8,810</u>	<u>1,070</u>
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences:					
Ohio State University	61,327	8,140	(4,926)	64,541	4,926
University of Cincinnati	56,662	2,959	(1,156)	58,465	30,734
All Other Component Units	90,033	34,474	(26,573)	97,934	26,952
Total Compensated Absences	<u>208,022</u>	<u>45,573</u>	<u>(32,655)</u>	<u>220,940</u>	<u>62,612</u>
Capital Leases Payable:					
Ohio State University	20,982	2,497	(5,756)	17,723	4,755
University of Cincinnati	138,317	—	(3,055)	135,262	4,111
All Other Component Units	42,783	19,162	(13,740)	48,205	10,807
Total Capital Leases Payable	<u>202,082</u>	<u>21,659</u>	<u>(22,551)</u>	<u>201,190</u>	<u>19,673</u>
Intergovernmental Payable:					
School Facilities Commission	1,343,734	1,385,531	(595,723)	2,133,542	748,200
Deferred Revenue:					
Ohio State University	103,775	1,365,221	(1,371,322)	97,674	89,674
All Other Component Units	28,862	29,944	(27,257)	31,549	29,851
Total Deferred Revenue	<u>132,637</u>	<u>1,395,165</u>	<u>(1,398,579)</u>	<u>129,223</u>	<u>119,525</u>

(Continued)



NOTE 15 CHANGES IN NONCURRENT LIABILITIES (Continued)

Component Units
Changes in Other Noncurrent Liabilities (Continued)
For the Fiscal Year Ended June 30, 2003
(dollars in thousands)

	Balance July 1, 2002 (as restated)	Additions	Reductions	Balance June 30, 2003	Amount Due Within One Year
Other Liabilities:					
Ohio State University.....	139,518	19,497	(50,279)	108,736	4,571
University of Cincinnati.....	29,693	98,484	(95,830)	32,347	342
All Other Component Units.....	73,304	4,499	(24,775)	53,028	757
Total Other Liabilities.....	242,515	122,480	(170,884)	194,111	5,670
Total Other Noncurrent Liabilities.....	2,128,990	2,970,408	(2,220,392)	2,879,006	955,680
Component Units-Noncurrent Liabilities....	\$5,419,231	\$4,157,198	\$(2,941,144)	\$6,635,285	\$1,500,180

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, 2003, revenue bonds and notes outstanding that represent "no commitment" debt for the State are as follows (dollars in thousands):

Organization	Outstanding Amount
Ohio Department of Development:	
Ohio Housing Finance Agency	\$2,247,458
Ohio Enterprise Bond Program.....	148,195
Hospital Facilities Bonds.....	25,500
Total No Commitment Debt	<u>\$2,421,153</u>

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

A. Fund Deficits

The following individual funds reported deficits that are reflected in the State's basic financial statements, as of June 30, 2003 (dollars in thousands):

Primary Government:

Major Funds:

Tuition Trust Authority Enterprise Fund... \$ (318,950)

Nonmajor Governmental Funds:

Mental Health and Retardation
Special Revenue Fund..... \$ (35,776)

Local Infrastructure Improvements
General Obligations Debt Service
Fund..... (49)

Administrative Services Building
Improvements Capital Projects Fund ... (10,364)

Total \$ (46,189)

Component Units:

School Facilities Commission Fund \$ (1,811,881)

B. "Other" Fund Balance Reserves and Designations

Details on the "Reserved for Other" account reported for the governmental funds, as of June 30, 2003, are presented in the table on the following page.

The unreserved fund balance for nonmajor special revenue funds is designated for compensated absences in the amount of \$3.9 million, as of June 30, 2003.



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

**Primary Government
Governmental Funds — Reserved for Other
As of June 30, 2003
(dollars in thousands)**

	General Fund	Job, Family and Other Human Services	Education	Highway Operating	Nonmajor Govern- mental Funds	Total Govern- mental Funds
Other Assets — Prepays	\$ 16,886	\$ 1,920	\$203	\$3,185	\$ 5,723	\$ 27,917
Advances to Local Governments	16,262	31,994	—	—	—	48,256
Department of Development's Office of Minority Financial Incentives — Mini-Loan Program Deposits	171	—	—	—	—	171
Noncurrent Portion of Interfund Receivables	241,847	—	—	—	—	241,847
Assets in Excess of Debt Service Requirements	—	—	—	—	3	3
Ohio Enterprise Bond Program	—	—	—	—	10,000	10,000
Coal Research and Development Program	—	—	—	—	8,486	8,486
Long-Term Leases Receivable	—	—	—	—	1,643	1,643
Special Purpose Restrictions: Health and Human Services	—	—	—	—	1,696	1,696
Environmental Protection and Natural Resources	—	—	—	—	354	354
Community and Economic Development	—	—	—	—	30,106	30,106
Total Reserved for Other	<u>\$275,166</u>	<u>\$33,914</u>	<u>\$203</u>	<u>\$3,185</u>	<u>\$58,011</u>	<u>\$370,479</u>

NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS

A. Joint Ventures

Great Lakes Protection Fund (GLPF)

The Great Lakes Protection Fund is an Illinois non-profit organization that was formed to further federal and state commitments to the restoration and maintenance of the Great Lakes Basin's ecosystem. The governors of seven of the eight states that border on the Great Lakes comprise the GLPF's membership. Under the GLPF's articles of incorporation, each state is required to make a financial contribution. Income earned on the contributions provides grants to projects that advance the goals of the Great Lakes Toxic Substances Control Agreement and the binational Great Lakes Quality Agreement.

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

Annually, one-third of the GLPF's net earnings is allocated and paid to member states in proportion to their respective cash contributions to the GLPF. The allocation is based on the amount and period of time the states' contributions were invested. GLPF earnings distributions are to be used by the states to fi-

nance projects that are compatible with the GLPF's objectives. Ohio applies its distribution to the operations of its own protection program, known as the Lake Erie Protection Program, which is modeled after the GLPF. For the year ended December 31, 2002, however, the State did not receive its annual distribution since the GLPF reported an investment loss.

Required contributions and contributions received from the states, which border the Great Lakes, as of December 31, 2002 (the GLPF's year-end), are as follows (dollars in thousands):

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

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



NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

Summary financial information for the GLPF, for the fiscal year ended December 31, 2002, is as follows (dollars in thousands):

Cash and Investments	\$ 94,980
Other Assets	427
Total Assets	\$ 95,407
Total Liabilities	\$ 412
Total Fund Equity	94,995
Total Liabilities and Fund Equity ...	\$ 95,407
Total Revenues and Other Additions*	\$(17,578)
Total Expenditures	(5,244)
Net Decrease in Fund Equity	\$(22,822)

*Includes \$12,455 for unrealized loss on investments.

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 whom state officials appoint two and three members, respectively; the remaining members are appointed by the local school boards located in the respective technical college district.

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

Fiscal year 2003 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 Community College	\$ 45,077	\$ 6,840	\$ 51,917
Jefferson Community College	3,823	56	3,879
Lakeland Community College	14,915	243	15,158
Lorain County Community College.....	22,009	232	22,241
Rio Grande Community College.....	4,264	178	4,442
Sinclair Community College....	42,328	1,717	44,045
Total Local Community Colleges.....	132,416	9,266	141,682
Technical Colleges:			
Belmont Technical College.....	4,864	83	4,947
Central Ohio Technical College.....	4,439	324	4,763
Hocking Technical College	16,542	4,363	20,905
James A. Rhodes State College (formerly Lima Technical College)	7,460	11	7,471
Marion Technical College	3,722	15	3,737
Muskingum Area Technical College.....	5,159	347	5,506
North Central State College....	7,033	821	7,854
Stark State College of Technology.....	11,098	4,360	15,458
Total Technical Colleges.....	60,317	10,324	70,641
Total	<u>\$192,733</u>	<u>\$19,590</u>	<u>\$212,323</u>

Information for obtaining complete financial statements for each of the primary government's joint ventures is available from the Ohio Office of Budget and Management.

B. Related Organizations

Officials of the State's primary government appoint a voting majority of the governing boards of the Ohio Turnpike Commission, the Petroleum Underground Storage Tank Release Compensation Board, the Ohio Air Quality Development Authority, the Higher Education Facility Commission, and the Ohio Legal Assistance Foundation. However, the primary government's accountability for these organizations does not extend beyond making the appointments.

During fiscal year 2003, the State had the following related-party transactions with its related organizations:



NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

- The primary government distributed \$2.7 million in motor vehicle fuel excise tax collections from the Revenue Distribution Fund to the Ohio Turnpike Commission.
- Separate funds, established for the Petroleum Underground Storage Tank Release Compensation Board, the Ohio Air Quality Development Authority, and the Higher Education Facility Commission, were accounted for on the primary government's Central Accounting System. The primary purpose of the funds is to streamline payroll and other administrative disbursement processing for these organizations. The financial activities of the funds, which do not receive any funding support from the primary government, have been included in the agency funds.
- From the Job, Family and Other Human Services Fund, the Public Defender's Office paid approximately \$638 thousand in compensation to the Ohio Legal Assistance Foundation for administrative services performed under contract for the distribution of state funding to nonprofit legal aid societies. Also, during fiscal year 2003, the Ohio Legal Assistance Foundation received approximately \$1.5 million in state assistance paid from the Job, Family and Other Human Services Fund.

NOTE 19 CONTINGENCIES AND COMMITMENTS

A. Litigation

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

Litigation pending in the Ohio Court of Claims contests the Ohio Department of Human Services (ODHS, now Ohio Department of Job and Family Services) former Medicaid financial eligibility rules for married couples when one spouse is living in a nursing facility and the other resides in the community. ODHS promulgated new eligibility rules effective January 1, 1996. ODHS appealed an order of the federal court directing it to provide notice to persons potentially affected by the former rules from 1990 through 1995, and the Court of Appeals ruled in favor of ODHS; The U.S. Supreme Court did not grant plaintiff's petition for certiorari. As to the Court of Claims case, it is not possible to state the period (beyond the current fiscal year) during which necessary additional Medicaid expenditures would have to be made. Plaintiffs have estimated total additional Medicaid expenditures at \$600 million for the retroactive period and, based on current law, it is estimated that the State's share of those additional expenditures would be approximately \$240 million. The Court of Appeals has certified the class action and notice has been sent to the members of the class. Trial for liability only was completed in the Court of Claims in January 2003, and all post-trial briefs have been filed with that Court. No liability has been reported in the financial statements for this matter.

As previously discussed in NOTE 14C, the State has recognized \$10 million in liabilities for pending litigation, the unfavorable outcome of which has been assessed to be probable. All other legal proceedings are not, in the opinion of management after

consultation with the Attorney General, likely to have a material adverse effect on the State's financial position.

B. Federal Awards

The State of Ohio receives significant awards from the federal government in the form of grants and entitlements, including certain non-cash programs (which are not included in the basic financial statements). Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit or to financial compliance audits by the grantor agencies of the federal government or their designees. Disallowances and sanctions as a result of these audits may become liabilities to the State.

As a result of the fiscal year 2002 State of Ohio Single Audit (completed in February 2003), \$151.8 million of federal expenditures are in question as not being appropriate under the terms of the respective grants. The amount of expenditures, which may be ultimately disallowed by the grantor, cannot be determined at this time, and consequently, no provision for any liability or adjustments for this matter has been recognized in the State's financial statements for the fiscal year ended June 30, 2003.

C. Tax Refund Claims

As of June 30, 2003, income tax refund claims estimated in the amount of \$7 million were pending an official determination of the Tax Commissioner at the Ohio Department of Taxation. The claims arose from refund claims taxpayers filed for tax periods occurring in fiscal year 2003 and in prior years. No



NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

liability has been reported in the financial statements for this matter.

D. Construction Commitments

As of June 30, 2003, the Ohio Department of Transportation had total contractual commitments of approximately \$1.59 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 \$824.4 million, \$316.6 million, \$370 million, and \$75.4 million, respectively. As of June 30, 2003, other major non-highway construction commitments for the primary government's budgeted capital projects funds are as follows (dollars in thousands):

Mental Health/Mental Retardation	
Facilities Improvements.....	\$ 18,137
Parks and Recreation Improvements.....	20,745
Administrative Services	
Building Improvements.....	64,184
Youth Services Building Improvements.....	14,071
Transportation Building Improvements.....	76
Adult Correctional Building Improvements..	54,287
Highway Safety Building Improvements.....	14,408
Ohio Parks and Natural Resources.....	19,647
Total.....	<u>\$205,555</u>

E. Tobacco Settlement

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

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

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

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

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

Year Ending June 30,	Pre-adjusted MSA Base Payments	Pre-adjusted Payments From the Strategic Contribution Fund	Total
2004	\$ 352,827	\$ —	\$ 352,827
2005	352,827	—	352,827
2006	352,827	—	352,827
2007	352,827	—	352,827
2008	359,829	23,950	383,779
2009-2013 ..	1,799,147	119,750	1,918,897
2014-2018 ..	1,842,520	95,800	1,938,320
2019-2023 ..	2,016,011	—	2,016,011
2024-2025 ..	806,405	—	806,405
Total	<u>\$8,235,220</u>	<u>\$239,500</u>	<u>\$8,474,720</u>

During fiscal year 2003, Ohio received \$369.6 million, which was approximately \$53.1 million or 12.6 percent less than the pre-adjusted base payment for the year. For the last four fiscal years, with fiscal year 2000 being the first year when base payments were made to the states under the settlement, the State has received a total of about \$1.47 billion, which is approximately \$167.9 million or 10.3 percent less than the total of the pre-adjusted base payments established for the last three fiscal years.

The moneys provide funding for the construction of elementary and secondary school capital facilities, new programs for smoking cessation and other health-related purposes, biomedical research and technology, and assistance to the tobacco-growing areas in Ohio. Before the end of fiscal year 2003, the State transferred \$280.5 million in tobacco settlement revenues from the Special Revenue Fund to the General Fund to help make up for a shortfall in estimated tax revenues for fiscal year 2003. Also, the General Assembly has authorized the transfer of up to an additional \$242.8 million in tobacco settlement revenues, if needed to balance the fiscal year 2004 budget in the event of continued revenue shortfalls in the General Fund.



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, 2003, in the amount of approximately \$14.3 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 \$1.7 billion, is an estimate of future expenses to be incurred in the settlement of claims. The estimate for this liability is based on projected claim-related expenses, estimated costs of the managed care Health Partnership Program, and the reserve for compensation.

Management of the Ohio Bureau of Workers' Compensation and the Industrial Commission of Ohio believes that the reported liability estimates are adequate. While management uses available information to estimate liabilities, 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 and updated quarterly based upon current circumstances. Any adjustments resulting from changes in estimates are recognized in the current period.

Benefits payable and the compensation adjustment expenses liability have been discounted at 5.5 percent to reflect the present value of future benefit payments. The selected discount rate approximates an average yield on United States government securities with durations similar to the expected claims underlying the Fund's reserves. The undiscounted reserves for the benefits and compensation adjustment expenses totaled \$32.3 billion, as of June 30, 2003, and \$30.6 billion, as of June 30, 2002. For additional information, refer to the Fund's separate audited financial report, for the fiscal year ended June 30, 2003.

Changes in the balance of benefits payable and the compensation adjustment expenses liability for the Workers' Compensation Program during the past two fiscal years are presented in the table below.

B. State Employee Healthcare Plans

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

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

	Fiscal Year 2003	Fiscal Year 2002
Benefits Payable and Compensation Adjustment Expenses Liability, as of July 1	\$14,888	\$14,112
Incurred Compensation and Compensation Adjustment Benefits	2,916	2,662
Incurred Compensation and Compensation Adjustment Benefit Payments	(2,267)	(2,158)
Change in Liability Due to Decrease in Discount Rate	444	272
Benefits Payable and Compensation Adjustment Expenses Liability, as of June 30	<u>\$15,981</u>	<u>\$14,888</u>



NOTE 20 RISK FINANCING (Continued)

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

When it is probable that a loss has occurred and the amount of the loss can be reasonably estimated, the primary government reports liabilities for the governmental and proprietary funds. Liabilities include an amount for claims that have been incurred but not reported. The plans' actuaries calculate estimated claims liabilities based on prior claims data, employee enrollment figures, medical trends, and experience.

Governmental and proprietary funds pay a share of the costs for claims settlement based on the number of employees opting for plan participation and the type of coverage selected by participants. The payments are reported in the Payroll Withholding and Fringe Benefits Agency Fund until such time that the primary government pays the accumulated resources to Medical Mutual of Ohio or United Healthcare for claims settlement.

For governmental funds, the primary government recognizes claims as expenditures to the extent that the amounts are payable with expendable available financial resources. For governmental and business-type activities, claims are recognized in the Statement of Activities as expenses when incurred.

As of June 30, 2003, approximately \$43 million in total assets was available in the Agency Fund and on deposit with Medical Mutual to cover claims. Changes in the balance of Ohio Med health claims liabilities during the past two fiscal years are as follows (dollars in thousands):

Ohio Med Plan		
	Fiscal Year 2003	Fiscal Year 2002 (as restated)
Claims Liabilities, as of July 1	\$ 22,744	\$ 20,469
Incurred Claims	265,890	153,739
Claims Payments	(249,185)	(151,464)
Claims Liabilities, as of June 30	<u>\$ 39,449</u>	<u>\$ 22,744</u>

As of June 30, 2003, the resources on deposit in the Payroll Withholding and Fringe Benefits Agency Fund and on deposit with Medical Mutual of Ohio for the payment of claims under the Ohio Med Plan exceeded the estimated claims liability by approximately \$3.6 million, thereby resulting in a funding surplus. The surplus was reallocated back to the governmental and proprietary funds, with a resulting reduction in expenditures/expenses.

As of June 30, 2003, approximately \$6.8 million in total assets was available in the Agency Fund and on deposit with United Healthcare to cover claims incurred by June 30. Changes in the balance of United Healthcare claims liabilities during the past fiscal year (the year in which the plan was established) are as follows (dollars in thousands):

United Healthcare Plan	
	Fiscal Year 2003
Claims Liabilities, as of July 1	\$ —
Incurred Claims	76,077
Claims Payments	(62,440)
Claims Liabilities, as of June 30	<u>\$ 13,637</u>

As of June 30, 2003, the estimated claims liability of the United Healthcare Plan exceeded the resources on deposit in the Payroll Withholding and Fringe Benefits Agency Fund for the payment of claims by approximately \$6.8 million, thereby, resulting in a funding deficit. The net claims liability, which was payable from expendable financial resources in the governmental funds, as of June 30, 2003, was reported as a fund liability in the governmental and proprietary funds.

C. Other Risk Financing Programs

The primary government has established programs to advance fund potential losses for vehicular liability and theft in office. The potential amount of loss arising from these risks, however, is not considered material in relation to the State's financial position.



NOTE 21 SUBSEQUENT EVENTS

A. Bond Issuances and Authorizations

Subsequent to June 30, 2003 (December 31, 2002 for the Ohio Water Development Authority), the State issued major debt as detailed in the table below. As specified in legislation passed prior to June

30, 2003, the General Assembly approved a \$635 million increase in the bond issue authorization for the Highway Capital Improvement general obligation bonds, which became effective after June 30, 2003.

**Debt Issuances
Subsequent to June 30, 2003
(dollars in thousands)**

	Date	Interest Coupon Rates	Amount
Primary Government:			
<i>Ohio Public Facilities Commission-General Obligation Bonds:</i>			
Common Schools Capital Facilities-Series 2003B	July 22, 2003	4.4%*	\$200,000
<i>Treasurer of State-General Obligation Bonds:</i>			
Infrastructure Improvements-Series 2003F	Dec. 4, 2003		<u>120,000</u>
Total General Obligation Bonds.....			<u>320,000</u>
<i>Treasurer of State-Revenue Bonds:</i>			
Innovation Ohio (Taxable)-Series 2003	July 17, 2003	5.4%*	50,000
Research and Development (Taxable)-Series 2003B	Oct. 30, 2003	5.7%*	<u>50,000</u>
Total Revenue Bonds			<u>100,000</u>
<i>Ohio Building Authority Special Obligation Bonds:</i>			
Department of Administrative Services State Facilities-Series 2003A	July 10, 2003	4.1%*	100,000
State Facilities Refunding (DiSalle/Lausche/Ocasek)-Series 2003A	July 10, 2003	1.8%*	<u>18,540</u>
Total Special Obligation Bonds.....			<u>118,540</u>
Total Primary Government			<u>\$538,540</u>
Major Component Units:			
<i>Ohio Water Development Authority Revenue Bonds and Notes:</i>			
Water Pollution Control Loan Fund Water Quality - Series 2003 Refunding	June 30, 2003	3.0%-5.3%	\$161,430
Research and Development Loan Advance -Series 2003-A	August 28, 2003	Variable Rate	<u>26,700</u>
Total Ohio Water Development Authority			<u>188,130</u>
<i>Ohio State University General Receipts Bonds:</i>			
Series 2003B	Sept. 11, 2003	1.8%-5.2%	233,780
Series 2003C	Sept. 11, 2003	.9%-1.0%	<u>121,295</u>
Total Ohio State University			<u>355,075</u>
Total Major Component Units			<u>\$543,205</u>

*True Interest Cost

B. Tuition Trust Authority

In August 2003, the Board of Directors for the Tuition Trust Authority passed a resolution to limit the amount of total annual contributions participants could make the Guaranteed Savings Plan to \$2,000 per beneficiary. Later, the Authority's Board passed

a resolution, effective October 8, 2003, to temporarily suspend sales of new enrollments for the Guaranteed Savings Plan through December 31, 2004 and to temporarily suspend contributions to existing plan accounts from January 1, 2004 through December 31, 2004.