

State of Ohio

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2012



Office of Budget and Management

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Prepared by OBM Division of State Accounting.

Financial Section

Basic Financial Statements



STATE OF OHIO
STATEMENT OF NET ASSETS
JUNE 30, 2012
(dollars in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS:				
Cash Equity with Treasurer.....	\$ 6,930,670	\$ 225,503	\$ 7,156,173	\$ 561,622
Cash and Cash Equivalents.....	123,145	455,359	578,504	1,490,163
Investments.....	601,389	22,529,389	23,130,778	7,243,375
Collateral on Lent Securities.....	978,638	29,802	1,008,440	75,151
Deposit with Federal Government.....	—	177,795	177,795	—
Taxes Receivable.....	1,595,721	—	1,595,721	—
Intergovernmental Receivable.....	1,471,936	10,322	1,482,258	82,115
Premiums and				
Assessments Receivable.....	—	3,887,981	3,887,981	—
Investment Trade Receivable.....	—	194,429	194,429	—
Loans Receivable, Net.....	1,158,587	—	1,158,587	301,881
Receivable from Primary Government.....	—	—	—	23,248
Receivable from Component Units.....	3,767,380	—	3,767,380	—
Other Receivables.....	591,225	425,229	1,016,454	1,210,315
Inventories.....	105,839	42,921	148,760	89,362
Other Assets.....	109,001	25,604	134,605	670,488
Restricted Assets:				
Cash Equity with Treasurer.....	—	20	20	—
Cash and Cash Equivalents.....	967	89	1,056	1,201,187
Investments.....	518,050	1,169,714	1,687,764	2,248,024
Collateral on Lent Securities.....	—	188,436	188,436	—
Loans Receivable, Net.....	—	—	—	4,539,481
Other Receivables.....	321,654	2,158	323,812	—
Capital Assets Being Depreciated, Net.....	2,277,682	124,846	2,402,528	9,112,431
Capital Assets Not Being Depreciated.....	23,333,861	19,318	23,353,179	1,894,118
TOTAL ASSETS.....	43,885,745	29,508,915	73,394,660	30,742,961
Deferred Outflows of Resources.....	59,117	—	59,117	1,881
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES.....	43,944,862	29,508,915	73,453,777	30,744,842
LIABILITIES:				
Accounts Payable.....	601,021	63,459	664,480	572,937
Accrued Liabilities.....	305,756	3,189	308,945	447,080
Medicaid Claims Payable.....	1,089,155	—	1,089,155	—
Obligations Under Securities Lending.....	978,638	218,238	1,196,876	75,151
Investment Trade Payable.....	—	302,143	302,143	—
Intergovernmental Payable.....	1,285,622	1,659	1,287,281	1,012
Internal Balances.....	707,614	(707,614)	—	—
Payable to Primary Government.....	—	—	—	3,766,898
Payable to Component Units.....	23,248	—	23,248	—
Unearned Revenue.....	497,827	1,738	499,565	513,130
Benefits Payable.....	—	19,297	19,297	—
Refund and Other Liabilities.....	750,743	81,680	832,423	98,977
Noncurrent Liabilities:				
Bonds and Notes Payable:				
Due in One Year.....	1,328,060	15,914	1,343,974	986,224
Due in More Than One Year.....	16,780,700	15,719	16,796,419	8,268,512
Certificates of Participation:				
Due in One Year.....	21,689	—	21,689	490
Due in More Than One Year.....	134,975	—	134,975	2,845
Other Noncurrent Liabilities:				
Due in One Year.....	129,976	2,828,895	2,958,871	516,674
Due in More Than One Year.....	711,831	20,096,034	20,807,865	1,100,483
TOTAL LIABILITIES.....	25,346,855	22,940,351	48,287,206	16,350,413
Deferred Inflows of Resources.....	—	—	—	23,424
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES.....	25,346,855	22,940,351	48,287,206	16,373,837

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

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET ASSETS:				
<i>Invested in Capital Assets,</i>				
<i>Net of Related Debt.....</i>	22,147,262	67,331	22,214,593	5,973,417
<i>Restricted for:</i>				
<i>Primary, Secondary and Other Education.....</i>	129,353	—	129,353	312
<i>Public Assistance and Medicaid.....</i>	219,153	—	219,153	—
<i>Health and Human Services.....</i>	101,056	—	101,056	—
<i>Justice and Public Protection.....</i>	29,516	—	29,516	—
<i>Environmental Protection and Natural Resources.....</i>	148,200	—	148,200	—
<i>Transportation.....</i>	2,613,620	—	2,613,620	—
<i>General Government.....</i>	93,089	—	93,089	—
<i>Community and Economic Development.....</i>	245,631	—	245,631	3,150,752
<i>Deferred Lottery Prizes.....</i>	—	123,724	123,724	—
<i>Workers Compensation.....</i>	—	7,760,634	7,760,634	—
<i>Nonexpendable for</i>				
<i>Colleges and Universities.....</i>	—	—	—	3,099,430
<i>Expendable for</i>				
<i>Colleges and Universities.....</i>	—	—	—	2,177,668
<i>Unrestricted.....</i>	(7,128,873)	(1,383,125)	(8,511,998)	(30,574)
TOTAL NET ASSETS.....	\$ 18,598,007	\$ 6,568,564	\$ 25,166,571	\$ 14,371,005

STATE OF OHIO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(dollars in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			
		CHARGES FOR SERVICES, FEES, FINES AND FORFEITURES	OPERATING GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)	CAPITAL GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)	NET (EXPENSE) REVENUE
PRIMARY GOVERNMENT:					
GOVERNMENTAL ACTIVITIES:					
<i>Primary, Secondary</i>					
and Other Education.....	\$ 12,340,848	\$ 27,154	\$ 2,297,201	\$ —	\$ (10,016,493)
Higher Education Support	2,348,154	1,627	26,264	—	(2,320,263)
Public Assistance and Medicaid	21,206,515	1,289,463	14,548,143	—	(5,368,909)
Health and Human Services	3,835,369	515,014	2,374,038	—	(946,317)
Justice and Public Protection	3,202,970	943,142	200,793	79	(2,058,956)
<i>Environmental Protection</i>					
and Natural Resources.....	407,379	211,818	85,964	23	(109,574)
Transportation	2,564,702	96,888	61,116	1,559,174	(847,524)
General Government	595,797	540,500	34,547	136	(20,614)
<i>Community and Economic</i>					
Development.....	3,867,888	406,022	425,411	14,353	(3,022,102)
<i>Interest on Long-Term Debt</i>					
(excludes interest charged as program expense).....	118,902	—	—	—	(118,902)
TOTAL GOVERNMENTAL ACTIVITIES.....	50,488,524	4,031,628	20,053,477	1,573,765	(24,829,654)
BUSINESS-TYPE ACTIVITIES:					
Workers' Compensation.....	1,945,190	1,958,593	2,043,644	—	2,057,047
Lottery Commission.....	2,001,671	2,781,737	79,105	—	859,171
Unemployment Compensation.....	2,754,835	1,674,456	1,398,843	—	318,464
Ohio Building Authority.....	13,010	15,485	2	—	2,477
Tuition Trust Authority.....	80,157	11,325	46,495	—	(22,337)
Liquor Control.....	543,729	791,454	—	—	247,725
Underground Parking Garage.....	3,842	3,199	2	—	(641)
Office of Auditor of State.....	69,183	46,897	—	—	(22,286)
TOTAL BUSINESS-TYPE ACTIVITIES.....	7,411,617	7,283,146	3,568,091	—	3,439,620
TOTAL PRIMARY GOVERNMENT.....	\$ 57,900,141	\$ 11,314,774	\$ 23,621,568	\$ 1,573,765	\$ (21,390,034)
COMPONENT UNITS:					
School Facilities Commission.....	\$ 280,494	\$ 25,805	\$ 4,465	\$ —	\$ (250,224)
Ohio Water Development Authority.....	157,844	145,136	98,370	—	85,662
Ohio State University.....	4,636,450	3,430,699	634,608	19,072	(552,071)
University of Cincinnati.....	1,065,223	611,959	264,327	10,352	(178,585)
Other Component Units.....	5,222,552	3,087,341	548,158	40,411	(1,546,642)
TOTAL COMPONENT UNITS.....	\$ 11,362,563	\$ 7,300,940	\$ 1,549,928	\$ 69,835	\$ (2,441,860)

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

PRIMARY GOVERNMENT

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>	<u>COMPONENT UNITS</u>
CHANGES IN NET ASSETS:				
Net (Expense) Revenue.....	\$ (24,829,654)	\$ 3,439,620	\$ (21,390,034)	\$ (2,441,860)
General Revenues:				
Taxes:				
Income.....	9,017,760	—	9,017,760	—
Sales.....	8,304,263	—	8,304,263	—
Corporate and Public Utility	2,501,140	—	2,501,140	—
Cigarette.....	843,180	—	843,180	—
Other.....	708,041	—	708,041	—
Restricted for Transportation Purposes:				
Motor Vehicle Fuel Taxes.....	1,800,473	—	1,800,473	—
Total Taxes.....	23,174,857	—	23,174,857	—
Tobacco Settlement.....	333,148	—	333,148	—
Escheat Property.....	153,556	—	153,556	—
Unrestricted Investment Income.....	3,702	3	3,705	76,330
State Assistance	—	—	—	2,426,427
Other.....	48,078	5	48,083	754,393
Additions to Endowments				
and Permanent Fund Principal.....	—	—	—	73,462
Special Items.....	—	—	—	(2,960)
Transfers-Internal Activities.....	949,952	(949,952)	—	—
TOTAL GENERAL REVENUES, CONTRIBUTIONS, SPECIAL ITEMS AND TRANSFERS.....				
	24,663,293	(949,944)	23,713,349	3,327,652
CHANGE IN NET ASSETS.....	(166,361)	2,489,676	2,323,315	885,792
NET ASSETS, JULY 1 (as restated).....	18,764,368	4,078,888	22,843,256	13,485,213
NET ASSETS, JUNE 30.....	\$ 18,598,007	\$ 6,568,564	\$ 25,166,571	\$ 14,371,005

STATE OF OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012
(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	BUCKEYE TOBACCO SETTLEMENT FINANCING AUTHORITY REVENUE BONDS
ASSETS:			
Cash Equity with Treasurer.....	\$ 3,641,069	\$ 331,164	\$ —
Cash and Cash Equivalents.....	90,367	2,934	968
Investments.....	533,588	—	518,050
Collateral on Lent Securities.....	515,042	46,670	—
Taxes Receivable	1,502,090	—	—
Intergovernmental Receivable.....	569,990	220,668	—
Loans Receivable, Net	1,064,764	—	—
Interfund Receivable	67,550	—	858,906
Receivable from Component Units.....	1,054	—	3,766,326
Other Receivables	178,378	334,960	321,654
Inventories	31,307	—	—
Other Assets	16,474	2,470	—
TOTAL ASSETS	\$ 8,211,673	\$ 938,866	\$ 5,465,904
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts Payable	\$ 212,638	\$ 97,484	\$ —
Accrued Liabilities.....	80,237	13,272	—
Medicaid Claims Payable.....	886,151	—	—
Obligations Under Securities Lending.....	515,042	46,670	—
Intergovernmental Payable.....	866,811	127,599	—
Interfund Payable.....	1,437,010	15,343	—
Payable to Component Units.....	16,528	886	—
Deferred Revenue.....	245,981	90,586	321,616
Unearned Revenue.....	7,375	346,940	—
Refund and Other Liabilities.....	745,963	3,974	—
Liability for Escheat Property.....	7,944	—	—
TOTAL LIABILITIES.....	5,021,680	742,754	321,616
FUND BALANCES:			
Nonspendable.....	86,982	2,470	—
Restricted.....	1,027,885	115,376	5,144,288
Committed.....	824,607	78,813	—
Assigned.....	1,666,177	—	—
Unassigned.....	(415,658)	(547)	—
TOTAL FUND BALANCES.....	3,189,993	196,112	5,144,288
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 8,211,673	\$ 938,866	\$ 5,465,904

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

NONMAJOR GOVERNMENTAL FUNDS	TOTAL
\$ 2,958,437	\$ 6,930,670
29,843	124,112
67,801	1,119,439
416,926	978,638
93,631	1,595,721
681,278	1,471,936
93,823	1,158,587
1,114	927,570
—	3,767,380
77,887	912,879
74,532	105,839
14,342	33,286
\$ 4,509,614	\$ 19,126,057

\$ 290,899	\$ 601,021
47,063	140,572
203,004	1,089,155
416,926	978,638
291,212	1,285,622
182,831	1,635,184
5,834	23,248
143,498	801,681
141,574	495,889
700	750,637
—	7,944
1,723,541	7,809,591

84,221	173,673
2,218,816	8,506,365
483,036	1,386,456
—	1,666,177
—	(416,205)
2,786,073	11,316,466
\$ 4,509,614	\$ 19,126,057

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STATE OF OHIO
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012
(dollars in thousands)

Total Fund Balances for Governmental Funds..... \$ 11,316,466

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

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

Land.....	2,154,598
Buildings and Improvements, net of \$1,916,634 accumulated depreciation.....	1,686,151
Land Improvements, net of \$263,592 accumulated depreciation.....	185,119
Machinery and Equipment, net of \$645,557 accumulated depreciation.....	247,555
Vehicles, net of \$183,537 accumulated depreciation.....	139,444
Infrastructure, net of \$19,040 accumulated depreciation.....	19,829,190
Construction-in-Progress.....	1,369,486
	<u>25,611,543</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.....	127,692
Intergovernmental Receivable.....	267,141
Other Receivables.....	402,193
Other Assets.....	4,655
	<u>801,681</u>

Unearned capitalized interest revenues are not financial resources, and therefore, are not reported in the funds.

(1,938)

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

75,715

Deferred outflows of resources are not financial resources, and therefore, are not reported in the funds.

59,117

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

<i>Accrued Liabilities:</i>	
Interest Payable.....	(165,184)
Refunds and Other Liabilities.....	(106)
<i>Bonds and Notes Payable:</i>	
General Obligation Bonds.....	(8,888,085)
Revenue Bonds and Notes.....	(7,129,786)
Special Obligation Bonds.....	(2,090,889)
Certificates of Participation.....	(156,664)
<i>Other Noncurrent Liabilities:</i>	
Compensated Absences.....	(440,410)
Net Pension Obligation.....	(8,389)
Net OPEB Obligation.....	(83,911)
Capital Leases Payable.....	(4,199)
Derivatives.....	(81,818)
Estimated Claims Payable.....	(3,030)
Pollution Remediation, net of liabilities reported as accounts payable in the funds and recoveries reported above as other receivables.....	(3,129)
Liability for Escheat Property.....	(208,977)
	<u>(19,264,577)</u>

Total Net Assets of Governmental Activities..... \$ 18,598,007

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, 2012
(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	BUCKEYE TOBACCO SETTLEMENT FINANCING AUTHORITY REVENUE BONDS
REVENUES:			
Income Taxes.....	\$ 9,063,827	\$ —	\$ —
Sales Taxes.....	8,297,544	—	—
Corporate and Public Utility Taxes.....	2,499,601	—	—
Motor Vehicle Fuel Taxes.....	1,104,127	—	—
Cigarette Taxes.....	843,180	—	—
Other Taxes.....	670,831	—	—
Licenses, Permits and Fees.....	781,717	1,083,504	—
Sales, Services and Charges.....	64,025	25	—
Federal Government.....	7,131,978	7,700,326	—
Tobacco Settlement.....	—	—	294,592
Escheat Property.....	151,601	—	—
Investment Income.....	19,654	4,724	667
Other.....	300,150	247,826	—
TOTAL REVENUES.....	30,928,235	9,036,405	295,259
EXPENDITURES:			
CURRENT OPERATING:			
Primary, Secondary and Other Education.....	8,861,567	205	60,360
Higher Education Support.....	2,175,814	2,522	—
Public Assistance and Medicaid.....	12,345,815	8,828,754	—
Health and Human Services.....	1,001,228	391,373	—
Justice and Public Protection.....	2,309,533	69,433	—
Environmental Protection and Natural Resources.....	65,552	—	—
Transportation.....	10,451	—	—
General Government.....	409,916	3,176	—
Community and Economic Development.....	2,792,961	50	—
CAPITAL OUTLAY.....	—	229	—
DEBT SERVICE.....	—	—	295,169
TOTAL EXPENDITURES.....	29,972,837	9,295,742	355,529
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	955,398	(259,337)	(60,270)
OTHER FINANCING SOURCES (USES):			
Bonds, Notes, and Certificates of Participation Issued.....	1,109,228	15,732	—
Refunding Bonds Issued.....	—	—	—
Payment to Refunded Bond Escrow Agents.....	—	—	—
Premiums/Discounts.....	60,983	—	—
Capital Leases.....	560	—	—
Transfers-in.....	314,048	20,207	—
Transfers-out.....	(1,472,254)	(969)	(13,855)
TOTAL OTHER FINANCING SOURCES (USES).....	12,565	34,970	(13,855)
NET CHANGE IN FUND BALANCES.....	967,963	(224,367)	(74,125)
FUND BALANCES, July 1	2,223,608	420,479	5,218,413
Increase (Decrease) for Changes in Inventories.....	(1,578)	—	—
FUND BALANCES, JUNE 30.....	\$ 3,189,993	\$ 196,112	\$ 5,144,288

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

NONMAJOR GOVERNMENTAL FUNDS		TOTAL	
\$	12,457	\$	9,076,284
	7,161		8,304,705
	1,304		2,500,905
	696,346		1,800,473
	—		843,180
	37,210		708,041
	1,136,951		3,002,172
	32,932		96,982
	6,563,548		21,395,852
	1,144		295,736
	—		151,601
	5,076		30,121
	543,789		1,091,765
	9,037,918		49,297,817
	3,006,390		11,928,522
	32,211		2,210,547
	36,782		21,211,351
	2,330,483		3,723,084
	694,896		3,073,862
	324,922		390,474
	2,500,291		2,510,742
	112,614		525,706
	924,149		3,717,160
	377,754		377,983
	1,212,575		1,507,744
	11,553,067		51,177,175
	(2,515,149)		(1,879,358)
	232,680		1,357,640
	1,374,660		1,374,660
	(1,604,658)		(1,604,658)
	318,523		379,506
	—		560
	2,468,815		2,803,070
	(366,040)		(1,853,118)
	2,423,980		2,457,660
	(91,169)		578,302
	2,860,682		10,723,182
	16,560		14,982
\$	2,786,073	\$	11,316,466

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, 2012
(dollars in thousands)

Net Change in Fund Balances -- Total Governmental Funds.....	578,302
Change in Inventories.....	14,982
	<u>593,284</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.....	347,099
Depreciation Expense.....	<u>(295,234)</u>
Excess of Capital Outlay Over Depreciation Expense.....	<u>51,865</u>

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

General Obligation Bonds.....	(1,130,910)
Revenue Bonds and Notes.....	(194,030)
Special Obligation Bonds.....	(32,700)
Refunding Bonds, including Bond Premium/Discount, Net.....	(1,612,962)
Premiums and Discounts, Net:	
General Obligation Bonds.....	(138,370)
Special Obligation Bonds.....	(2,835)
Deferred Refunding Loss.....	63,498
Capitalized Interest.....	(1,938)
Capital Leases.....	<u>(560)</u>
Total Debt Proceeds.....	<u>(3,050,807)</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.....	1,520,311
Revenue Bonds and Notes.....	263,155
Special Obligation Bonds.....	440,690
Certificates of Participation.....	22,180
Capital Lease Payments.....	<u>2,891</u>
Total Long-Term Debt Repayment.....	<u>2,249,227</u>

Revenues in the Statement of Activities that do not provide current financial resources are deferred in the governmental funds. Deferred revenues decreased by this amount this year. (27,680)

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>Decrease in Bond Issue Costs Included in Other Assets.....</i>	<i>(2,298)</i>	
<i>Decrease in Accrued Interest and Other Accrued Liabilities.....</i>	<i>29,818</i>	
<i>Amortization of Bond Premiums/Amortization of Bond Discount, Net.....</i>	<i>40,146</i>	
<i>Amortization of Deferred Refunding Loss.....</i>	<i>(34,508)</i>	
<i>Decrease in Compensated Absences.....</i>	<i>23,667</i>	
<i>Increase in Derivative Liabilities (Excluding Hedging Derivatives)</i>	<i>(28,699)</i>	
<i>Decrease in Estimated Claims Payable.....</i>	<i>7,355</i>	
<i>Decrease in Pollution Remediation.....</i>	<i>1,722</i>	
<i>Increase in Net Pension Obligation.....</i>	<i>(4,090)</i>	
<i>Increase in Liability for OPEB Obligation.....</i>	<i>(17,318)</i>	
<i>Decrease in Liability for Escheat Property.....</i>	<i>1,955</i>	
	<hr/>	
<i>Total additional expenditures.....</i>		<u>17,750</u>
<i>Change in Net Assets of Governmental Activities.....</i>		<u>\$ (166,361)</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 FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

(dollars in thousands)

	GENERAL			
	BUDGET			VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL	ACTUAL	POSITIVE/ (NEGATIVE)
REVENUES:				
Income Taxes.....	\$ 8,730,791	\$ 8,730,791	\$ 9,017,200	\$ 286,409
Sales Taxes.....	8,066,181	8,066,181	8,284,383	218,202
Corporate and Public Utility Taxes.....	2,593,194	2,593,194	2,484,118	(109,076)
Motor Vehicle Fuel Taxes.....	1,044,462	1,044,462	1,044,462	—
Cigarette Taxes.....	818,300	818,300	843,180	24,880
Other Taxes.....	691,399	691,399	670,014	(21,385)
Licenses, Permits and Fees.....	933,283	933,283	939,026	5,743
Sales, Services and Charges.....	78,831	78,831	77,585	(1,246)
Federal Government.....	7,691,759	7,691,759	7,451,970	(239,789)
Tobacco Settlement.....	—	—	1,062	1,062
Investment Income.....	13,719	13,719	10,616	(3,103)
Other.....	1,942,609	1,942,609	1,333,929	(608,680)
TOTAL REVENUES.....	32,604,528	32,604,528	32,157,545	(446,983)
BUDGETARY EXPENDITURES:				
CURRENT OPERATING:				
Primary, Secondary and Other Education.....	8,556,929	8,563,262	8,499,215	64,047
Higher Education Support.....	2,716,848	2,716,848	2,367,832	349,016
Public Assistance and Medicaid.....	13,675,434	13,672,566	13,257,107	415,459
Health and Human Services.....	1,225,099	1,227,309	1,152,899	74,410
Justice and Public Protection.....	2,695,793	2,715,210	2,593,250	121,960
Environmental Protection and Natural Resources.....	112,152	113,497	96,787	16,710
Transportation.....	16,710	16,710	16,563	147
General Government.....	901,562	924,820	798,667	126,153
Community and Economic Development.....	3,990,706	4,108,167	3,351,083	757,084
CAPITAL OUTLAY.....	—	—	—	—
DEBT SERVICE.....	748,150	763,775	671,869	91,906
TOTAL BUDGETARY EXPENDITURES.....	34,639,383	34,822,164	32,805,272	2,016,892
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES.....	(2,034,855)	(2,217,636)	(647,727)	1,569,909
OTHER FINANCING SOURCES (USES):				
Bonds and Notes Issued.....	555,250	555,250	555,250	—
Transfers-in.....	1,442,727	1,442,727	1,241,753	(200,974)
Transfers-out.....	(2,122,822)	(2,122,822)	(1,745,399)	377,423
TOTAL OTHER FINANCING SOURCES (USES).....	(124,845)	(124,845)	51,604	176,449
NET CHANGE IN FUND BALANCES.....	\$ (2,159,700)	\$ (2,342,481)	(596,123)	\$ 1,746,358
BUDGETARY FUND BALANCES				
(DEFICITS), JULY 1.....			1,813,859	
Outstanding Encumbrances at Beginning of Fiscal Year.....			1,115,349	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30.....			\$ 2,333,085	

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

JOB, FAMILY AND OTHER HUMAN SERVICES

BUDGET			VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
ORIGINAL	FINAL	ACTUAL	
		\$ —	
		—	
		—	
		—	
		1,824	
		1,093,781	
		25	
		4,554,038	
		—	
		4,724	
		776,159	
		6,430,551	
\$ 229	\$ 229	209	\$ 20
3,500	3,500	3,335	165
8,412,470	8,482,219	6,988,091	1,494,128
435,303	464,646	405,095	59,551
85,676	86,954	72,023	14,931
—	—	—	—
—	—	—	—
3,534	3,534	2,828	706
180	230	230	—
6,861	6,861	718	6,143
—	—	—	—
\$ 8,947,753	\$ 9,048,173	7,472,529	\$ 1,575,644

(1,041,978)

15,732

23,302

(7,967)

31,067

(1,010,911)

(1,118,055)

1,454,817

\$ (674,149)

STATE OF OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS -- ENTERPRISE
JUNE 30, 2012
(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer.....	\$ 3,262	\$ 92,608	\$ —
Cash and Cash Equivalents.....	438,920	13,717	—
Collateral on Lent Securities.....	849	13,051	—
Restricted Assets:			
Cash Equity with Treasurer.....	—	20	—
Investments.....	—	46,230	—
Collateral on Lent Securities.....	—	188,436	—
Other Receivables.....	—	2,158	—
Deposit with Federal Government.....	—	—	177,795
Intergovernmental Receivable.....	—	—	14
Premiums and Assessments Receivable.....	809,703	—	34,179
Investment Trade Receivable.....	194,429	—	—
Interfund Receivable.....	74,786	1,518	—
Other Receivables.....	281,900	51,151	77,621
Inventories.....	—	—	—
Other Assets.....	9,284	10,150	5,557
TOTAL CURRENT ASSETS.....	1,813,133	419,039	295,166
NONCURRENT ASSETS:			
Restricted Assets:			
Cash and Cash Equivalents.....	89	—	—
Investments.....	—	680,611	—
Investments.....	22,432,903	—	—
Premiums and Assessments Receivable.....	3,044,099	—	—
Interfund Receivable.....	637,633	—	—
Capital Assets Being Depreciated, Net.....	69,332	48,089	—
Capital Assets Not Being Depreciated.....	19,318	—	—
TOTAL NONCURRENT ASSETS.....	26,203,374	728,700	—
TOTAL ASSETS.....	28,016,507	1,147,739	295,166
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable.....	11,767	4,542	—
Accrued Liabilities.....	—	—	—
Obligations Under Securities Lending.....	849	201,487	—
Investment Trade Payable.....	302,143	—	—
Intergovernmental Payable.....	—	—	1,659
Deferred Prize Awards Payable.....	—	48,397	—
Interfund Payable.....	—	153	—
Unearned Revenue.....	—	993	—
Benefits Payable.....	2,024,705	—	19,296
Refund and Other Liabilities.....	424,351	64,714	8,719
Bonds and Notes Payable.....	15,914	—	—
TOTAL CURRENT LIABILITIES.....	2,779,729	320,286	29,674
NONCURRENT LIABILITIES:			
Intergovernmental Payable.....	—	—	1,878,387
Deferred Prize Awards Payable.....	—	557,821	—
Interfund Payable.....	—	2,542	—
Benefits Payable.....	15,790,395	—	—
Refund and Other Liabilities.....	1,612,925	28,589	—
Bonds and Notes Payable.....	15,719	—	—
TOTAL NONCURRENT LIABILITIES.....	17,419,039	588,952	1,878,387
TOTAL LIABILITIES.....	20,198,768	909,238	1,908,061
NET ASSETS (DEFICITS):			
Invested in Capital Assets, Net of Related Debt.....	57,105	2,801	—
Restricted for Deferred Lottery Prizes.....	—	123,724	—
Unrestricted.....	7,760,634	111,976	(1,612,895)
TOTAL NET ASSETS (DEFICITS).....	\$ 7,817,739	\$ 238,501	\$ (1,612,895)

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

NONMAJOR PROPRIETARY FUNDS		TOTAL	
\$	129,633	\$	225,503
	2,722		455,359
	15,902		29,802
	—		20
	84,000		130,230
	—		188,436
	—		2,158
	—		177,795
	10,308		10,322
	—		843,882
	—		194,429
	1,498		77,802
	14,557		425,229
	42,921		42,921
	613		25,604
	302,154		2,829,492
	—		89
	358,873		1,039,484
	96,486		22,529,389
	—		3,044,099
	8,576		646,209
	7,425		124,846
	—		19,318
	471,360		27,403,434
	773,514		30,232,926
	47,150		63,459
	3,189		3,189
	15,902		218,238
	—		302,143
	—		1,659
	—		48,397
	3,579		3,732
	745		1,738
	84,000		2,128,001
	5,683		503,467
	—		15,914
	160,248		3,289,937
	—		1,878,387
	—		557,821
	10,123		12,665
	469,000		16,259,395
	8,924		1,650,438
	—		15,719
	488,047		20,374,425
	648,295		23,664,362
	7,425		67,331
	—		123,724
	117,794		6,377,509
\$	125,219	\$	6,568,564

STATE OF OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS -- ENTERPRISE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012
 (dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
OPERATING REVENUES:			
Charges for Sales and Services.....	\$ —	\$ 2,775,102	\$ 21,982
Premium and Assessment Income.....	1,944,478	—	1,516,946
Federal Government.....	—	—	1,431,841
Investment Income.....	—	—	—
Other.....	14,115	6,635	102,530
TOTAL OPERATING REVENUES.....	1,958,593	2,781,737	3,073,299
OPERATING EXPENSES:			
Costs of Sales and Services.....	—	—	—
Administration.....	58,161	86,903	—
Bonuses and Commissions.....	—	179,402	—
Prizes.....	—	1,680,790	—
Benefits and Claims.....	1,832,992	—	2,752,427
Depreciation.....	10,666	20,557	—
Other.....	43,371	18	—
TOTAL OPERATING EXPENSES.....	1,945,190	1,967,670	2,752,427
OPERATING INCOME.....	13,403	814,067	320,872
NONOPERATING REVENUES (EXPENSES):			
Investment Income.....	2,043,644	79,105	—
Interest Expense.....	—	(2,936)	—
Other.....	—	(31,065)	(2,408)
TOTAL NONOPERATING REVENUES (EXPENSES).....	2,043,644	45,104	(2,408)
INCOME BEFORE TRANSFERS.....	2,057,047	859,171	318,464
TRANSFERS:			
Transfers-in.....	95	—	—
Transfers-out.....	(11,405)	(771,364)	(4,622)
TOTAL TRANSFERS.....	(11,310)	(771,364)	(4,622)
NET INCOME.....	2,045,737	87,807	313,842
NET ASSETS (DEFICITS), JULY 1	5,772,002	150,694	(1,926,737)
NET ASSETS (DEFICITS), JUNE 30.....	\$ 7,817,739	\$ 238,501	\$ (1,612,895)

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
\$ 866,201	\$ 3,663,285
—	3,461,424
—	1,431,841
6,896	6,896
41,758	165,038
914,855	8,728,484
549,301	549,301
91,746	236,810
—	179,402
—	1,680,790
66,760	4,652,179
1,405	32,628
690	44,079
709,902	7,375,189
204,953	1,353,295
7	2,122,756
—	(2,936)
(14)	(33,487)
(7)	2,086,333
204,946	3,439,628
26,430	26,525
(189,086)	(976,477)
(162,656)	(949,952)
42,290	2,489,676
82,929	4,078,888
\$ 125,219	\$ 6,568,564

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers.....	\$ —	\$ 2,740,695	\$ —
Cash Received from Multi-State Lottery for Grand Prize Winner.....	—	65,382	—
Cash Received from Premiums and Assessments.....	2,009,871	—	1,530,615
Cash Received from Interfund Services Provided.....	64,135	3,130	—
Other Operating Cash Receipts.....	43,183	28,555	45,125
Cash Payments to Suppliers for Goods and Services.....	(44,999)	(60,625)	—
Cash Payments to Employees for Services.....	(214,655)	(25,266)	—
Cash Payments for Benefits and Claims.....	(1,988,923)	—	(2,478,022)
Cash Payments for Lottery Prizes.....	—	(1,815,895)	—
Cash Payments for Bonuses and Commissions.....	—	(179,402)	—
Cash Payments for Premium Reductions and Refunds.....	(59,620)	—	—
Cash Payments for Interfund Services Used.....	(15,944)	(4,188)	—
Other Operating Cash Payments.....	—	(18)	(253,221)
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES.....	(206,952)	752,368	(1,155,503)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers-in	95	—	—
Transfers-out	(11,405)	(771,364)	(4,622)
NET CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES.....	(11,310)	(771,364)	(4,622)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal Payments on Bonds, Notes, and Capital Leases.....	(15,890)	(18,156)	—
Interest Paid	(2,326)	(2,652)	—
Acquisition and Construction of Capital Assets	(8,525)	(1,333)	—
Proceeds from Sales of Capital Assets	125	108	—
NET CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES.....	(26,616)	(22,033)	—
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Investments.....	(15,348,352)	(83,689)	(1,513,249)
Proceeds from the Sales and Maturities of Investments	14,969,317	143,027	2,673,374
Investment Income Received	728,662	9,688	—
Borrower Rebates and Agent Fees.....	(7,989)	(308)	—
NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES.....	341,638	68,718	1,160,125
NET INCREASE IN CASH & CASH EQUIVALENTS.....	96,760	27,689	—
CASH AND CASH EQUIVALENTS, JULY 1	345,511	78,656	—
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 442,271	\$ 106,345	\$ —

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
\$ 832,647	\$ 3,573,342
—	65,382
—	3,540,486
11,714	78,979
12,695	129,558
(530,780)	(636,404)
(92,566)	(332,487)
—	(4,466,945)
—	(1,815,895)
—	(179,402)
—	(59,620)
(7,214)	(27,346)
(67,307)	(320,546)
159,189	(450,898)
27,027	27,122
(159,923)	(947,314)
(132,896)	(920,192)
—	(34,046)
—	(4,978)
(1,070)	(10,928)
4	237
(1,066)	(49,715)
(384,667)	(17,329,957)
441,754	18,227,472
13,141	751,491
—	(8,297)
70,228	1,640,709
95,455	219,904
36,900	461,067
\$ 132,355	\$ 680,971

(continued)

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(dollars in thousands)
(continued)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income.....	\$ 13,403	\$ 814,067	\$ 320,872
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Investment Income.....	—	—	—
Depreciation	10,666	20,557	—
Provision for Uncollectible Accounts.....	47,540	—	—
Amortization of Premiums and Discounts.....	(366)	—	—
Interest on Bonds, Notes, and Capital Leases.....	2,326	—	—
Decrease (Increase) in Assets:			
Deposit with Federal Government.....	—	—	(1,137,150)
Intergovernmental Receivable.....	—	—	81
Premiums and Assessments Receivable.....	(248)	—	(2,040)
Interfund Receivable.....	9,541	(1,518)	—
Other Receivables	(48,056)	(7,062)	(57,433)
Inventories	—	—	—
Other Assets	138	(1,966)	529
Increase (Decrease) in Liabilities:			
Accounts Payable	4,048	(2,239)	—
Accrued Liabilities.....	—	—	—
Intergovernmental Payable.....	—	—	(295,664)
Deferred Prize Awards Payable.....	—	(67,894)	—
Interfund Payable.....	—	(196)	—
Unearned Revenue	—	(776)	—
Benefits Payable.....	(197,500)	—	17,638
Refund and Other Liabilities.....	(48,444)	(605)	(2,336)
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES.....	\$ (206,952)	\$ 752,368	\$ (1,155,503)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Change in Fair Value of Investments.....	\$ 1,323,434	\$ 56,878	\$ —

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

<u>NONMAJOR PROPRIETARY FUNDS</u>	<u>TOTAL</u>
\$ 204,953	\$ 1,353,295
(6,896)	(6,896)
1,405	32,628
—	47,540
(3)	(369)
—	2,326
—	(1,137,150)
(664)	(583)
—	(2,288)
602	8,625
(10,714)	(123,265)
(4,388)	(4,388)
172	(1,127)
17,404	19,213
(1,938)	(1,938)
—	(295,664)
—	(67,894)
(471)	(667)
(147)	(923)
(39,599)	(219,461)
<u>(527)</u>	<u>(51,912)</u>
<u>\$ 159,189</u>	<u>\$ (450,898)</u>

\$ — \$ 1,380,312

STATE OF OHIO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012
(dollars in thousands)

	<u>PENSION TRUST</u>	<u>PRIVATE- PURPOSE TRUST</u>	<u>INVESTMENT TRUST</u>
	<u>STATE HIGHWAY PATROL RETIREMENT SYSTEM (as of 12/31/11)</u>	<u>VARIABLE COLLEGE SAVINGS PLAN</u>	<u>STAR OHIO</u>
ASSETS:			
Cash Equity with Treasurer.....	\$ —	\$ —	\$ —
Cash and Cash Equivalents.....	10,641	106,275	243,173
Investments (at fair value):			
U.S. Government and Agency Obligations.....	25,167	—	1,505,194
Common and Preferred Stock.....	141,527	—	—
Corporate Bonds and Notes.....	45,891	—	53,326
Foreign Stocks and Bonds.....	8,018	—	—
Commercial Paper.....	—	—	646,345
Repurchase Agreements.....	—	—	—
Mutual Funds.....	435,868	6,268,606	281,073
Real Estate.....	32,318	—	—
Venture Capital.....	—	—	—
Direct Mortgage Loans.....	—	—	—
Partnership and Hedge Funds.....	—	—	—
State Treasury Asset Reserve of Ohio (STAR Ohio).....	—	—	—
Collateral on Lent Securities.....	—	—	—
Employer Contributions Receivable.....	961	—	—
Employee Contributions Receivable.....	668	—	—
Other Receivables.....	446	4,063	618
Other Assets.....	52	—	—
Capital Assets, Net.....	16	—	—
TOTAL ASSETS.....	701,573	6,378,944	2,729,729
LIABILITIES:			
Accounts Payable.....	590	—	—
Accrued Liabilities.....	21,524	2,371	—
Obligations Under Securities Lending.....	—	—	—
Investment Trade Payable.....	—	—	89,879
Intergovernmental Payable.....	—	—	—
Refund and Other Liabilities.....	54	3,677	191
TOTAL LIABILITIES.....	22,168	6,048	90,070
NET ASSETS:			
Held in Trust for:			
Employees' Pension Benefits.....	583,569	—	—
Employees' Postemployment Healthcare Benefits.....	95,836	—	—
Individuals, Organizations and Other Governments.....	—	6,372,896	—
Pool Participants.....	—	—	2,639,659
TOTAL NET ASSETS.....	\$ 679,405	\$ 6,372,896	\$ 2,639,659

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

AGENCY

\$ 336,309
96,038

15,204,046
46,008,054
12,537,449
38,173,652
4,919,104
309,687
8,517,609
15,166,436
12,429,471
5,667,515
3,737,695
64,219
46,999
—
—
1,288
437,151
—

163,652,722

—
—
46,999
—
153,268

163,452,455

163,652,722

—
—
—
—

\$ —

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STATE OF OHIO
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(dollars in thousands)

	PENSION TRUST	PRIVATE- PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (for the fiscal year ended 12/31/11)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ADDITIONS:			
Contributions from:			
Employer.....	\$ 24,589	\$ —	\$ —
Employees.....	8,349	—	—
Plan Participants.....	—	1,618,925	—
Other.....	2,678	—	—
Total Contributions.....	35,616	1,618,925	—
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments.....	(25,842)	(82,005)	—
Interest, Dividends and Other.....	11,696	144,188	3,274
Total Investment Income.....	(14,146)	62,183	3,274
Less: Investment Expense.....	4,992	28,555	2,062
Net Investment Income.....	(19,138)	33,628	1,212
Capital Share and Individual Account Transactions:			
Shares Sold.....	—	—	10,248,745
Reinvested Distributions.....	—	—	1,212
Shares Redeemed.....	—	—	(10,726,260)
Net Capital Share and Individual Account Transactions.....	—	—	(476,303)
TOTAL ADDITIONS.....	16,478	1,652,553	(475,091)
DEDUCTIONS:			
Pension Benefits Paid to Participants or Beneficiaries.....	55,638	—	—
Healthcare Benefits Paid to Participants or Beneficiaries....	12,361	—	—
Refunds of Employee Contributions.....	452	—	—
Administrative Expense.....	1,107	—	—
Transfers to Other Retirement Systems.....	1,798	—	—
Distributions to Shareholders and Plan Participants.....	—	1,358,163	1,212
TOTAL DEDUCTIONS.....	71,356	1,358,163	1,212
CHANGE IN NET ASSETS HELD FOR:			
Employees' Pension Benefits.....	(43,299)	—	—
Employees' Postemployment Healthcare Benefits.....	(11,579)	—	—
Individuals, Organizations and Other Governments.....	—	294,390	—
Pool Participants.....	—	—	(476,303)
TOTAL CHANGE IN NET ASSETS.....	(54,878)	294,390	(476,303)
NET ASSETS, JULY 1	734,283	6,078,506	3,115,962
NET ASSETS, JUNE 30.....	\$ 679,405	\$ 6,372,896	\$ 2,639,659

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, 2012
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (as of 12/31/11)	OHIO STATE UNIVERSITY
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer.....	\$ 511,746	\$ —	\$ —
Cash and Cash Equivalents.....	—	37,093	601,095
Investments.....	—	58,312	738,866
Collateral on Lent Securities.....	72,119	—	—
Intergovernmental Receivable.....	—	614	22,021
Loans Receivable, Net.....	541	2,739	24,625
Receivable from Primary Government.....	—	—	2,439
Other Receivables.....	—	5	496,088
Inventories.....	—	—	57,612
Other Assets.....	41	—	26,024
TOTAL CURRENT ASSETS.....	584,447	98,763	1,968,770
NONCURRENT ASSETS:			
Restricted Assets:			
Cash and Cash Equivalents.....	—	209,883	714,226
Investments.....	—	1,296,789	—
Loans Receivable, Net.....	—	4,539,481	—
Investments.....	—	11,473	2,442,802
Loans Receivable, Net.....	2,941	63,391	48,585
Other Receivables.....	—	6,811	46,555
Other Assets.....	—	68,454	—
Capital Assets Being Depreciated, Net.....	19	973	2,855,278
Capital Assets Not Being Depreciated.....	23,171	539	987,073
TOTAL NONCURRENT ASSETS.....	26,131	6,197,794	7,094,519
TOTAL ASSETS.....	610,578	6,296,557	9,063,289
Deferred Outflows of Resources.....	—	—	—
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES.....	610,578	6,296,557	9,063,289
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable.....	8,880	73,390	256,639
Accrued Liabilities.....	223	10,626	185,526
Obligations Under Securities Lending.....	72,119	—	—
Intergovernmental Payable.....	296,307	—	—
Unearned Revenue.....	—	—	231,545
Refund and Other Liabilities.....	127	—	78,781
Bonds and Notes Payable.....	—	212,328	549,175
Certificates of Participation.....	—	—	490
TOTAL CURRENT LIABILITIES.....	377,656	296,344	1,302,156
NONCURRENT LIABILITIES:			
Intergovernmental Payable.....	211,591	—	—
Unearned Revenue.....	—	—	—
Refund and Other Liabilities.....	797	220	357,439
Payable to Primary Government.....	3,766,326	—	—
Bonds and Notes Payable.....	—	2,731,070	1,909,563
Certificates of Participation.....	—	—	2,845
TOTAL NONCURRENT LIABILITIES.....	3,978,714	2,731,290	2,269,847
TOTAL LIABILITIES.....	4,356,370	3,027,634	3,572,003
Deferred Inflows of Resources.....	—	—	—
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES.....	4,356,370	3,027,634	3,572,003
NET ASSETS (DEFICITS):			
Invested in Capital Assets, Net of Related Debt.....	23,190	1,512	2,079,926
Restricted for:			
Primary, Secondary and Other Education.....	—	—	—
Community and Economic Development.....	—	3,085,749	—
Nonexpendable:			
Scholarships and Fellowships.....	—	—	—
Research.....	—	—	—
Endowments and Quasi-Endowments.....	—	—	1,200,473
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.....	—	—	2,437
Endowments and Quasi-Endowments.....	—	—	104,992
Current Operations.....	—	—	495,679
Loans, Grants and Other College and University Purposes.....	—	—	—
Unrestricted.....	(3,768,982)	181,662	1,607,779
TOTAL NET ASSETS (DEFICITS).....	\$ (3,745,792)	\$ 3,268,923	\$ 5,491,286

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
\$ —	\$ 49,876	\$ 561,622
115,109	736,866	1,490,163
197,700	1,660,939	2,655,817
—	3,032	75,151
—	59,480	82,115
6,459	22,891	57,255
525	20,284	23,248
66,392	434,545	997,030
2,272	29,478	89,362
19,162	65,018	110,245
407,619	3,082,409	6,142,008
—	277,078	1,201,187
120,021	831,214	2,248,024
—	—	4,539,481
757,502	1,375,781	4,587,558
25,434	104,275	244,626
36,663	123,256	213,285
424,634	67,155	560,243
1,246,560	5,009,601	9,112,431
214,509	668,826	1,894,118
2,825,323	8,457,186	24,600,953
3,232,942	11,539,595	30,742,961
—	1,881	1,881
3,232,942	11,541,476	30,744,842
60,109	173,919	572,937
47,849	202,856	447,080
—	3,032	75,151
—	1,012	297,319
31,428	269,923	532,896
80,231	140,439	299,578
124,648	100,073	986,224
—	—	490
344,265	891,254	3,211,675
25,168	8,318	245,077
—	3,385	3,385
115,499	378,066	852,021
—	572	3,766,898
934,357	2,693,522	8,268,512
—	—	2,845
1,075,024	3,083,863	13,138,738
1,419,289	3,975,117	16,350,413
—	23,424	23,424
1,419,289	3,998,541	16,373,837
383,662	3,485,127	5,973,417
—	312	312
—	65,003	3,150,752
116,924	117,686	234,610
45,513	11,064	56,577
391,367	704,464	2,296,304
425,893	86,046	511,939
52,843	167,653	220,496
97,377	18,318	115,695
35,155	92,699	127,854
39,795	17,506	57,301
29,338	184,030	213,368
2,452	21,294	23,746
12,951	135,567	150,955
70,079	276,488	451,559
(4,757)	61,875	552,797
43,290	220,607	263,897
71,771	1,877,196	(30,574)
\$ 1,813,653	\$ 7,542,935	\$ 14,371,005

STATE OF OHIO

COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (for the year ended 12/31/11)	OHIO STATE UNIVERSITY
EXPENSES:			
Primary, Secondary and Other Education.....	\$ 280,391	\$ —	\$ —
Community and Economic Development.....	—	—	—
Cost of Services.....	—	145,760	—
Administration.....	—	10,878	—
Education and General:			
Instruction and Departmental Research.....	—	—	880,042
Separately Budgeted Research.....	—	—	447,213
Public Service.....	—	—	109,714
Academic Support.....	—	—	162,783
Student Services.....	—	—	90,493
Institutional Support.....	—	—	224,377
Operation and Maintenance of Plant.....	—	—	105,346
Scholarships and Fellowships.....	—	—	110,748
Auxiliary Enterprises.....	—	—	239,570
Hospitals.....	—	—	1,964,039
Interest on Long-Term Debt.....	—	—	59,734
Depreciation.....	103	116	242,391
Other.....	—	1,090	—
TOTAL EXPENSES.....	280,494	157,844	4,636,450
PROGRAM REVENUES:			
Charges for Services, Fees, Fines and Forfeitures.....	25,805	145,136	3,430,699
Operating Grants, Contributions and Restricted Investment Income.....	4,465	98,370	634,608
Capital Grants, Contributions and Restricted Investment Income.....	—	—	19,072
TOTAL PROGRAM REVENUES.....	30,270	243,506	4,084,379
NET PROGRAM (EXPENSE) REVENUE	(250,224)	85,662	(552,071)
GENERAL REVENUES:			
Unrestricted Investment Income.....	—	468	60,177
State Assistance.....	675,321	—	470,494
Other.....	—	—	220,683
TOTAL GENERAL REVENUES.....	675,321	468	751,354
ADDITIONS TO ENDOWMENTS AND PERMANENT FUND PRINCIPAL.....	—	—	41,299
SPECIAL ITEMS.....	—	—	—
CHANGE IN NET ASSETS.....	425,097	86,130	240,582
NET ASSETS (DEFICITS), JULY 1 (as restated).....	(4,170,889)	3,182,793	5,250,704
NET ASSETS (DEFICITS), JUNE 30.....	\$ (3,745,792)	\$ 3,268,923	\$ 5,491,286

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
\$ —	\$ 15,284	\$ 295,675
—	24,643	24,643
—	—	145,760
—	—	10,878
268,935	1,640,414	2,789,391
167,694	230,752	845,659
57,708	125,206	292,628
97,441	424,370	684,594
43,260	230,862	364,615
101,797	510,412	836,586
49,854	324,877	480,077
38,104	305,212	454,064
83,992	609,318	932,880
—	290,262	2,254,301
44,218	105,257	209,209
100,413	318,388	661,411
11,807	67,295	80,192
1,065,223	5,222,552	11,362,563
611,959	3,087,341	7,300,940
264,327	548,158	1,549,928
10,352	40,411	69,835
886,638	3,675,910	8,920,703
(178,585)	(1,546,642)	(2,441,860)
—	15,685	76,330
192,347	1,088,265	2,426,427
4,397	529,313	754,393
196,744	1,633,263	3,257,150
697	31,466	73,462
—	(2,960)	(2,960)
18,856	115,127	885,792
1,794,797	7,427,808	13,485,213
\$ 1,813,653	\$ 7,542,935	\$ 14,371,005



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Ohio, as of June 30, 2012, and for the year then ended, conform with generally accepted accounting principles (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are included in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. The State's significant accounting policies are as follows.

A. Financial Reporting Entity

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

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

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

1. Blended Component Units

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

The Ohio Building Authority ceased operations as of December 31, 2011. Pursuant to Amended Substitute House Bill No. 153 of the 129th General Assembly, effective January 1, 2012, the Treasurer of the State of Ohio supersedes and replaces the Authority in all matters relating to the issuance of obligations for the financing of capital facilities for housing branches and agencies of State government. Further, the Treasurer succeeds to all of the duties, powers, obligations and functions of the Authority relating to bonds previously issued by the Authority. The legislation additionally provides that effective January 1, 2012, the building and facility operations and management functions of the Authority are transferred to the Ohio Department of Administrative Services.

2. Discretely Presented Component Units

The component units' columns in the basic financial statements include the financial data of another 28 organizations. The separate discrete column labeled, "Component Units," emphasizes these organizations' separateness from the State's primary government. Officials of the primary government appoint a voting majority of each organization's governing board.

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

School Facilities Commission
Cultural Facilities Commission
eTech Ohio Commission
Ohio Air Quality Development Authority
Ohio Capital Fund



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The School Facilities Commission, Cultural Facilities Commission, and eTech Ohio Commission, which are governmental component units, do not issue separately audited financial reports.

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

3. Joint Ventures and Related Organizations

As discussed in more detail in NOTE 18, the State participates in several joint ventures and has related organizations. The State does not include the financial activities of these organizations in its financial statements, in conformity with GASB 14.

B. Basis of Presentation

Government-wide Statements — The Statement of Net Assets and the Statement of Activities display information about the primary government (the State) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities.

Fiduciary funds of the primary government and component units that are fiduciary in nature are reported only in the statements of fiduciary net assets and changes in fiduciary net assets.

For the government-wide financial statements, eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the State. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange 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 and deferred outflows of resources less liabilities and deferred inflows of resources equal net assets*. The *net assets* section is displayed in three components:



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Operating revenues for the State's proprietary funds mainly consist of charges for the 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. Revenue from the federal government for the underfunded regular and extended unemployment benefits is also reported as operating revenues for the Unemployment Compensation Fund, since this source provides significant funding for the payment of unemployment benefits — the fund's principal activity. Investment income for the Tuition Trust Authority Fund is also reported as operating revenue, since this source provides significant funding for the payment of tuition benefits. Nonoperating revenues for the proprietary funds result from nonexchange transactions or ancillary activities; nonoperating revenues are primarily comprised of investment income and federal operating grants.

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



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Ohio 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. The primary sources of revenue for this fund are licenses, permits and fees and the federal government.

Buckeye Tobacco Settlement Financing Authority Revenue Bonds Debt Service Fund — This fund accounts for the payment of principal and interest on the revenue bonds issued to fund long-lived capital projects at State-supported institutions of higher education and to pay the State's share of the cost of rebuilding elementary and secondary school facilities across the State.

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 Industrial Commission of Ohio, which provide workers' compensation insurance services.

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

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

The State reports the following fiduciary fund types:

Pension Trust Fund — The State Highway Patrol Retirement System Pension Trust Fund accounts for resources that are required to be held in trust for members and beneficiaries of the defined benefit plan. The financial statements for the State Highway Patrol Retirement System Pension Trust Fund are presented for the fiscal year ended December 31, 2011.

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

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

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

The State reports the following major discretely presented component unit funds:

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

The *Ohio Water Development Authority*, *Ohio State University*, and *University of Cincinnati* funds are business-type activities that use proprietary fund reporting. The financial statements for the Ohio Water Development Authority, which provides financial assistance to local governments for the construction of wastewater and sewage facilities, are presented for the fiscal year ended December 31, 2011. The Ohio State University Fund accounts for the university's operations, including its health system, supercomputer center, agricultural research and development center, and other legally separate entities subject to the control of the university's board. The University of Cincinnati Fund accounts for the university's operations, including its related foundation and other legally separate entities subject to the control of the university's board.



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

Governmental Fund Financial Statements — The State reports governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The State considers revenues reported in the governmental funds to be available when the revenues are collectible within 60 days after year-end or soon enough thereafter to be used to pay liabilities of the current period.

Significant revenue sources susceptible to accrual under the modified accrual basis of accounting include:

- Personal income taxes
- Sales and use taxes
- Motor vehicle fuel taxes
- Charges for goods and services
- Federal government grants
- Tobacco settlement
- Investment income

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

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



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

D. Budgetary Process

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

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

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

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

All governmental funds are budgeted except the following activities within the debt service and capital projects fund types:

- Improvements General Obligations
- Highway Improvements General Obligations
- Development General Obligations
- Highway General Obligations
- Public Improvements General Obligations
- Vietnam Conflict Compensation
 - General Obligations
- Economic Development Revenue Bonds
- Infrastructure Bank Revenue Bonds
- Revitalization Project Revenue Bonds
- Buckeye Tobacco Settlement Financing Authority
 - Revenue Bonds
- Lease Rental Special Obligations
- Ohio Building Authority Special Obligations (through December 31, 2011)
- Transportation Certificates of Participation
- OAKS Certificates of Participation
- STARS Certificates of Participation
- OAKS Project
- STARS Project



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The *Detailed Appropriation Summary by Fund Report* is available for public inspection at the Ohio Office of Budget and Management and on its web site at www.obm.ohio.gov/SectionPages/FinancialReporting. This Summary provides a more comprehensive accounting of activity on the budgetary basis at the legal level of budgetary control.

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

Additionally, in the non-GAAP budgetary basis financial statement and schedules, "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. The State is not legally required to report budgetary data and comparisons for the budgeted proprietary funds. Also, the State does not present budgetary data for its discretely presented component units.

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

E. Cash Equity with Treasurer and Cash and Cash Equivalents

Cash equity with Treasurer consists of pooled demand deposits and investments carried at fair value. The State's cash pool under the Treasurer of State's administration has the general characteristics of a demand deposit account whereby additional cash can be deposited at any time and can also be effectively withdrawn at any time, within certain budgetary limitations, without prior notice or penalty.

Cash and cash equivalents include amounts on deposit with financial institutions and cash on hand. The cash and cash equivalents account also include investments with original maturities of three months or less from the date of acquisition for the Workers' Compensation Enterprise Fund.

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

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

F. Investments

Investments include long-term investments that may be restricted by law or other legal instruments. With the exception of certain money market investments, which have remaining maturities at the time of purchase of one year or less and are carried at amortized cost, and holdings in the State Treasury Asset Reserve of Ohio (STAR Ohio) investment pool, the State reports investments at fair value based on quoted market prices. STAR Ohio operates in a manner consistent with Rule 2a7 of the Investment Company Act of 1940; investments in the 2a7-like pool are reported at amortized cost (which approximates fair value).

The colleges and universities report investments received as gifts at their fair value on the donation date.

The primary government does not manage or provide investment services for investments reported in the Agency Fund that are owned by other, legally separate entities that are not part of the State of Ohio's reporting entity.

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



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Taxes Receivable

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

H. Intergovernmental Receivable

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

I. Inventories

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

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

J. Restricted Assets

The primary government reports assets restricted for the payment of deferred lottery prize awards, revenue bonds, and tuition benefits in the enterprise funds.

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

K. Capital Assets

Primary Government

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

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

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



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

The State has established the following capitalization thresholds:

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

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

Buildings	20-45 Years
Land Improvements	10-30 Years
Machinery and Equipment	3-15 Years
Vehicles.....	7-15 Years
Park and Natural Resources Infrastructure Network	10-50 Years

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

Discretely Presented Component Unit Funds

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



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Medicaid Claims Payable

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

M. Noncurrent Liabilities

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

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

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

N. Compensated Absences

Employees of the State's primary government earn vacation leave, sick leave, and personal leave at various rates within limits specified under collective bargaining agreements or under law. Generally, employees accrue vacation leave at a rate of 3.1 hours every two weeks for the first four years of employment, up to a maximum rate of 9.2 hours every two weeks after 24 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 matured compensated absences liability as a fund liability (included in the "Accrued Liabilities" account as a component of wages payable) to the extent it will be liquidated with expendable, available financial resources. For the primary government's proprietary funds and its discretely presented component unit funds, the State reports the compensated absences liability as a fund liability included in the "Refund and Other Liabilities" account.

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

Sick leave time that has been earned, but is unavailable for use as paid time off or as some other form of compensation because an employee has not met a minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

The State's primary government accrues sick leave using the vesting method. Under this method, the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments, as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

Included in the compensated absences liability is an amount accrued for salary-related payments directly and incrementally associated with the payment of compensated absences upon termination. Such payments include the primary government's share of Medicare taxes.

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



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Fund Balance Classification; Budget Stabilization Fund; Net Assets and Fund Balance Spending Order
Fund balance reported in the governmental fund financial statements is classified as follows:

Nonspendable

The *nonspendable* fund balance classification includes amounts that cannot be spent because they are either 1.) not in spendable form, such as prepaids and inventories or 2.) legally or contractually required to be maintained intact, such as the corpus of a permanent fund.

Restricted

Fund balance amounts should be *restricted* when constraints placed on the use of resources 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.

Unrestricted

Committed

Amounts constrained for specific purposes by formal action (i.e., legislation) of the government's highest level of decision-making authority (i.e., General Assembly) should be reported as *committed* fund balance. Committed amounts cannot be used for other purposes unless the General Assembly passes legislation to remove the constraints.

Assigned

Amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed, should be reported as *assigned* fund balance, except for stabilization arrangements. The intent should be conveyed by the governing body itself or through delegation to a body or official authorized on behalf of the government to assign amounts to be used for specific purposes. The Controlling Board, created under Chapter 127, Ohio Revised Code, is an example of a body delegated by the government to make assignments. The Director of the Office of Budget and Management is an example of an authorized official granted assignment authority through legislative language, including enacted budget bills. While both the committed and assigned fund balance classifications include amounts constrained for specific use by actions taken by the government itself, the authority for making an assignment is not required to be the government's highest level of decision-making authority. Amounts should not be reported as assigned if the assignment would result in a deficit in unassigned fund balance.

Unassigned

Unassigned fund balance is the residual classification for the General Fund. This classification represents spendable fund balance that has not been otherwise restricted, committed or assigned to specific purposes within the General Fund. In funds other than the General Fund, the unassigned classification should only be used to report a deficit balance due to overspending amounts that are restricted or committed.

Fund balance in the State's Budget Stabilization Fund, as discussed in Sections 131.43 and 131.44, Ohio Revised Code, does not meet the criteria to be classified as restricted or committed and is, therefore, reported as unassigned in the General Fund.

For reporting purposes, restricted amounts are generally considered to have been spent first, followed by unrestricted amounts. Within the unrestricted fund balance amounts, the spending order is generally committed, followed by assigned, and then unassigned when expenditures are incurred for purposes for which amounts in any unrestricted fund balance classification could be used.

P. Risk Management

The State's primary government is self-insured for claims under its traditional healthcare plans and for vehicle liability while it has placed public official fidelity bonding with a private insurer. The State self-funds tort liability and most property losses on a pay-as-you-go basis; however, selected state agencies have acquired private insurance for their property losses. While not the predominant participants, the State's primary government and its discretely presented component units participate in a public entity risk pool, which is accounted for in the Workers' Compensation Enterprise Fund, for the financing of their respective workers' compensation liabilities. These liabilities are reported in the governmental funds under the "Interfund Payable" account. (See NOTE 7).



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Interfund Balances and Activities

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

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

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

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

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

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

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

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

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

R. Intra-Entity Balances and Activities

Balances due between the primary government and its discretely presented component units are reported as receivables from component units or primary government and payables to component units or primary government. For each major discretely presented component unit, the nature and amount of significant transactions with the primary government are disclosed in NOTE 7.

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

S. Derivatives Instruments

The State's derivative instruments include investment derivatives and interest rate swaps. Interest rate swaps that are ineffective hedging derivatives are reported within the investment derivatives classification.

The State reports its derivative instruments at fair value in the Statement of Net Assets. Changes in fair value for investment derivatives are recorded as investment income in the Statement of Activities. Changes in fair value for effective hedging derivatives are reported as deferred outflows/inflows of resources in the Statement of Net Assets.

Additional disclosures on the State's investment derivatives and its hedging derivatives can be found in NOTE 4 and NOTE 10, respectively.



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

T. Use of Estimates

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

NOTE 2 RESTATEMENTS AND CHANGES IN ACCOUNTING PRINCIPLES AND STANDARDS

A. Restatements

Restatements of net assets, as of June 30, 2011, for the discretely presented component units are presented in the following table (dollars in thousands).

Government-Wide Financial Statements:

	Total Discretely Presented Component Units
Net Assets, as of June 30, 2011, As Previously Reported	\$ 13,803,750
<i>Change in Reporting Entity:</i>	
University of Cincinnati Component Unit.....	(114,442)
Youngstown State University Component Unit.....	(209)
<i>Correction of an Error:</i>	
University of Cincinnati Component Unit.....	(203,886)
Total Changes in Net Assets.....	(318,537)
Net Assets, July 1, 2011, As Restated	<u>\$ 13,485,213</u>

B. Implementation of Recently Issued Accounting Pronouncements

For the fiscal year ended June 30, 2012, the State implemented the provisions of

- Governmental Accounting Standards Board (GASB) Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*.
- Governmental Accounting Standards Board (GASB) Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*.

GASB 57 clarifies Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, regarding the requirements related to the coordination of the timing and frequency of OPEB measurements by agent employers and the agent multiple-employer OPEB plans in which they participate.

GASB 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. It establishes the criteria for determining when an effective hedging relationship continues and when hedge accounting should continue to be applied.



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

C. Recently Issued GASB Pronouncements

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The provisions of GASB 60 are effective for financial statements for periods beginning after December 15, 2011. GASB 60 establishes guidance for accounting and financial reporting for service concession arrangements (SCAs). This Statement improves financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators by requiring both to account for and report SCAs in the same manner. This improves the comparability of financial statements.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. The provisions of GASB 61 are effective for financial statements beginning after June 15, 2012. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. It addresses reporting entity issues that have arisen since the issuance of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. It also modifies existing requirements for including, presenting, and disclosing information about component units and equity interest transactions.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of GASB 62 are effective for financial statements for periods beginning after December 15, 2011. The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. It eliminates the need to determine which FASB and AICPA pronouncements apply to state and local governments for more consistent application of guidance and improved comparability of financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The provisions of GASB 63 are effective for financial statements beginning after December 15, 2011. GASB 63 standardizes financial reporting of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position and improves the comparability of financial statements by providing guidance where none previously existed.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The provisions of GASB 65 are effective for financial statements for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. It also provides other financial reporting guidance related to the impact of deferred outflows and inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections—2012*. The provisions of GASB 66 are effective for financial statements for periods beginning after December 15, 2012. This statement amends GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund. This Statement also amends GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by providing guidance on (1) accounting for operating lease payments that vary from a straight-line basis, (2) accounting for the difference between the initial investment and the principal amount of a purchased loan or group of loans, and (3) recognition by a transferor for servicing fees related to mortgage loans.



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

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans*. The provisions of GASB 67 are effective for financial statements for fiscal years beginning after June 15, 2013. This Statement amends Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* by establishing financial reporting standards for state and local government defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements. Additionally, for defined benefit pension plans, this Statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions of GASB 68 are effective for financial statements for fiscal years beginning after June 15, 2014. This statement amends Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project and discount benefit payments.

Management is assessing the impact that the new GASB pronouncements will have on the State's financial statements.

NOTE 3 GAAP versus NON-GAAP BUDGETARY BASIS

In the accompanying *Statement of Revenues, Expenditures and Changes in Fund Balances — Budget and Actual (Non-GAAP Budgetary Basis) — General Fund and Major Special Revenue Fund*, 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 2012. 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 2012, whenever signed into law or otherwise legally authorized.

For fiscal year 2012, no excess 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 fund 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 Fund
As of June 30, 2012
(dollars in thousands)

	General	Job, Family & Other Human Services
Total Fund Balances — GAAP Basis	\$ 3,189,993	\$ 196,112
Less: Nonspendable Fund Balances.....	86,982	2,470
Less: Restricted Fund Balances.....	1,027,885	115,376
Less: Committed Fund Balances.....	824,607	78,813
Less: Assigned Fund Balances.....	1,666,177	-
Unassigned Fund Balances — GAAP Basis	<u>(415,658)</u>	<u>(547)</u>
BASIS DIFFERENCES		
Revenue Accruals/Adjustments:		
Cash Equity with Treasurer	(36,491)	(2,195)
Taxes Receivable	(1,502,090)	-
Intergovernmental Receivable	(569,990)	(220,668)
Loans Receivable, Net	(1,064,764)	-
Interfund Receivable	(67,550)	-
Receivables from Component Units.....	(1,054)	-
Other Receivables	(178,378)	(334,960)
Deferred Revenue	245,981	90,586
Unearned Revenue	7,375	346,940
Total Revenue Accruals/Adjustments	<u>(3,166,961)</u>	<u>(120,297)</u>
Expenditure Accruals/Adjustments:		
Cash Equity with Treasurer	(44,389)	(6,460)
Inventories	(31,307)	-
Other Assets	(16,474)	(2,470)
Accounts Payable	212,638	97,484
Accrued Liabilities	80,237	13,272
Medicaid Claims Payable	886,151	-
Intergovernmental Payable	866,811	127,599
Interfund Payable	1,437,010	15,343
Payable to Component Units	16,528	886
Refund and Other Liabilities	745,963	3,974
Liability for Escheat Property	7,944	-
Total Expenditure Accruals/Adjustments	<u>4,161,112</u>	<u>249,628</u>
Other Adjustments:		
Fund Balance Reclassifications:		
From Unassigned (Non-GAAP Budgetary Basis) to:		
Nonspendable	86,982	2,470
Restricted.....	1,027,885	115,376
Committed	824,607	78,813
Assigned.....	1,666,177	-
Cash and Investments Held Outside State Treasury	(623,955)	(2,934)
Other	(2)	(1)
Total Other Adjustments	<u>2,981,694</u>	<u>193,724</u>
Total Basis Differences	<u>3,975,845</u>	<u>323,055</u>
TIMING DIFFERENCES		
Encumbrances	(1,227,102)	(996,657)
Budgetary Fund Balances (Deficits) — Non-GAAP Basis	<u>\$ 2,333,085</u>	<u>\$ (674,149)</u>

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:



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Active Deposits – Moneys required to be kept in cash or near cash status to meet current demands. Such moneys must be maintained either as cash in the State's treasury or in any of the following: a commercial account that is payable or about to be withdrawn, 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:

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

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

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



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

corporate and government bonds and notes, mortgage loans, limited partnerships, venture capital, real estate and other investments.

B. State-Sponsored Investment Pool

The Treasurer of State is the investment advisor and administrator of the State Treasury Asset Reserve of Ohio (STAR Ohio), a statewide external investment pool authorized under Section 135.45, Ohio Revised Code. STAR Ohio issues a stand-alone financial report, copies of which may be obtained by making a written request to: Director of Investments, Treasurer of State, 30 East Broad Street, 9th Floor, Columbus, Ohio 43215, by calling (614) 466-2160, or by accessing the Treasurer of State's website at www.ohiotreasurer.gov.

C. Deposit and Investment Risks

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

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

1. Custodial Credit Risk

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

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

In Ohio, legal requirements for depositor-governments are met when deposits are collateralized with securities held by the pledging financial institution, or by the pledging institution's trust department or agent but not in the government's name. The State's reporting entity has not established specific policies for managing custodial credit risk exposure for deposits.

The table below reports the carrying amount of deposits, as of June 30, 2012, held by the primary government, including fiduciary activities, and its major discretely presented component units and the extent of exposure to custodial credit risk.

**Primary Government (including Fiduciary Activities) and
Major Discretely Presented Component Units
Deposits—Custodial Credit Risk
As of June 30, 2012
(dollars in thousands)**

	Carrying Amount	Bank Balance	Uncollateralized	Uninsured Portion of Reported Bank Balance	
				Collateralized with Securities Held by the Pledging Institution's Trust Department or Agent but not in the Depositor- Government's Name	Collateralized with Securities Held by the Pledging Institution
<i>Primary Government</i>	\$ 1,093,696	\$ 1,090,139	\$ 20,423	\$ 150,962	\$ 19,464
<i>Major Discretely Presented Component Units:</i>					
Ohio Water Development Authority (12/31/11).....	33,336	33,319	-	32,823	-
Ohio State University.....	1,315,321	1,308,345	200,005	1,061,484	-
University of Cincinnati.....	(1,447)	6,514	-	-	-



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

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

The following table reports the fair value, as of June 30, 2012, of investments by type for the primary government, including fiduciary activities, and the extent of exposure to custodial credit risk (dollars in thousands).

Primary Government (including Fiduciary Activities)		
Investments—Fair Value and Custodial Credit Risk		
As of June 30, 2012		
<i>(dollars in thousands)</i>		
	Total Fair Value	Uninsured, Unregistered, and Held by the Counterparty's Trust Department or Agent but not in the State's Name
<i>Investments Subject to Custodial Credit Risk Exposure:</i>		
U.S. Government Obligations	\$ 15,949,503	\$ -
U.S. Government Obligations—Strips	609,760	311,615
U.S. Agency Obligations	13,069,668	-
U.S. Agency Obligations—Strips	332,120	-
Common and Preferred Stock	50,969,966	-
Corporate Bonds and Notes	17,518,756	-
Corporate Bonds and Notes—Strips	145	-
Municipal Obligations.....	975,824	-
Commercial Paper	7,408,901	-
Repurchase Agreements	298,282	-
Mortgage and Asset-Backed Securities	5,730,882	-
International Investments:		
Foreign Stocks	36,447,756	-
Foreign Bonds	4,971,994	-
High-Yield and Emerging Markets Fixed Income	1,359,647	-
Securities Lending Collateral:		
Commercial Paper	243,434	-
Repurchase Agreements	757,000	-
Variable Rate Notes	276,069	-
Bond Mutual Funds.....	13,102	-
Common Stock	24,174	-
		<u>\$ 311,615</u>
<i>Investments Not Subject to Custodial Credit Risk Exposure:</i>		
<i>Investments Held by Broker-Dealers under Securities Loans with Cash Collateral:</i>		
U.S. Government Obligations	49,990	
U.S. Government Obligations—Strips	69,916	
U.S. Agency Obligations	1,172,820	
U.S. Agency Obligations—Strips	2,450	
International Investments-Commingled Equity Funds	2,108,476	
Equity Mutual Funds	10,718,835	
Bond Mutual Funds	5,110,976	
Real Estate	15,029,576	
Venture Capital	11,707,318	
Partnerships and Hedge Funds	3,737,695	
Deposit with Federal Government	177,795	
Component Units' Equity in State Treasurer's Cash and Investment Pool	(636,773)	
Component Units' Equity in the State Treasury Asset Reserve of Ohio	(248,500)	
Total Investments — Primary Government	<u>\$ 205,957,557</u>	



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The following table reports investments with custodial credit risk exposure for the major discretely presented component units. The School Facilities Commission Component Unit Fund participates in the State Treasurer's Cash and Investment Pool and does not hold investments separate from the pool. Risks associated with the School Facilities Commission's share of the pool are included in the disclosures for the Primary Government.

Major Discretely Presented Component Units			
Investment Custodial Credit Risk			
As of June 30, 2012			
<i>(dollars in thousands)</i>			
	Fair Value	Uninsured, Unregistered, and Held by the	
		Counterparty's Trust Department or Agent but not in the Component Unit's Name	Counterparty but not in the Component Unit's Name
<i>Ohio Water Development Authority (12/31/11):</i>			
U.S. Government Obligations	\$ 218,975	\$ 218,975	\$ -
U.S. Agency Obligations	1,106,014	1,106,014	-
Municipal Obligations	6,225	6,225	-
Total Ohio Water Development Authority		<u>\$ 1,331,214</u>	<u>\$ -</u>
<i>Ohio State University:</i>			
U.S. Government Obligations	\$ 82,903	\$ -	\$ 82,903
U.S. Agency Obligations	144,104	-	144,104
Common and Preferred Stock	187,333	-	187,333
Corporate Bonds and Notes	270,107	-	270,107
Repurchase Agreements	179,443	-	179,443
Municipal Obligations	4,019	-	4,019
International Investments:			
Foreign Stocks	65,792	-	65,792
Foreign Bonds	46,217	-	46,217
Total Ohio State University		<u>\$ -</u>	<u>\$ 979,918</u>
<i>University of Cincinnati:</i>			
U.S. Government Obligations	\$ 5,088	\$ 5,088	\$ -
U.S. Government Obligations—Strips	657	657	-
U.S. Agency Obligations	68,213	68,213	-
Common and Preferred Stock	113,559	113,559	-
Corporate Bonds and Notes	234,310	234,310	-
Municipal Obligations	53,756	53,756	-
Certificates of Deposit	239	239	-
International Investments:			
Foreign Stocks	26	26	-
Foreign Bonds	7,883	7,883	-
Total University of Cincinnati		<u>\$ 483,731</u>	<u>\$ -</u>

2. Credit Risk

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

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

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



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

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

Workers' Compensation Enterprise Fund

The Fund requires investment-grade ratings by at least two nationally-recognized bond rating services for fixed income securities.

Variable College Saving Plan Private-Purpose Trust Fund

All fixed income securities in non-U.S. Treasury or government sponsored sectors shall carry an investment grade rating by at Standard & Poor's or Moody's. The lowest rating considered investment grade is "BBB-" for Standard & Poor's and "Baa3" for Moody's. No more than 20 percent of the fixed income portfolios shall be in the lowest ratings.

STAR Ohio Investment Trust Fund

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

Retirement Systems Agency Fund

For the Ohio Public Employees Retirement System, non-investment grade securities are limited to 30 percent of the total Public Fixed Income portfolio assets. Limitations on the holdings of non-investment grade securities are included in the portfolio's guidelines.

For the Ohio Police and Fire Pension Fund,

- Securities in the core fixed income portfolio shall be rated "BBB-" or better by two standard rating agencies at the time of the purchase;
- Securities in the high yield fixed income portfolio are high yield bonds issued by U.S. corporations with a minimum rating of "CCC" or equivalent;
- Investment managers may purchase securities that are "Not Rated" as long as they deem these securities to be at least equivalent to the minimum ratings; and
- Short-term investments must be rated within the two highest classifications established by two standard rating agencies.

Ohio Water Development Authority Component Unit Fund

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



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

University of Cincinnati Component Unit Fund

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

The School Facilities Commission Component Unit Fund participates in the State Treasurer's Cash and Investment Pool and does not hold investments separate from the pool. Risks associated with the School Facilities Commission's share of the pool are included in the disclosures for the Primary Government.

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

Primary Government (including Fiduciary Activities)
Investment Credit Ratings
As of June 30, 2012
(dollars in thousands)

Investment Type	Credit Rating					
	AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations	\$ 4,566,275	\$ 5,706,366	\$ 3,952,719	\$ -	\$ -	\$ -
U.S. Agency Obligations—Strips	319,723	14,847	-	-	-	-
Corporate Bonds and Notes	939,689	1,318,207	5,556,650	5,306,431	1,671,722	1,917,838
Corporate Bonds and Notes—Strips	107	-	-	-	-	-
Municipal Obligations.....	122,943	471,120	369,799	11,263	-	-
Commercial Paper	4,380,142	442,085	2,569,074	-	-	-
Repurchase Agreements	100,000	193,550	-	-	-	-
Mortgage and Asset-Backed Securities	1,452,746	3,221,377	172,414	131,051	77,334	171,988
Foreign Bonds.....	1,589,838	508,415	841,566	1,402,010	247,210	291,531
High-Yield & Emerging Markets Fixed Income	1,149	5,395	18,604	197,612	277,790	511,403
Bond Mutual Funds	1,340,838	2,352,765	197,797	3,980	20,789	6,118
Securities Lending Collateral:						
Commercial Paper	-	-	243,434	-	-	-
Repurchase Agreements	-	86,000	571,000	100,000	-	-
Variable Rate Notes	-	111,197	164,872	-	-	-
Bond Mutual Funds	13,102	-	-	-	-	-
Total Primary Government	\$ 14,826,552	\$ 14,431,324	\$ 14,657,929	\$ 7,152,347	\$ 2,294,845	\$ 2,898,878

Investment Type	Credit Rating					Total
	CCC/Caa	CC/Ca	C	D	Unrated	
U.S. Agency Obligations	\$ -	\$ -	\$ -	\$ -	\$ 17,128	\$14,242,488
U.S. Agency Obligations—Strips	-	-	-	-	-	334,570
Corporate Bonds and Notes	509,644	14,701	3,375	-	280,499	17,518,756
Corporate Bonds and Notes—Strips	-	-	-	-	38	145
Municipal Obligations.....	-	-	-	-	699	975,824
Commercial Paper	-	-	-	-	17,600	7,408,901
Repurchase Agreements	-	-	-	-	4,732	298,282
Mortgage and Asset-Backed Securities	288,600	66,184	56,834	-	92,354	5,730,882
Foreign Bonds.....	53,525	353	1,095	-	36,451	4,971,994
High-Yield & Emerging Markets Fixed Income	188,704	341	3,678	228	154,743	1,359,647
Bond Mutual Funds	3,138	-	-	-	1,185,551	5,110,976
Securities Lending Collateral:						
Commercial Paper	-	-	-	-	-	243,434
Repurchase Agreements	-	-	-	-	-	757,000
Variable Rate Notes	-	-	-	-	-	276,069
Bond Mutual Funds	-	-	-	-	-	13,102
Total Primary Government	\$ 1,043,611	\$ 81,579	\$ 64,982	\$ 228	\$ 1,789,795	\$59,242,070



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Major Discretely Presented Component Units

Investment Credit Ratings

As of June 30, 2012

(dollars in thousands)

<i>Ohio Water Development Authority (12/31/11):</i>	Credit Rating			
	AAA/Aaa	AA/Aa	Unrated	Total
U.S. Agency Obligations	\$ -	\$ 1,106,014	\$ -	\$ 1,106,014
Municipal Obligations	653	5,572	-	6,225
Bond Mutual Funds	74,230	-	-	74,230
Investment Contracts	-	-	24,117	24,117
Total Ohio Water Development Authority.....	<u>\$ 74,883</u>	<u>\$ 1,111,586</u>	<u>\$ 24,117</u>	<u>\$ 1,210,586</u>

<i>Ohio State University:</i>	Credit Rating					
	AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations	\$ -	\$ 142,101	\$ 932	\$ 1,071	\$ -	\$ -
Corporate Bonds and Notes	52,894	45,152	115,603	48,947	3,230	791
Repurchase Agreements	-	179,443	-	-	-	-
Municipal Obligations	1,220	2,658	141	-	-	-
Bond Mutual Funds	79,656	4,614	27,884	7,218	4	1
Foreign Bonds	14,765	7,345	16,268	2,245	-	-
Total Ohio State University.....	<u>\$ 148,535</u>	<u>\$ 381,313</u>	<u>\$ 160,828</u>	<u>\$ 59,481</u>	<u>\$ 3,234</u>	<u>\$ 792</u>

<i>Ohio State University (continued):</i>	Credit Rating		
	CCC/Caa	Unrated	Total
U.S. Agency Obligations	\$ -	\$ -	\$ 144,104
Corporate Bonds and Notes	420	3,070	270,107
Repurchase Agreements	-	-	179,443
Municipal Obligations	-	-	4,019
Bond Mutual Funds	1,109	202	120,688
Foreign Bonds	-	5,594	46,217
Total Ohio State University.....	<u>\$ 1,529</u>	<u>\$ 8,866</u>	<u>\$ 764,578</u>

<i>University of Cincinnati:</i>	Credit Rating					
	AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations	\$ 66,707	\$ 1,506	\$ -	\$ -	\$ -	\$ -
Corporate Bonds and Notes	10,794	33,289	151,464	38,536	-	-
Municipal Obligations	12,927	27,490	2,630	930	-	6,030
Bond Mutual Funds	98,337	51,020	2,542	1,704	607	-
Certificates of Deposit	-	-	-	-	-	-
Foreign Bonds	-	6,403	1,047	433	-	-
Total University of Cincinnati.....	<u>\$ 188,765</u>	<u>\$ 119,708</u>	<u>\$ 157,683</u>	<u>\$ 41,603</u>	<u>\$ 607</u>	<u>\$ 6,030</u>

<i>University of Cincinnati (continued):</i>	Credit Rating	
	Unrated	Total
U.S. Agency Obligations	\$ -	\$ 68,213
Corporate Bonds and Notes	227	234,310
Municipal Obligations	3,749	53,756
Bond Mutual Funds	20,311	174,521
Certificates of Deposit	239	239
Foreign Bonds	-	7,883
Total University of Cincinnati.....	<u>\$ 24,526</u>	<u>\$ 538,922</u>



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

3. Concentration of Credit Risk

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

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

- Investments in commercial paper may not exceed 25 percent of the State's total average portfolio;
- Bankers acceptances cannot exceed ten percent of the State's total average portfolio;
- Corporate notes cannot exceed five percent of the State's total average portfolio;
- Corporate notes of a single issuer may not exceed one-half of one percent of the State's total average portfolio; and
- Debt interests in foreign nations may not exceed one percent of the State's total average portfolio.

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

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



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

Workers' Compensation Enterprise Fund

No single issuer may comprise more than five percent of the total portfolio with the exception of investments in U.S. government securities.

Lottery Commission Enterprise Fund

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

State Highway Patrol Retirement System Pension Trust Fund

Policy prohibits the investment of more than ten percent of its fixed income portfolio in securities of any one issuer with the exception of U.S. government securities, or the investment of more than five percent of the Fund's total investments in any one issuer with the exception of U.S. government securities.

Variable College Saving Plan Private-Purpose Trust Fund

No single issuer shall comprise more than five percent of the total portfolio with the exception of investments in U.S. government securities.

STAR Ohio Investment Trust Fund

Investments in a single issuer are further limited to no more than five percent of the total average portfolio except for U.S. Treasury obligations, limited at 100 percent; U.S. Agency obligations, limited at 33 percent; repurchase agreement counterparties, limited at the lesser of ten percent or \$500 million; and mutual funds, limited at ten percent.

Retirement Systems Agency Fund

For the Ohio Police and Fire Pension Fund, no more than ten percent of the core Fixed Income Portfolio may be invested in the securities of any one issuer, and no more than five percent in any one issuer on a dollar duration basis, with the exception of U.S. government or agency securities. For its High Yield Portfolio, no more than ten percent of the portfolio may be invested in securities of a single issue or issuer, unless approved by the Board of Trustees.

Ohio Water Development Authority Component Unit Fund

Policy limits the types of investments exceeding five percent of the Authority's total investments to U.S. Treasuries, U.S. agency securities, and other issuers with the highest short-term ratings or one of the three highest long-term ratings from Moody's or Standard & Poor's.

University of Cincinnati Component Unit Fund

The policy governing the University's endowment investments allows investments to range from 85 percent variable investments and 15 percent fixed income investments to 15 percent variable investments and 85 percent fixed income investments, at any one time. In the University's alternative investment categories, maximum allowable holdings are two percent for private real estate, 15.5 percent for private equity, and 25 percent for hedge funds.



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

As of June 30, 2012, all investments meet the requirements of the State's law and policies, when applicable. However, investments in certain issuers are at least five percent of investment balances, as follows (dollars in thousands):

Issuer	Amount	Percentage of Investment Balance
<i>Governmental and Business-Type Activities:</i>		
Federal National Mortgage Association	\$ 1,721,534	5%
Federal Home Loan Bank	2,019,178	6%
Federal Home Loan Mortgage Corporation	1,652,327	5%
<i>STAR Ohio Investment Trust Fund:</i>		
Federal National Mortgage Association	186,659	6%
Federal Home Loan Bank	1,162,008	35%
Federal Home Loan Mortgage Corporation	228,178	7%
Federal Farm Credit Bank.....	263,671	8%
<i>School Facilities Commission Component Unit Fund:</i>		
Federal National Mortgage Association	70,476	13%
Federal Home Loan Bank	141,549	26%
Federal Home Loan Mortgage Corporation	82,471	15%
Federal Farm Credit Bank.....	53,924	10%
<i>Ohio Water Development Authority Component Unit Fund (12/31/11):</i>		
Federal National Mortgage Association	672,546	43%
Federal Home Loan Bank	234,719	15%
Federal Home Loan Mortgage Corporation	335,671	21%

4. Interest Rate Risk

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

Investment policies governing the treasury's cash and investment pool, which is reported as "Cash Equity with Treasurer" and is managed by the Treasurer of State's Office, limit maturities of short term investments to no more than 18 months with a weighted average maturity not to exceed 90 days. For long-term investments, maturities are limited to five years or less, except for those that are matched to a specific obligation or debt of the State. A duration target of three years or less has been established for long-term investments. Policy also limits maturities for specific investment types as follows: two years for corporate notes, 180 days for commercial paper, 90 days for repurchase agreements, 270 days for bankers' acceptances, and five years for foreign debt.

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

- the note has an ultimate maturity of less than three years;
- the rate resets frequently to follow money market rates;



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

Workers' Compensation Enterprise Fund

Policy requires each fixed-income portfolio to be invested with duration characteristics that are within a range consistent with Barclay's Capital Fixed Income Index ranges.

Lottery Commission Enterprise Fund

Investments are required to have maturities of 30 years or less. In no case may the maturity of an investment exceed the expected date of disbursement of those funds.

STAR Ohio Investment Trust Fund

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

Retirement Systems Agency Fund

Investments purchased under the Cash Management Policy of the Ohio Public Employees Retirement System are limited to a weighted average maturity of 120 days. Fixed rate notes are required to have an average maturity of 1.3 years. Its Public Fixed Income Policy requires an average effective duration of all defined benefit and health care assets to be within 20 percent of the option-adjusted duration of the Public Fixed Income asset class, excluding Liquidity Funds. Liquidity Funds duration must be within a range of zero to 120 percent of the average option-adjusted duration.

Ohio Water Development Authority Component Unit Fund

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

University of Cincinnati Component Unit Fund

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

As of June 30, 2012, investments reported as "Cash Equity with Treasurer" have terms that make their fair values highly sensitive to the interest rate changes. The U.S. agency obligations investment type includes \$1.68 billion of investments with call dates during fiscal years 2013 and 2014. The majority of these investments, \$1.67 billion, has maturities between fiscal years 2013 and 2017 and is reported in the table on the following page as maturing in one to five years. The remaining \$10 million of investments is reported as maturing in six to ten years.

In addition, several investments reported as "Investments" have terms that make their fair values highly sensitive to interest rate changes. U.S. agency obligations of \$428.5 million and corporate bonds of \$10 million have daily, weekly, monthly, and quarterly reset dates. Commercial paper of \$67 million has a 31-day put notice. For "Collateral on Lent Securities," variable rate notes of \$255.3 million and commercial paper of \$40 million have quarterly reset dates.

The Lottery Commission Enterprise Fund has several investments with call dates. U.S. agency obligations of \$1.9 million that are callable in fiscal year 2013 have a scheduled maturity during fiscal year 2027. An additional \$3.1 million, also callable in fiscal year 2013, have a scheduled maturity during fiscal year 2032. These investments are reported as maturing in over ten years in the following table. The Lottery Commission Enterprise Fund also has "Collateral on Lent Securities" with reset dates. Variable rate notes of \$20.7 million and commercial paper of \$5 million have quarterly reset dates.

Also during fiscal year 2012, the Treasurer of State acted as the custodian of the Retirement Systems Agency Fund's investments. These investments contain terms that make their fair values highly sensitive to interest rate changes. Specific information on the nature of the investments and their terms can be found in each respective retirement system's Comprehensive Annual Financial Report.



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The following tables list the investment maturities of the investments for the primary government, including fiduciary activities, and its major discretely presented component units. All investments at June 30, 2012, meet the requirements of the State's laws and policies, when applicable. The School Facilities Commission Component Unit Fund participates in the State Treasurer's Cash and Investment Pool and does not hold investments separate from the pool. Risks associated with the School Facilities Commission's share of the pool are included in the disclosures for the Primary Government.

Primary Government (including Fiduciary Activities)
Investments Subject to Interest Rate Risk
As of June 30, 2012
(dollars in thousands)

Investment Type	Investment Maturities (in years)				Total
	Less than 1	1-5	6-10	More than 10	
U.S. Government Obligations	\$ 1,554,181	\$ 6,226,530	\$ 2,515,310	\$ 5,703,472	\$ 15,999,493
U.S. Government Obligations—Strips	191,701	269,297	109,788	108,890	679,676
U.S. Agency Obligations	7,157,913	2,256,410	282,417	4,545,748	14,242,488
U.S. Agency Obligations—Strips	35,597	107,557	142,696	48,720	334,570
Corporate Bonds and Notes	1,106,268	5,008,199	5,102,469	6,301,820	17,518,756
Corporate Bonds and Notes—Strips	-	-	38	107	145
Municipal Obligations	1,328	6,168	9,821	958,507	975,824
Commercial Paper	7,408,901	-	-	-	7,408,901
Repurchase Agreements	298,282	-	-	-	298,282
Mortgage and Asset-Backed Securities	4,244	330,199	361,472	5,034,967	5,730,882
Foreign Bonds	216,114	1,507,555	1,060,099	2,188,226	4,971,994
High-Yield & Emerging Markets Fixed Income	33,557	265,755	785,622	274,713	1,359,647
Bond Mutual Funds	3,667,054	102,207	1,329,135	12,580	5,110,976
Securities Lending Collateral:					
Commercial Paper	243,434	-	-	-	243,434
Repurchase Agreements	757,000	-	-	-	757,000
Variable Rate Notes	276,069	-	-	-	276,069
Bond Mutual Funds	13,102	-	-	-	13,102
Total Primary Government	\$ 22,964,745	\$ 16,079,877	\$ 11,698,867	\$ 25,177,750	\$ 75,921,239

Major Discretely Presented Component Units
Investments Subject to Interest Rate Risk
As of June 30, 2012
(dollars in thousands)

Ohio Water Development Authority (12/31/11):	Investment Maturities (in years)				Total
	Less than 1	1-5	6-10	More than 10	
U.S. Government Obligations	\$ 96,811	\$ 118,868	\$ 2,427	\$ 869	\$ 218,975
U.S. Agency Obligations	748,604	357,410	-	-	1,106,014
Municipal Obligations	4,043	2,182	-	-	6,225
Bond Mutual Funds	74,230	-	-	-	74,230
Investment Contracts	-	-	-	24,117	24,117
Total Ohio Water Development Authority	\$ 923,688	\$ 478,460	\$ 2,427	\$ 24,986	\$ 1,429,561

Ohio State University:	Investment Maturities (in years)				Total
	Less than 1	1-5	6-10	More than 10	
U.S. Government Obligations	\$ 8,200	\$ 67,593	\$ 4,545	\$ 2,565	\$ 82,903
U.S. Agency Obligations	21,464	82,760	20,657	19,223	144,104
Corporate Bonds and Notes	53,457	177,923	24,344	14,383	270,107
Repurchase Agreements	179,443	-	-	-	179,443
Municipal Obligations	-	770	-	3,249	4,019
Bond Mutual Funds	9,707	65,504	30,078	15,399	120,688
Foreign Bonds	5,536	26,839	10,411	3,431	46,217
Total Ohio State University	\$ 277,807	\$ 421,389	\$ 90,035	\$ 58,250	\$ 847,481

University of Cincinnati:	Investment Maturities (in years)				Total
	Less than 1	1-5	6-10	More than 10	
U.S. Government Obligations	\$ 56	\$ 1,529	\$ 83	\$ 3,420	\$ 5,088
U.S. Government Obligations—Strips	657	-	-	-	657
U.S. Agency Obligations	26,623	30,863	26	10,701	68,213
Corporate Bonds and Notes	112,185	99,703	20,241	2,181	234,310
Municipal Obligations	18,556	31,721	1,530	1,949	53,756
Bond Mutual Funds	116,776	583	57,055	107	174,521
Certificates of Deposit	-	-	239	-	239
Foreign Bonds	-	7,883	-	-	7,883
Total University of Cincinnati	\$ 274,853	\$ 172,282	\$ 79,174	\$ 18,358	\$ 544,667



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

5. Foreign Currency Risk

Investments in stocks and bonds denominated in foreign currencies are affected by foreign currency risk which arises from changes in currency exchange rates.

As of June, 30, 2012, investments denominated in the currency of foreign nations, as detailed in the following tables for the primary government, including fiduciary activities, and the Ohio State University and the University of Cincinnati major discretely presented component units, meet the requirements of the State's laws and policies, when applicable.

**Primary Government (including Fiduciary Activities)
International Investments—Foreign Currency Risk
As of June 30, 2012
(dollars in thousands)**

Currency	Fiduciary Activities				Total
	Stocks	Bonds	High-Yield & Emerging Markets Fixed Income	Commingled International Equity	
Argentinean Peso	\$ 277	\$ 1,316	\$ 1,262	\$ -	\$ 2,855
Australian Dollar	877,246	12,413	-	8,952	898,611
Brazilian Real	649,242	75,998	3,124	1,954	730,318
British Pound	3,371,092	258,886	1,499	160,964	3,792,441
Bulgarian Lev	268	-	-	-	268
Canadian Dollar	899,276	216,459	-	853	1,116,588
Chilean Peso	58,725	2,615	-	-	61,340
Chinese Yuan	847	-	-	-	847
Colombian Peso	5,132	25,778	4,211	-	35,121
Czech Koruna	32,201	-	-	-	32,201
Danish Krone	200,187	-	-	-	200,187
Egyptian Pound	13,279	-	69	-	13,348
Euro	3,721,070	507,360	9,651	841,390	5,079,471
Ghana Cedi	-	-	1,225	-	1,225
Hong Kong Dollar	1,721,424	-	-	1,818	1,723,242
Hungarian Forint	16,386	8,133	-	-	24,519
Indian Rupee	346,707	-	-	-	346,707
Indonesian Rupiah	210,115	19,859	-	-	229,974
Israeli Shekel	21,616	-	-	-	21,616
Japanese Yen	3,300,019	-	-	2,228	3,302,247
Malaysian Ringgit	191,773	27,151	-	16	218,940
Mexican Peso	227,228	64,465	2,728	1,394	295,815
Moroccan Dirham	448	-	-	-	448
New Zealand Dollar	19,223	6,180	-	(38)	25,365
Norwegian Krone	232,669	592	-	70	233,331
Nigerian Naira	4,531	-	1,478	-	6,009
Omani Rial	2,533	-	-	-	2,533
Pakistani Rupee	76	-	-	-	76
Peruvian New Sol	318	-	-	-	318
Philippines Peso	64,501	14,905	-	-	79,406
Polish Zloty	91,862	16,213	-	-	108,075
Qatari Rial	7,568	-	-	-	7,568
Russian Ruble	28,954	11,843	1,123	-	41,920
Singapore Dollar	311,694	-	-	1,125	312,819
South African Rand	539,034	33,742	-	649	573,425
South Korean Won	1,115,656	10,773	-	-	1,126,429
Swedish Krona	402,461	86,323	-	(1,062)	487,722
Swiss Franc	1,085,658	-	-	(108)	1,085,550
Taiwan Dollar	530,289	-	-	-	530,289
Thailand Baht	276,424	8,727	-	-	285,151
Turkish Lira	178,102	29,872	1,434	58	209,466
Uruguayan Peso	-	9,080	-	-	9,080
Investments Held in Foreign Currency	<u>\$20,756,111</u>	<u>\$ 1,448,683</u>	<u>\$ 27,804</u>	<u>\$ 1,020,263</u>	<u>\$23,252,861</u>
Foreign Investments Held in U.S. Dollars					<u>21,635,012</u>
Total Foreign Investments-Primary Government, including Fiduciary Activities					<u>\$44,887,873</u>



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Major Discretely Presented Component Units
International Investments—Foreign Currency Risk
As of June 30, 2012
(dollars in thousands)

<u>Ohio State University:</u>	Included in the Balance Reported for Common & Preferred Stock	Included in the Balance Reported for Corporate & International Bonds	Included in the Balance Reported for Partnership and Hedge Funds	Total
Currency				
Australian Dollar	\$ 981	\$ 756	\$ 26,726	\$ 28,463
Brazilian Real	2,749	1,054	-	3,803
British Pound	5,191	4,639	-	9,830
Canadian Dollar	-	5,353	-	5,353
Czech Koruna.....	957	-	-	957
Egyptian Pound.....	822	-	-	822
Euro	4,754	17,380	39,248	61,382
Hong Kong Dollar	14,020	-	-	14,020
Indian Rupee.....	3,294	-	-	3,294
Indonesian Rupiah	971	-	-	971
Japanese Yen	1,331	6,902	-	8,233
Mexican Peso	1,635	4,227	-	5,862
Singapore Dollar	557	-	-	557
South African Rand	7,935	-	-	7,935
South Korean Won	8,206	-	-	8,206
Swedish Krona	736	-	-	736
Swiss Franc	3,791	-	-	3,791
Taiwan Dollar	5,820	-	-	5,820
Thailand Baht	628	-	-	628
Turkish Lira	1,414	-	-	1,414
Total Investments Held in Foreign Currency-Ohio State University	<u>\$ 65,792</u>	<u>\$ 40,311</u>	<u>\$ 65,974</u>	<u>\$ 172,077</u>

<u>University of Cincinnati:</u>	Included in the Balance Reported for Common & Preferred Stock	Included in the Balance Reported for Corporate & International Bonds	Included in the Balance Reported for Partnership and Hedge Funds	Total
Currency				
Brazilian Real	\$ 9	\$ -	\$ -	\$ 9
Canadian Dollar	-	7,883	-	7,883
Chinese Yuan.....	9	-	-	9
South Korean Won	8	-	-	8
Total Investments Held in Foreign Currency-University of Cincinnati.....	<u>\$ 26</u>	<u>\$ 7,883</u>	<u>\$ -</u>	<u>\$ 7,909</u>

The State's laws and investment policies include provisions to limit the exposure to this type of risk. According to Chapter 135, Ohio Revised Code, investments managed by the Treasurer of State's Office, and reported as "Cash Equity with Treasurer", are limited to the debt of nations diplomatically recognized by the United States and that are backed by the full faith and credit of that foreign nation.

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

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



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Retirement Systems Agency Fund

For the Ohio Public Employees Retirement System, non-U.S. dollar-based securities are limited to 25 percent of the total Fixed Income assets. Additionally, no more than 30 percent of the Fixed Income assets may be from non-U.S. issuers.

D. Investment Derivatives

As of June 30, 2012, the State reports the following investment derivatives in its financial statements (dollars in thousands):

Investment Derivatives					
As of June 30, 2012					
<i>(dollars in thousands)</i>					
	Notional	Fair Value at 6/30/2012		Increase (Decrease) in Fair Value	
		Amount	Reported as	Amount	Reported as
Governmental Activities:					
Investment Derivatives:					
Pay-fixed interest rate sw aps	\$ 140,150	\$ (22,702)	Other Noncurrent Liability	\$ (6,290)	Operating Restricted Investment Loss - Primary, Secondary and Other Education Function
Fiduciary Funds—Agency:					
Investment Derivatives:					
Call options	10,300	(521)	Investments	(509)	Refund and Other Liabilities
Credit default sw aps	46,554	(217)	Investments	(217)	Refund and Other Liabilities
Credit linked notes	6,233	6,233	Investments	(8,349)	Refund and Other Liabilities
Equity sw aps	1,180,773	43,816	Investments	8,639	Refund and Other Liabilities
Foreign currency contracts	1,082,900	8,177	Investments	11,347	Refund and Other Liabilities
Forward contracts	6,134,212	(35,550)	Investments	(23,901)	Refund and Other Liabilities
Futures contracts	303,521	4,056	Investments	5,610	Refund and Other Liabilities
Interest rate sw ap	85,500	(647)	Investments	(1,308)	Refund and Other Liabilities
Options	4,697	69	Investments	69	Refund and Other Liabilities
Put options	4,000	16	Investments	16	Refund and Other Liabilities
S&P 500 Exchange Traded Fund	328,791	-	Investments	(6,714)	Refund and Other Liabilities
Total return sw aps	765,276	13,267	Investments	2,473	Refund and Other Liabilities
Warrants	18	807	Investments	241	Refund and Other Liabilities
Major Discretely Presented Component Units:					
Investment Derivatives:					
<i>Ohio State University:</i>					
Pay-fixed interest rate sw aps	13,962	(2,400)	Accounts Payable	(554)	Other Revenues
<i>University of Cincinnati:</i>					
Pay-fixed interest rate sw ap	24,075	(5,263)	Other Noncurrent Liability	(3,201)	Operating Restricted Investment Loss

For governmental activities, the pay-fixed swaps included in the table above do not meet the criteria for hedging derivatives as of June 30, 2012, and are reported as investment derivatives. The decreases in the fair values for fiscal year 2012 of \$6.3 million are reported as operating restricted investment losses for the primary, secondary and other education function in the Statement of Activities.

The credit quality ratings of JPMorgan Chase, the counterparty, are Aa3/AA+ as of June 30, 2012. The State was not exposed to credit risk because these swaps had negative fair values at June 30, 2012. However, should interest rates change and the fair values of the swaps become positive, the State would be exposed to credit risk in the amount of the derivative's positive fair value.

Each swap counterparty is required to post collateral to a third party when their respective credit rating, as determined by specified nationally recognized credit rating agencies, falls below the trigger level defined in the swap agreement and based on the fair value of the swap. 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.



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

These swaps, maturing March 15, 2025, are associated with Common Schools Bonds, Series 2005A and Series 2005B. The underlying index is a variable rate based on 65 percent of the 1 month LIBOR rate plus 20 basis points. The combination of the variable-rate bonds and a floating-to-fixed swap creates a low-cost, long-term synthetic fixed-rate debt that protects the State from rising interest rates.

The Ohio Public Employees Retirement System, Ohio Police and Fire Pension Fund, School Employees Retirement System of Ohio, and State Teachers Retirement System of Ohio have entered into the derivatives reported in the Agency Fund. All derivatives of these retirement systems are categorized as investment derivatives. The fair values and associated risks of the investment derivatives for the Agency Fund are included in the balances and risks disclosed in the previous sections of this note disclosure.

For the major discretely presented component units, the pay-fixed swaps for the Ohio State University and the University of Cincinnati component units in the table above do not meet the criteria for hedging derivatives. The decrease in fair value for fiscal year 2012 of \$554 thousand for the Ohio State University is reported as general other revenue in the Statement of Activities. The decrease in fair value of \$3.2 million for the University of Cincinnati is reported as an operating investment loss in the Statement of Activities.

The Ohio State University has one pay-fixed swap reported as an investment derivative. This transaction is designed to manage the interest costs and risks associated with the variable interest rate debt. The swap, maturing September 1, 2018, has been used to offset the variable interest rate on \$16 million of the 2010 bond financing for an ambulatory facility. The underlying index is a variable rate based on the 30-day BMA rate at the beginning of each month.

The University of Cincinnati's pay-fixed swap is used to protect the University against the potential of rising interest rates within the variable rate market on the 2012B BANS of \$24.1 million. The swap matures on June 1, 2030. It has an underlying index of 67 percent LIBOR. The University was not exposed to credit risk because the swap had a negative fair value at June 30, 2012. There are no counterparty collateral posting requirements on the swap.

E. Securities Lending Transactions

The Treasurer of State participates in the securities lending programs for securities included in the "Cash Equity with Treasurer" and "Investments" accounts. Each lending program is administered by a custodial agent bank, whereby certain securities are transferred to an independent broker-dealer (borrower) in exchange for collateral.

At the time of the loan, the Treasurer of State requires its custodial agents to ensure that the State's lent securities are collateralized at no less than 102 percent of fair value. At no point in time can the value of the collateral be less than 100 percent of the underlying securities.

Consequently, as of June 30, 2012, the State had no credit exposure since the amount the State owed to the borrowers at least equaled or exceeded the amount borrowers owed to the State.

The State invests cash collateral in short-term obligations, which have a weighted average maturity of 16 days or less while the weighted average maturity of securities loans is eight days or less.

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

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

During fiscal year 2012, the State had not experienced any losses due to credit or market risk on securities lending activities.

In fiscal year 2012, the Treasurer of State lent U.S. government and agency obligations in exchange for cash collateral.



NOTE 5 RECEIVABLES

A. Taxes Receivable – Primary Government

Current taxes receivable are expected to be collected in the next fiscal year while noncurrent taxes receivable are not expected to be collected until more than one year from the balance sheet date. As of June 30, 2012, approximately \$127.7 million of the net taxes receivable balance is also reported as deferred revenue on the governmental funds' balance sheet, all of which is reported in the General Fund.

Refund liabilities for income taxes, totaling approximately \$718 million are reported as "Refund and Other Liabilities" for governmental activities on the Statement of Net Assets and in the General Fund on the governmental funds' Balance Sheet.

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

	Governmental Activities		
	General	Nonmajor Governmental Funds	Total Primary Government
Current-Due Within One Year:			
Income Taxes	\$ 446,404	\$ -	\$ 446,404
Sales Taxes	419,573	-	419,573
Motor Vehicle Fuel Taxes	131,195	90,321	221,516
Commercial Activity Taxes	406,181	-	406,181
Public Utility Taxes	79,970	-	79,970
Severance Taxes	-	2,092	2,092
Casino Taxes	-	1,218	1,218
	<u>1,483,323</u>	<u>93,631</u>	<u>1,576,954</u>
Noncurrent-Due in More Than One Year:			
Income Taxes	18,767	-	18,767
Taxes Receivable, Net	<u>\$1,502,090</u>	<u>\$ 93,631</u>	<u>\$1,595,721</u>

B. Intergovernmental Receivable – Primary Government

The intergovernmental receivable balance reported for the primary government, all of which is expected to be collected within the next fiscal year, consists of the following, as of June 30, 2012 (dollars in thousands):

	From Nonexchange Programs		Services		Total Primary Government
	Federal Government	Local Government	Other State Governments	Local Government	
Governmental Activities:					
Major Governmental Funds:					
General	\$ 568,904	\$ 1,086	\$ -	\$ -	\$ 569,990
Job, Family and Other Human Services ...	202,055	18,613	-	-	220,668
Nonmajor Governmental Funds	<u>571,412</u>	<u>92,675</u>	-	<u>17,191</u>	<u>681,278</u>
Total Governmental Activities	<u>1,342,371</u>	<u>112,374</u>	-	<u>17,191</u>	<u>1,471,936</u>
Business-Type Activities:					
Major Proprietary Funds:					
Unemployment Compensation	-	-	14	-	14
Nonmajor Proprietary Funds	-	-	-	<u>10,308</u>	<u>10,308</u>
Total Business-Type Activities	-	-	<u>14</u>	<u>10,308</u>	<u>10,322</u>
Intergovernmental Receivable	<u>\$ 1,342,371</u>	<u>\$ 112,374</u>	<u>\$ 14</u>	<u>\$ 27,499</u>	<u>\$ 1,482,258</u>



NOTE 5 RECEIVABLES (Continued)

C. Loans Receivable

Loans receivable for the primary government, as of June 30, 2012, are detailed in the following tables (dollars in thousands):

Loan Program	Primary Government - Loans Receivable		
	Governmental Activities		
	General	Nonmajor Governmental Funds	Total Primary Government
Economic Development			
Office of Financial Incentives	\$ 445,578	\$ -	\$ 445,578
Local Infrastructure Improvements	411,887	-	411,887
Housing Finance	184,086	-	184,086
Highway, Transit, & Aviation Infrastructure Bank.....	-	87,356	87,356
School District Solvency Assistance	18,464	-	18,464
Brownfield Revolving Loan	-	4,145	4,145
Wayne Trace Local School District	3,140	-	3,140
Rail Development	-	2,322	2,322
Office of Minority Financial Incentives	1,609	-	1,609
Loans Receivable, Net	<u>1,064,764</u>	<u>93,823</u>	<u>1,158,587</u>
Current-Due Within One Year	126,529	15,806	142,335
Noncurrent-Due in More Than One Year	938,235	78,017	1,016,252
Loans Receivable, Net	<u>\$ 1,064,764</u>	<u>\$ 93,823</u>	<u>\$ 1,158,587</u>

The "Loans Receivable" balance reported in the major discretely presented component units, as of June 30, 2012, is comprised of water and wastewater treatment loans to local governments, student loans, and other miscellaneous loans.

D. Other Receivables

The other receivables balances reported for the primary government, as of June 30, 2012, consist of the following (dollars in thousands):

Types of Receivables	Primary Government - Other Receivables					Total
	Governmental Activities					
	General	Job, Family & Other Human Services	Buckeye Tobacco Settlement Financing Authority Revenue Bonds	Nonmajor Governmental Funds		
Manufacturers' Rebates	\$ 122,111	\$ 218,587	\$ -	\$ 2,149	\$ -	\$ 342,847
Tobacco Settlement	-	-	321,616	72,720	-	394,336
Health Facility Bed Assessments	-	103,662	-	-	-	103,662
Interest	2,811	-	38	156	-	3,005
Accounts	50,990	12,711	-	1,620	-	65,321
Environmental Legal Settlements	-	-	-	1,242	-	1,242
Miscellaneous	2,466	-	-	-	-	2,466
Other Receivables, Net.....	<u>178,378</u>	<u>334,960</u>	<u>321,654</u>	<u>77,887</u>	<u>-</u>	<u>912,879</u>
Current-Due Within One Year	178,378	334,960	38	5,167	-	518,543
Noncurrent-Due in More Than One Year.....	-	-	321,616	72,720	-	394,336
Other Receivables, Net.....	<u>\$ 178,378</u>	<u>\$ 334,960</u>	<u>\$ 321,654</u>	<u>\$ 77,887</u>	<u>\$ -</u>	<u>\$ 912,879</u>
Types of Receivables	Business-Type Activities					Total
	Major Proprietary Funds					
	Workers' Compensation	Lottery Commission	Unemployment Compensation	Nonmajor Proprietary Funds		
Accounts.....	\$ 131,480	\$ -	\$ 141,572	\$ 12,855	\$ -	\$ 285,907
Interest and Dividends (including restricted portion).....	151,512	2,158	-	1,702	-	155,372
Lottery Sales Agents.....	-	51,360	-	-	-	51,360
Other Receivables, Gross.....	282,992	53,518	141,572	14,557	-	492,639
Estimated Uncollectible.....	(1,092)	(209)	(63,951)	-	-	(65,252)
Other Receivables, Net-Due Within One Year.....	<u>\$ 281,900</u>	<u>\$ 53,309</u>	<u>\$ 77,621</u>	<u>\$ 14,557</u>	<u>\$ -</u>	<u>\$ 427,387</u>
Total Primary Government.....						<u>\$ 1,340,266</u>



NOTE 5 RECEIVABLES (Continued)

The "Other Receivables" balance reported in the fiduciary funds as of June 30, 2012, is comprised of interest due of approximately \$1.3 million, investment trade receivable of \$3.9 million, and miscellaneous receivables of \$1.3 million.

In the major discretely presented component units, the "Other Receivables" balance reported, as of June 30, 2012, is comprised of accounts receivable, interest receivable, pledges receivable, unbilled charges receivable, grants receivable, and other miscellaneous receivables.

NOTE 6 PAYABLES

A. Accrued Liabilities

Details on accrued liabilities for the primary government, as of June 30, 2012, follow (dollars in thousands):

Primary Government - Accrued Liabilities				
	Wages and Employee Benefits	Accrued Interest	Management and Administrative Expenses	Total Accrued Liabilities
Governmental Activities:				
Major Governmental Funds:				
General.....	\$ 80,237	\$ -		\$ 80,237
Job, Family and Other Human Services.....	13,272	-		13,272
Nonmajor Governmental Funds.....	47,063	-		47,063
	<u>140,572</u>	<u>-</u>		<u>140,572</u>
Reconciliation of fund level statements to government- wide statements due to basis differences.....	-	165,184		165,184
Total Governmental Activities.....	<u>140,572</u>	<u>165,184</u>		<u>305,756</u>
Business-Type Activities:				
Nonmajor Proprietary Funds.....	3,189	-		3,189
Total Primary Government.....	<u>\$ 143,761</u>	<u>\$ 165,184</u>		<u>\$ 308,945</u>
Fiduciary Activities:				
State Highway Patrol Retirement System Pension Trust (12/31/2011).....	\$ 21,040	\$ 484	\$ -	\$ 21,524
Variable College Savings Plan Private-Purpose Trust.....	-	-	2,371	2,371
Total Fiduciary Activities.....	<u>\$ 21,040</u>	<u>\$ 484</u>	<u>\$ 2,371</u>	<u>\$ 23,895</u>

The "Accrued Liabilities" balance reported in the major discretely presented component units, as of June 30, 2012, is comprised largely of payables similar to those of the primary government, such as wages and employee benefits, self-insurance, and accrued interest.



NOTE 6 PAYABLES (Continued)

B. Intergovernmental Payable

The intergovernmental payable balances for the primary government, as of June 30, 2012, are comprised of the following (dollars in thousands).

Primary Government - Intergovernmental Payable					
	Local Government				
	Shared				
	Revenue and				
	Local				
	Permissive	Subsidies	Federal	Other	
	Taxes	and Other	Government	States	Total
Governmental Activities:					
Major Governmental Funds:					
General	\$ 771,934	\$ 51,667	\$ 41,244	\$ 1,966	\$ 866,811
Job, Family and Other Human Services ...	-	127,599	-	-	127,599
Nonmajor Governmental Funds	1,097	290,115	-	-	291,212
Total Governmental Activities	<u>773,031</u>	<u>469,381</u>	<u>41,244</u>	<u>1,966</u>	<u>1,285,622</u>
Business-Type Activities:					
Major Proprietary Funds:					
Unemployment Compensation	-	470	1,879,576	-	1,880,046
	-	470	1,879,576	-	1,880,046
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the business-type financial statements.....	-	-	(1,878,387)	-	(1,878,387)
Total Business-Type Activities	<u>-</u>	<u>470</u>	<u>1,189</u>	<u>-</u>	<u>1,659</u>
Total Primary Government.....					<u>\$ 1,287,281</u>
Fiduciary Activities:					
Holding and Distribution Agency Fund	\$ -	\$ -	\$ 1,243	\$15,596	\$ 16,839
Payroll Withholding and Fringe Benefits Agency Fund	-	111	-	-	111
Other Agency Fund	125,806	10,512	-	-	136,318
Total Fiduciary Activities	<u>\$ 125,806</u>	<u>\$ 10,623</u>	<u>\$ 1,243</u>	<u>\$15,596</u>	<u>\$ 153,268</u>

As of June 30, 2012, the School Facilities Commission Component Unit Fund reported an intergovernmental payable balance totaling approximately \$507.9 million for long-term funding contracts the Commission has with local school districts. In the government-wide Statement of Net Assets, the intergovernmental payable balance for the Commission is included with "Other Noncurrent Liabilities." The contracts commit the State to cover the costs of construction of facilities of the school districts once the districts have met certain eligibility requirements.



NOTE 6 PAYABLES (Continued)

C. Refund and Other Liabilities

Refund and other liabilities for the primary government, as of June 30, 2012, consist of the balances, as follows (dollars in thousands):

Primary Government - Refund and Other Liabilities						
			Personal Income Tax Estimated Refund Claims		Other	Total
Governmental Activities:						
Major Governmental Funds:						
General	\$	732,163	\$	13,800	\$	745,963
Job, Family and Other Human Services		-		3,974		3,974
Nonmajor Governmental Funds		-		700		700
		<u>732,163</u>		<u>18,474</u>		<u>750,637</u>
Reconciliation of balances included in the "Refund and Other Liabilities" and "Other Noncurrent Liabilities" balances in the government-wide financial statements.....						
		-		106		106
Total Governmental Activities	<u>\$</u>	<u>732,163</u>	<u>\$</u>	<u>18,580</u>	<u>\$</u>	<u>750,743</u>
Business-Type Activities:						
Major Proprietary Funds:						
Workers' Compensation	\$	1,889,602	\$	86,285	\$	2,037,276
Lottery Commission		-		42,871		93,303
Unemployment Compensation		-		8,719		8,719
Nonmajor Proprietary Funds		-		3,474		14,607
		<u>1,889,602</u>		<u>141,349</u>		<u>2,153,905</u>
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-wide financial statements.....						
	(1,889,602)	(86,285)	(40,775)	(45,289)	(10,274)	(2,072,225)
Total Business-Type Activities	<u>\$</u>	<u>-</u>	<u>\$</u>	<u>55,064</u>	<u>\$</u>	<u>81,680</u>
Total Primary Government.....						<u>\$</u> 832,423
Fiduciary Activities:						
State Highway Patrol Retirement System Pension Trust (12/31/2011)....						
	\$	-	\$	-	\$	54
Variable College Savings Plan						
Private-Purpose Trust.....		-		-	3,677	3,677
STAR Ohio Investment Trust		-		-	191	191
Agency Funds:						
Holding and Distribution		-	11,694		-	11,694
Centralized Child Support Collections.....	60,844		-		-	60,844
Retirement Systems		-		-	162,635,211	162,635,211
Payroll Withholding and Fringe Benefits		-		175,134		175,134
Other		-	412,579		16,319	569,572
Total Fiduciary Activities.....	<u>\$</u>	<u>60,844</u>	<u>\$</u>	<u>424,273</u>	<u>\$</u>	<u>163,456,377</u>

In the major discretely presented component units, the "Refunds and Other Liabilities" balance reported, as of June 30, 2012, is comprised largely of payables similar to the primary government, such as refund and security deposits, compensated absences, capital leases, and other miscellaneous payables.



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

A. Interfund Balances

Interfund balances, as of June 30, 2012, consist of the following (in thousands):

Due from	Due To				Total
	General	Bonds	Nonmajor Governmental Funds	Total	
Governmental Activities					
Buckeye Tobacco Settlement Financing Authority Revenue					
Major Governmental Funds:					
General	\$ 64,106	\$ 858,906	\$ 1,114	\$ 924,126	
Total Governmental Activities	64,106	858,906	1,114	924,126	
Business-Type Activities:					
Nonmajor Proprietary Funds	3,444	-	-	3,444	
Total Business-Type Activities	3,444	-	-	3,444	
Total Primary Government	\$ 67,550	\$ 858,906	\$ 1,114	\$ 927,570	
Business-Type Activities					
Major Proprietary Fund					
	Workers' Compensation	Lottery Commission	Nonmajor Proprietary Funds	Total	Total Primary Government
Major Governmental Funds:					
General	\$ 502,810	\$ -	\$ 10,074	\$ 512,884	\$ 1,437,010
Job, Family and Other Human Services	15,343	-	-	15,343	15,343
Nonmajor Governmental Funds	181,313	1,518	-	182,831	182,831
Total Governmental Activities	699,466	1,518	10,074	711,058	1,635,184
Business-Type Activities:					
Major Proprietary Funds:					
Lottery Commission	2,695	-	-	2,695	2,695
Nonmajor Proprietary Funds	10,258	-	-	10,258	13,702
Total Business-Type Activities	12,953	-	-	12,953	16,397
Total Primary Government	\$ 712,419	\$ 1,518	\$ 10,074	\$ 724,011	\$ 1,651,581

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

The State's primary government is permitted to pay its workers' compensation liability on a terminal-funding (pay-as-you-go) basis. As a result, the Workers' Compensation Enterprise Fund recognized \$712.4 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 in the internal balance reported for governmental activities.



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

B. Interfund Transfers

Interfund transfers, for the fiscal year ended of June 30, 2012, consist of the following (dollars in thousands):

Transferred from	Transferred to			
	Governmental Activities			
	Major Governmental Funds			Total
General	Job, Family & Other Human Services	Nonmajor Governmental Funds		
Major Governmental Funds:				
General	\$ -	\$ 16,320	\$ 1,429,409	\$ 1,445,729
Job, Family and Other Human Services	960	-	9	969
Buckeye Tobacco Settlement Financing Authority Revenue Bonds	13,765	-	90	13,855
Nonmajor Governmental Funds	168,264	14	197,762	366,040
Total Governmental Activities	182,989	16,334	1,627,270	1,826,593
Major Proprietary Funds:				
Workers' Compensation	8,345	-	3,060	11,405
Lottery Commission	335	-	771,029	771,364
Unemployment Compensation	749	3,873	-	4,622
Nonmajor Proprietary Funds	121,630	-	67,456	189,086
Total Business-Type Activities	131,059	3,873	841,545	976,477
Total Primary Government	\$ 314,048	\$ 20,207	\$ 2,468,815	\$ 2,803,070
Business-Type Activities				
Transferred from	Major Proprietary Funds			Total Primary Government
	Workers' Compensation	Nonmajor Proprietary Funds	Total	
Major Governmental Funds:				
General	\$ 95	\$ 26,430	\$ 26,525	\$ 1,472,254
Job, Family and Other Human Services	-	-	-	969
Buckeye Tobacco Settlement Financing Authority Revenue Bonds	-	-	-	13,855
Nonmajor Governmental Funds	-	-	-	366,040
Total Governmental Activities	95	26,430	26,525	1,853,118
Major Proprietary Funds:				
Workers' Compensation	-	-	-	11,405
Lottery Commission	-	-	-	771,364
Unemployment Compensation	-	-	-	4,622
Nonmajor Proprietary Funds	-	-	-	189,086
Total Business-Type Activities	-	-	-	976,477
Total Primary Government	\$ 95	\$ 26,430	\$ 26,525	\$ 2,829,595

Transfers are used to 1.) move revenues from the fund that statute or budget requires to collect them, to the fund that statute or budget requires to expend them, 2.) move receipts restricted to debt service from the funds collecting the receipts, to the debt service fund as the debt service payments become due, and 3.) utilize unrestricted revenues collected in one fund to finance various programs accounted for in other funds in accordance with budget authorizations.



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

C. Component Units

For fiscal year 2012, the component units reported \$2.43 billion in state assistance revenue from the primary government in the Statement of Activities.

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

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

The primary government also transferred bond proceeds to the School Facilities Commission to pay the State's share of the cost of rebuilding elementary and secondary school facilities across the State. This assistance is included as a receivable of the Buckeye Tobacco Settlement Financing Authority for \$3.77 billion and is being amortized over the projected payment period of the future tobacco settlement receipts.

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 <i>(dollars in thousands)</i>					
	Receivable from the Component Units	Payable to the Component Units	Program Expenses for State Assistance to Component Units		
			Primary, Secondary, and Other Education Function	Higher Education Support Function	Total State Assistance to the Component Units
Major Governmental Funds:					
General	\$ 1,054	\$ 16,528	\$ 687,295	\$1,636,727	\$ 2,324,022
Job, Family and Other Human Services ..	-	886	-	-	-
Buckeye Tobacco Settlement Financing Authority Revenue Bonds.....	3,766,326	-	-	-	-
Nonmajor Governmental Funds	-	5,834	-	102,405	102,405
Total Governmental Activities.....	<u>3,767,380</u>	<u>23,248</u>	<u>687,295</u>	<u>1,739,132</u>	<u>2,426,427</u>
Total Primary Government	<u>\$ 3,767,380</u>	<u>\$ 23,248</u>	<u>\$ 687,295</u>	<u>\$1,739,132</u>	<u>\$ 2,426,427</u>

Component Units <i>(dollars in thousands)</i>			
	Receivable from the Primary Government	Payable to the Primary Government	Total State Assistance from the Primary Government
Major Component Units:			
School Facilities Commission	\$ -	\$3,766,326	\$ 675,321
Ohio State University	2,439	-	470,494
University of Cincinnati	525	-	192,347
Nonmajor Component Units	<u>20,284</u>	<u>572</u>	<u>1,088,265</u>
	<u>23,248</u>	<u>3,766,898</u>	<u>2,426,427</u>
Variance Due to Year-End Differences (June 30 versus December 31)	-	482	-
Total Component Units	<u>\$ 23,248</u>	<u>\$3,767,380</u>	<u>\$2,426,427</u>



NOTE 8 CAPITAL ASSETS

A. Primary Government

Capital asset activity, for the year ended June 30, 2012, reported for the primary government was as follows (dollars in thousands):

	Primary Government			
	Balance			Balance
	July 1, 2011	Increases	Decreases	June 30, 2012
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 2,082,738	\$ 77,436	\$ (5,576)	\$ 2,154,598
Buildings	60,998	-	-	60,998
Land Improvements	1,239	177	-	1,416
Construction-in-Progress	1,654,487	289,845	(574,846)	1,369,486
Infrastructure:				
Highway Network:				
General Subsystem	8,544,734	46,413	(3,115)	8,588,032
Priority Subsystem	7,895,454	299,834	-	8,195,288
Bridge Network	2,937,912	55,218	(29,087)	2,964,043
Total Capital Assets Not Being Depreciated.....	<u>23,177,562</u>	<u>768,923</u>	<u>(612,624)</u>	<u>23,333,861</u>
Other Capital Assets:				
Buildings	3,626,843	68,782	(153,838)	3,541,787
Land Improvements	415,992	31,981	(678)	447,295
Machinery and Equipment	828,096	112,097	(47,081)	893,112
Vehicles	298,474	46,285	(21,778)	322,981
Infrastructure:				
Parks, Recreation and Natural Resources Network.....	98,884	3,172	(1,189)	100,867
Total Other Capital Assets at Historical Cost.....	<u>5,268,289</u>	<u>262,317</u>	<u>(224,564)</u>	<u>5,306,042</u>
Less Accumulated Depreciation for:				
Buildings	1,908,823	104,200	(96,389)	1,916,634
Land Improvements	236,027	27,879	(314)	263,592
Machinery and Equipment	553,624	129,478	(37,545)	645,557
Vehicles	172,547	28,885	(17,895)	183,537
Infrastructure:				
Parks, Recreation and Natural Resources Network.....	15,152	4,792	(904)	19,040
Total Accumulated Depreciation	<u>2,886,173</u>	<u>295,234</u>	<u>(153,047)</u>	<u>3,028,360</u>
Other Capital Assets, Net	<u>2,382,116</u>	<u>(32,917)</u>	<u>(71,517)</u>	<u>2,277,682</u>
Governmental Activities - Capital Assets, Net.....	<u>\$ 25,559,678</u>	<u>\$ 736,006</u>	<u>\$ (684,141)</u>	<u>\$ 25,611,543</u>
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 11,994	\$ -	\$ -	\$ 11,994
Construction-In Progress.....	-	7,324	-	7,324
Total Capital Assets Not Being Depreciated.....	<u>11,994</u>	<u>7,324</u>	<u>-</u>	<u>19,318</u>
Other Capital Assets:				
Buildings	227,079	-	-	227,079
Land Improvements	66	-	-	66
Machinery and Equipment	141,091	8,309	(2,024)	147,376
Vehicles	4,861	1,105	(717)	5,249
Total Other Capital Assets at Historical Cost.....	<u>373,097</u>	<u>9,414</u>	<u>(2,741)</u>	<u>379,770</u>
Less Accumulated Depreciation for:				
Buildings	152,040	7,534	-	159,574
Land Improvements	56	1	-	57
Machinery and Equipment	69,756	24,592	(1,995)	92,353
Vehicles	2,937	566	(563)	2,940
Total Accumulated Depreciation	<u>224,789</u>	<u>32,693</u>	<u>(2,558)</u>	<u>254,924</u>
Other Capital Assets, Net	<u>148,308</u>	<u>(23,279)</u>	<u>(183)</u>	<u>124,846</u>
Business-Type Activities - Capital Assets, Net.....	<u>\$ 160,302</u>	<u>\$ (15,955)</u>	<u>\$ (183)</u>	<u>\$ 144,164</u>



NOTE 8 CAPITAL ASSETS (Continued)

For fiscal year 2012, the State charged depreciation expense to the following functions (dollars in thousands):

	Depreciation Expense
Governmental Activities:	
Primary, Secondary and Other Education.....	\$ 954
Public Assistance and Medicaid.....	4,953
Health and Human Services.....	129,933
Justice and Public Protection.....	110,169
Environmental Protection and Natural Resources.....	26,515
Transportation.....	81,357
General Government.....	55,495
Community and Economic Development.....	7,467
Total Depreciation Expense for Governmental Activities.....	416,843
Gains (Losses) on Capital Asset Disposals Included in Depreciation.....	(121,609)
Fiscal Year 2012 Increases to Accumulated Depreciation.....	<u>\$ 295,234</u>
Business-Type Activities:	
Workers' Compensation.....	\$ 10,666
Lottery Commission.....	20,557
Tuition Trust Authority.....	59
Liquor Control.....	354
Underground Parking Garage.....	597
Office of Auditor of State.....	395
Total Depreciation Expense for Business-Type Activities.....	32,628
Gains (Losses) on Capital Asset Disposals Included in Depreciation.....	65
Fiscal year 2012 Increase to Accumulated Depreciation.....	<u>\$ 32,693</u>

As of June 30, 2012, the State considered the following governmental capital asset balances as being temporarily impaired and removed from service (dollars in thousands).

	Net Book Value
Governmental Activities:	
Temporarily Impaired Assets Removed from Service:	
Buildings.....	\$ 44,537
Land Improvements	230
Construction-In-Progress.....	2,280
Total.....	<u>\$ 47,047</u>



NOTE 8 CAPITAL ASSETS (Continued)

B. Major Discretely Presented Component Units

Capital asset activity, for the year ended June 30, 2012, reported for major discretely presented component unit funds with significant capital asset balance was as follows (dollars in thousands):

	Major Discretely Presented Component Units			
	Balance July 1, 2011 (as restated)	Increases	Decreases	Balance June 30, 2012
<u>Ohio State University:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 74,013	\$ 1,694	\$ (24)	\$ 75,683
Construction-in-Progress	535,908	375,482	-	911,390
Total Capital Assets Not Being Depreciated.....	<u>609,921</u>	<u>377,176</u>	<u>(24)</u>	<u>987,073</u>
Other Capital Assets:				
Buildings	4,020,588	112,682	(9,236)	4,124,034
Land Improvements	309,297	4,360	-	313,657
Machinery, Equipment and Vehicles	964,056	130,182	(38,228)	1,056,010
Library Books and Publications	159,541	4,075	(1,366)	162,250
Total Other Capital Assets at Historical Cost.....	<u>5,453,482</u>	<u>251,299</u>	<u>(48,830)</u>	<u>5,655,951</u>
Less Accumulated Depreciation for:				
Buildings	1,644,296	122,102	(7,646)	1,758,752
Land Improvements	182,334	9,734	-	192,068
Machinery, Equipment and Vehicles	628,139	107,663	(31,098)	704,704
Library Books and Publications	143,624	2,892	(1,367)	145,149
Total Accumulated Depreciation	<u>2,598,393</u>	<u>242,391</u>	<u>(40,111)</u>	<u>2,800,673</u>
Other Capital Assets, Net	<u>2,855,089</u>	<u>8,908</u>	<u>(8,719)</u>	<u>2,855,278</u>
Total Capital Assets, Net	<u>\$ 3,465,010</u>	<u>\$386,084</u>	<u>\$ (8,743)</u>	<u>\$ 3,842,351</u>
<u>University of Cincinnati:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 26,710	\$ 764	\$ (1,055)	\$ 26,419
Construction-in-Progress	102,810	94,374	(24,164)	173,020
Collections of Works of Art and Historical Treasures...	15,016	54	-	15,070
Total Capital Assets Not Being Depreciated.....	<u>144,536</u>	<u>95,192</u>	<u>(25,219)</u>	<u>214,509</u>
Other Capital Assets:				
Buildings	1,883,133	23,820	-	1,906,953
Land Improvements	101,559	103	-	101,662
Machinery, Equipment and Vehicles	237,365	14,879	(8,269)	243,975
Library Books and Publications	160,487	8,207	(4,235)	164,459
Infrastructure	116,608	412	-	117,020
Total Other Capital Assets at Historical Cost.....	<u>2,499,152</u>	<u>47,421</u>	<u>(12,504)</u>	<u>2,534,069</u>
Less Accumulated Depreciation for:				
Buildings	822,331	65,853	(210)	887,974
Land Improvements	32,601	4,968	-	37,569
Machinery, Equipment and Vehicles	159,422	16,584	(7,889)	168,117
Library Books and Publications	118,740	8,493	(3,243)	123,990
Infrastructure	65,353	4,515	(9)	69,859
Total Accumulated Depreciation	<u>1,198,447</u>	<u>100,413</u>	<u>(11,351)</u>	<u>1,287,509</u>
Other Capital Assets, Net	<u>1,300,705</u>	<u>(52,992)</u>	<u>(1,153)</u>	<u>1,246,560</u>
Total Capital Assets, Net	<u>\$ 1,445,241</u>	<u>\$ 42,200</u>	<u>\$ (26,372)</u>	<u>\$ 1,461,069</u>

For fiscal year 2012, Ohio State University and University of Cincinnati reported approximately \$242.3 million and \$100.4 million in depreciation expense, respectively.



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

All part-time and full-time employees and elected officials of the State, including its component units, are eligible to be covered by one of the following retirement plans:

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

A. Ohio Public Employees Retirement System (OPERS)

Pension Benefits

OPERS is a cost-sharing, multiple-employer public employee retirement system that administers three separate pension plans – a defined benefit plan, a defined contribution plan, and a combined plan with features of both the defined benefit plan and the defined contribution plan.

As established under Chapter 145, Ohio Revised Code, OPERS provides retirement and disability benefits, annual cost-of-living adjustments, and survivor 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 total years of 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 the 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 but prior to attaining ten years of service credit, and once after attaining ten years of service credit.

Regular employees who participate in the defined benefit plan or the combined plan may retire after 30 years of credited service regardless of age, or at or after age 55 with 25 years of credited service, or at or after age 60 with five years or 60 contributing months of credited service. Regular employees retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts. Law enforcement employees may retire at age 48 with 25 or more years of credited service.

The retirement allowance for the defined benefit plan is calculated on the basis of age, years of credited service, and the final average salary, which is the average of the member's three highest years of earnable salary. 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 of the original base amount regardless of changes in the Consumer Price Index.

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

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



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Retirees covered under any one of the three OPERS plan options may also choose to take part of their retirement benefit in a Partial Lump-Sum Option Plan (PLOP). Under this option, the amount of the monthly pension benefit paid to the retiree is actuarially reduced to offset the amount received initially under the PLOP. The amount payable under the PLOP cannot be less than six times or more than 36 times the monthly amount that would be payable to the member under the plan of payment selected, and cannot result in a monthly allowance that is less than 50 percent of that monthly amount.

Employer and employee required contributions to OPERS are established by the Retirement Board and are within the limits authorized by the Ohio Revised Code. The contribution rates are based on percentages of covered employees' gross salaries, which are calculated annually by the retirement system's actuaries. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for regular employees and 18.1 percent of covered payroll for law enforcement employees. Contribution rates for fiscal year 2012, which are the same for the defined benefit, defined contribution, and combined plans, were as follows:

	Contribution Rates	
	Employee Share	Employer Share
<u>Regular Employees:</u>		
July 1, 2011 through June 30, 2012	10.00%	14.00%
<u>Law Enforcement Employees:</u>		
July 1, 2011 through December 31, 2011	11.60%	18.10%
January 1, 2012 through June 30, 2012	12.10%	18.10%

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

Employer contributions required and made for the last three years for the defined benefit plan and the defined benefit part of the combined plan were as follows (dollars in thousands):

	2012	2011	2010
<u>Primary Government:</u>			
Regular Employees	\$ 266,051	\$ 267,671	\$ 241,734
Law Enforcement			
Employees.....	4,277	4,235	3,889
Total	\$ 270,328	\$ 271,906	\$ 245,623

Major Component Units:

School Facilities			
Commission	\$ 429	\$ 378	\$ 345
Ohio Water			
Development Authority.....	113	101	155
Ohio State University.....	104,451	97,145	85,332
University of Cincinnati.....	14,580	14,767	13,814



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Employer and employee contributions required and made for the last three fiscal years for the defined contribution plan and the defined contribution part of the combined plan were as follows (dollars in thousands):

	2012	2011	2010
<i>Primary Government:</i>			
Employer Contributions	\$ 6,343	\$ 6,037	\$ 5,085
Employee Contributions	13,251	12,825	11,114
<i>Major Component Units:</i>			
Ohio State University:			
Employer Contributions ..	3,439	2,942	2,427
Employee Contributions .	7,915	6,864	5,871
University of Cincinnati:			
Employer Contributions ..	448	420	372
Employee Contributions .	943	921	812

OPERS issues a stand-alone financial report, copies of which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, making a written request to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or calling (800) 222-7377 or (614) 222-5601.

Other Postemployment Benefits (OPEB)

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the defined benefit and combined plans. Members of the defined contribution plan do not qualify for ancillary benefits, including post-employment healthcare coverage.

In order to qualify for post-employment healthcare coverage, age-and-service retirees under the defined benefit and combined plans must have ten or more years of qualifying Ohio service credit. Healthcare coverage for disability benefit recipients and qualified survivor benefit recipients is available. The healthcare coverage provided by OPERS meets the definition of an OPEB as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement healthcare through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement healthcare benefits.

Employer contribution rates are expressed as a percentage of covered payroll of active members. For fiscal year 2012, state employers contributed at a rate of 14 percent of covered payroll and law enforcement employers contributed at 18.1 percent. These are the maximum contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment healthcare benefits. The contribution rates for regular and law enforcement employees were as follows:

	Employer Share	
	Defined Benefit Plan	Combined Plan
	4.00%	6.05%

July 1, 2011 through June 30, 2012



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the healthcare benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Employer contributions required and made for the last three fiscal years for the defined benefit plan and the defined benefit portion of the combined plan were as follows (dollars in thousands):

	2012	2011	2010
<i>Primary Government:</i>			
Regular Employees	\$ 108,138	\$ 128,257	\$ 148,549
Law Enforcement Employees	1,213	1,426	1,694
Total	<u>\$ 109,351</u>	<u>\$ 129,683</u>	<u>\$ 150,243</u>

Major Component Units:

School Facilities			
Commission	\$ 176	\$ 178	\$ 212
Ohio Water			
Development Authority.....	46	58	65
Ohio State University.....	42,800	45,894	52,407
University of Cincinnati.....	5,940	6,977	8,486

Members of the defined contribution plan may access a Retiree Medical Account upon retirement. During fiscal year 2012, employers paid 4.5 percent of their share into members' accounts. An employee's interest in the medical account for qualifying healthcare expenses vests on the basis of length of service, with 100 percent vesting attained after five years of credited service. 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 required and made for the last three fiscal years for the defined contribution plan were as follows (dollars in thousands):

	2012	2011	2010
Primary Government.....	\$ 3,270	\$ 3,112	\$ 2,621
<u>Major Component Units:</u>			
Ohio State University.....	1,773	1,516	1,251
University of Cincinnati.....	231	216	192

The number of active contributing participants for the primary government was 52,620, as of June 30, 2012.

The Health Care Preservation Plan adopted by the OPERS Retirement Board on September 9, 2004, became effective on January 1, 2007. Member and employer contribution rates increased as of January 1, of each year from 2006 to 2008. Rates for law enforcement employees increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the healthcare plan.

Early Retirement Incentives (ERI)

State agencies, or departments within agencies, may offer voluntary ERI under Section 145.297, Ohio Revised Code. Through the ERI Program, the State can offer to purchase up to a maximum of five years worth of service credit from OPERS on behalf of employees who would then meet the age and service requirements to qualify for retirement. The ERI plan must remain in effect for at least one year and the employees must be given at least thirty days' notice before terminating the plan.



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

State agencies are also required under Section 145.298, Ohio Revised Code, to offer a generally similar ERI when terminating a number of employees that equals or exceeds the lesser of 350 employees or 40 percent of the agency's workforce, as a result of a closure of the agency or a lay-off within a six-month period. Under these circumstances, qualifying employees must decide whether to accept the offer in the time between the announcement of the layoffs and the effective date. The amount of service credit offered cannot exceed five years.

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

As of June 30, 2012, the State had no significant liability balances relative to existing ERI agreements with state employees covered by OPERS. During fiscal year 2012, the State incurred expenditures/expenses totaling \$4.3 million for 37 employees who entered into ERI agreements with the State.

B. State Teachers Retirement System of Ohio (STRS)

Pension Benefits

STRS is a cost-sharing, multiple-employer public employee retirement system that administers three separate pension plans – a defined benefit plan, a defined contribution plan, and a combined plan with features of both the defined benefit plan and the defined contribution plan. STRS benefits are established under Chapter 3307, Ohio Revised Code.

STRS also provides death, survivors', disability, healthcare, and supplemental benefits to members in the defined benefit and combined plans.

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 or the "money-purchase benefit" calculation.

Under the "formula benefit" calculation, the retirement allowance is based on years of credited service and the final average salary, which is the average of the member's three highest salary years. The annual allowance is determined by multiplying the final average salary by 2.2 percent for the first 30 years of credited service. Each year over 30 years is incrementally increased by .1 percent, starting at 2.5 percent for the 31st year of contributing service up to a maximum allowance of 100 percent of final average salary. Upon reaching 35 years of Ohio service, the first 31 years of Ohio contributing service are multiplied by 2.5 percent, and each year over 31 years is incrementally increased by .1 percent starting at 2.6 percent for the 32nd year.

Under the "money-purchase benefit" calculation, a member's lifetime contributions, plus interest at specified rates, are matched by an equal amount from contributed employer funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance. Benefits are increased annually by three percent of the original base amount.

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

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

Participants in the defined contribution plan are eligible to retire at age 50. Employee and employer contributions are placed into individual member accounts, and members direct the investment of their accounts by selecting from various professionally managed investment options. Retirees may choose to receive either a lump-sum distribution or a monthly annuity for life. Employer contributions become vested after one year of service, while employee contributions vest immediately.



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

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

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

Contribution rates for fiscal year 2012 were 14 percent for employers and ten percent for employees for the defined benefit, defined contribution, and combined plans. For the defined benefit and combined plans, 13 percent of the employer rate is used to fund pension obligations. 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 fiscal years for the defined benefit and the defined benefit portion of the combined plans were as follows (dollars in thousands):

	2012	2011	2010
Primary Government.....	\$6,006	\$ 6,571	\$8,101
<u>Major Component Units:</u>			
Ohio State University.....	42,973	41,446	39,969
University of Cincinnati.....	15,433	15,599	15,274

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

	2012	2011	2010
<u>Primary Government:</u>			
Employer Contributions	\$ 96	\$ 102	\$ 106
Employee Contributions	124	32	177
<u>Major Component Units:</u>			
Ohio State University:			
Employer Contributions	4,106	3,679	3,290
Employee Contributions	4,836	4,168	3,785
University of Cincinnati:			
Employer Contributions	1,087	993	926
Employee Contributions	1,335	1,222	1,158

STRS issues a stand-alone financial report, copies of which may be obtained by making a written request to: State Teachers Retirement System of Ohio, Attention: Chief Financial Officer, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Other Postemployment Benefits (OPEB)

Ohio law authorizes STRS to offer a cost-sharing, multiple-employer healthcare plan. STRS provides access to healthcare to eligible retirees who participate in the defined benefit plan or combined plan. Benefits include hospitalization, physician’s fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Retirees enrolled in the defined contribution plan receive no post-employment healthcare benefits.

Chapter 3307, Ohio Revised Code, gives the STRS board discretionary authority over how much, if any, of associated healthcare costs are absorbed by the healthcare plan. All benefit recipients, for the most recent year, pay a portion of the healthcare costs in the form of a monthly premium.

Under Ohio law, funding for the post-employment healthcare may be deducted from employer contributions. Of the 14 percent employer contribution rate, one percent of the covered payroll was allocated to post-employment healthcare. The 14 percent employer contribution rate is the maximum rate established under Ohio law.

The employer contribution is financed on a pay-as-you-go basis. As of June 30, 2011 (the most recent information available), net assets available for future healthcare benefits were \$3.1 billion. Employer contributions required and made for the last three fiscal years for the defined benefit and the defined benefit portion of the combined plans were as follows (dollars in thousands):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Primary Government.....	\$ 462	\$ 505	\$ 623
 <i>Major Component Units:</i>			
Ohio State University.....	3,306	3,188	3,075
University of Cincinnati.....	1,187	1,200	1,175

The number of eligible benefit recipients for STRS as a whole was 155,078, as of June 30, 2011 (the most recent information available); a breakout of the number of eligible recipients for the primary government and its component units, as of June 30, 2012, is unavailable.

C. State Highway Patrol Retirement System (SHPRS)

SHPRS, a component unit of the State, was established in 1941 by the General Assembly as a single-employer, defined benefit pension plan and is administered by the State.

The plan issues a stand-alone financial report that includes financial statements and required supplementary information, and the State reports the plan as a pension trust fund. Copies of the financial report may be obtained by writing to the Ohio State Highway Patrol Retirement System, 6161 Busch Blvd., Suite 119, Columbus, Ohio 43229-2553, or by calling (614) 430-3558.

SHPRS is authorized under Chapter 5505, Ohio Revised Code, to provide retirement and disability benefits to retired members and survivor benefits to qualified dependents of deceased members of the Ohio State Highway Patrol. In addition to providing pension benefits, SHPRS is authorized by Chapter 5505, Ohio Revised Code, to provide a post-employment healthcare plan, which is considered to be an other post-employment benefit.

Chapter 5505, Ohio Revised Code, requires contributions by active members and the Ohio State Highway Patrol. The employer and employee contribution rates are established by the General Assembly, and any change in the rates requires legislative action. By law, the employer rate may not exceed three times the employee contribution rate, nor be less than nine percent of the total salaries of contributing members.

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 measureable.

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.”



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 and private equity investments are based on independent appraisals. For actuarial purposes, assets are valued with a method that amortizes the difference between actual and assumed return over a closed, four-year period.

Employees are eligible for pension and healthcare benefits upon reaching both an age and service requirement. Employees with at least 15 years of service credit, but less than 20 years of service credit, may retire at age 55. Employees with at least 20 years of service credit, but less than 25 years of service credit may retire at age 52 or age 48 with reduced benefits. Employees with more than 25 years of service may retire at age 48.

The pension benefit is a percentage of the member's final average salary, which is the average of the member's three highest salary years. For members with at least 15 years of service credit, but less than 20 years of service credit, the percentage is determined by multiplying 1.5 percent times the number of years of service credit. For members with 20 or more years of service credit, the percentage is determined by multiplying 2.5 percent for the first 20 years of service, plus 2.25 percent for the next five years of service, plus two percent for each year in excess of 25 years of service. A member's pension may not exceed 79.25 percent of the final average salary.

Pension Benefits

The employer and employee contribution rates, as of December 31, 2011, were 26.5 percent and ten percent, respectively.

During calendar year 2011, all of the employees' contributions funded pension benefits while 24.75 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.

The State's annual pension cost and net pension obligation to SHPRS for the current year were as follows (dollars in thousands):

Annual Required Contribution (ARC)	\$ 26,956
Interest on Net Pension Obligation	344
Adjustment to ARC	(244)
Annual Pension Cost	<u>27,056</u>
Contributions Made	<u>(22,966)</u>
Increase (Decrease) in Net Pension Obligation	4,090
Net Pension Obligation, Beginning of Year	4,299
Net Pension Obligation, End of Year	<u>\$ 8,389</u>

The State's annual pension cost, percentage of annual pension cost contributed, and net pension obligation for the last three calendar years, were as follows (dollars in thousands):

For the Year Ended December 31,	Annual Pension Cost	Percentage of Employer's Annual Pension Cost Contributed	Net Pension Obligation
2011	\$ 27,056	84.9%	\$ 8,389
2010	22,932	92.5%	4,298
2009	20,048	102.0%	2,578



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

As of December 31, 2011, the most recent actuarial valuation date, the plan was 59.5 percent funded. The actuarial accrued liability was \$1.05 billion, and the actuarial value of assets was \$623.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$424.3 million. The covered payroll (annual payroll of active employees covered by the plan) was \$93.1 million, and the ratio of the UAAL to the covered payroll was 455.7 percent.

The Schedule of Funding Progress for Pension Benefits, displayed in the following table, presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time, relative to the actuarial accrued liabilities for benefits.

SHPRS Schedule of Funding Progress Last Three Calendar Years-Pension						
<i>(dollars in thousands)</i>						
(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)
2011	\$ 1,047,700	\$ 623,360	\$ 424,340	59.5%	\$ 93,126	455.7%
2010	1,017,770	630,971	386,799	62.0%	94,768	408.2%
2009	940,084	620,357	319,727	66.0%	94,825	337.2%

SHPRS used the entry-age, normal actuarial cost method for the Schedule of Funding Progress for the actuarial valuation, dated December 31, 2011. Assumptions used in preparing the Schedule of Funding Progress and in determining the annual required contribution include: an eight-percent rate of return on investments; projected salary increase of four percent attributable to inflation and additional projected salary increases ranging from 0.3 percent to ten percent attributable to seniority and merit; price inflation was assumed to be at least four percent a year; and postretirement increases each year equal to three percent after the retiree reaches age 53. Maximum contribution rates were not considered in the projection of actuarially accrued liabilities for pension benefits. The actuarial methods and assumptions do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing in the future.

The unfunded actuarial accrued liability is being amortized using the level-percentage of projected payroll method over an open period of 30 years. Based upon significant declines in investment values during 2008, the SHPRS actuary was unable to amortize unfunded actuarially accrued pension liabilities over a finite period. Without plan design changes, the system is unlikely to be able to pay off future liabilities.

Other Post Employment Benefits (OPEB)

The healthcare coverage provided by SHPRS is considered to be an OPEB as described in GASB Statement 45. Healthcare benefits are not guaranteed and are subject to change at any time. The OPEB valuation is based on the substantive plan as it is currently presented to plan members, including a historical pattern of cost-sharing between the plan and benefit recipients.

During calendar year 2011, 1.75 percent of the employer's contributions funded healthcare benefits. Active members do not make contributions to the OPEB plan. The cost of retiree healthcare benefits is recognized as claims incurred and premiums paid. The number of active contributing plan participants, as of December 31, 2011, was 1,520.

The State's annual OPEB cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The components of the State's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the State's net OPEB obligation to SHPRS were as follows (dollars in thousands):



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Annual Required Contribution (ARC)	\$ 18,600
Interest on Net OPEB Obligation	3,330
Adjustment to ARC	(2,566)
Annual OPEB Cost	<u>19,364</u>
Contributions Made	(2,046)
Increase (Decrease) in Net OPEB Obligation	<u>17,318</u>
Net OPEB Obligation, Beginning of Year	66,593
Net OPEB Obligation, End of Year	<u>\$ 83,911</u>

The State's annual OPEB cost, percentage of annual OPEB cost contributed, and net OPEB obligation for the last three calendar years, were as follows (dollars in thousands):

For the Year Ended December 31,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 19,364	10.6%	\$ 83,911
2010	15,392	24.0%	66,593
2009	19,081	24.8%	54,900

As of December 31, 2011, the most recent actuarial valuation, the plan was 23.3 percent funded. The actuarial accrued liability was \$424.1 million, and the actuarial value of assets was \$99 million, resulting in an unfunded actuarial liability (UAAL) of \$325.1 million. The covered payroll (annual payroll of active employees covered by the plan) was \$93.1 million, and the ratio of the UAAL to the covered payroll was 349.1 percent.

The Schedule of Funding Progress for OPEB, displayed in the following table, presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time, relative to the actuarial accrued liabilities for benefits.

SHPRS Schedule of Funding Progress Last Three Calendar Years – OPEB						
<i>(dollars in thousands)</i>						
(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)
2011	\$ 424,144	\$ 99,002	\$ 325,142	23.3%	\$ 93,126	349.1%
2010	406,864	104,738	302,126	25.7%	94,768	318.8%
2009	287,582	100,748	186,834	35.0%	94,825	197.0%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarial determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing in the future. Actuarial calculations reflect a long-term perspective. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Healthcare benefits are advance funded by the employer using the entry-age, normal actuarial cost method for the Schedule of Funding Progress for the actuarial valuation, dated December 31, 2011, for OPEB. Assumptions used in preparing the Schedule of Funding Progress and in determining the annual required contribution include: a five percent rate of return on investments; projected salary increase of four percent attributable to inflation and additional projected salary increases ranging from .3 percent to ten percent a year attributable to seniority and merit; and an annual healthcare cost increase of four percent annually, reduced by declining percentages ranging from five percent to .5 percent through 2020. There are no cost-of-living adjustments for OPEB benefits. Maximum contribution rates were not considered in the projection of actuarially accrued liabilities for OPEB benefits.

The unfunded actuarial accrued liability is being amortized using the level-percentage of projected payroll method over an open period of 30 years.

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

The ARP is a defined contribution retirement plan that is authorized under Section 3305.02, Ohio Revised Code. The ARP provides at least three or more alternative retirement plans for academic and administrative employees of Ohio's institutions of higher education, who otherwise would be covered by OPERS or STRS. Unclassified civil service employees hired on or after August 1, 2005, are also eligible to participate in the ARP.

The Board of Trustees of each public institution of higher education enters into contracts with each approved retirement plan provider. Once established, full-time faculty and unclassified employees who are hired subsequent to the establishment of the ARP, or who had less than five years of service credit under the existing retirement plans, may choose to enroll in the ARP. The choice is irrevocable for as long as the employee remains continuously employed in a position for which the ARP is available. For those employees that choose to join the ARP, any prior employee contributions that had been made to OPERS or STRS would be transferred to the ARP. The Ohio Department of Insurance has designated the companies that are eligible to serve as plan providers for the ARP.

Ohio law requires that employee contributions be made to the ARP in an amount equal to those that would otherwise have been required by the retirement system that applies to the employee's position. These contribution rates are ten percent for OPERS and STRS. Employees may also voluntarily make additional contributions to the ARP.

For the year ended June 30, 2012, each public institution of higher education was required to contribute .77 percent of a participating employee's salary to OPERS in cases when the employee would have otherwise been enrolled in OPERS.

Ohio law also requires each public institution of higher education to contribute 3.5 percent of a participating employee's gross salary, for the year ended June 30, 2012, to STRS in cases when the employee would have otherwise been enrolled in STRS.

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

The ARP provides full and immediate vesting of all contributions made on behalf of participants. The contributions are directed to one of the investment management companies as chosen by the participants. The ARP does not provide disability benefits, annual cost-of-living adjustments, postretirement healthcare 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.



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

For the State's major discretely presented component units, employer and employee contributions required and made for the year ended June 30, 2012, for the ARP follow (dollars in thousands):

<u>Major Component Units:</u>	OPERS	STRS
Ohio State University:		
Employer Contributions	\$ 22,836	\$ 20,687
Employee Contributions	17,264	19,697
University of Cincinnati:		
Employer Contributions	7,286	4,818
Employee Contributions	5,507	4,589

NOTE 10 GENERAL OBLIGATION BONDS

At various times since 1921, Ohio voters, by 19 constitutional amendments (the last adopted May 2010 for research and development programs in support of Ohio industry, commerce, and business), have authorized the incurrence of general obligation debt for the construction and improvement of common school and higher education facilities, highways, local infrastructure improvements, research and development of coal technology, natural resources, research and development support for high-tech business, business site development, and veterans compensation. Issuances for highway capital improvements, natural resources, and conservation are, in part, used for acquisition, construction or improvement of capital assets. In practice, general obligation bonds are retired over periods of 10 to 25 years.

A 1999 constitutional amendment provided for the issuance of Common School Capital Facilities Bonds and Higher Education Capital Facilities Bonds. As of June 30, 2012, the General Assembly had authorized the issuance of \$4.27 billion in Common Schools Capital Facilities Bonds, of which \$3.87 billion has been issued. As of June 30, 2012, the General Assembly had also authorized the issuance of \$3.03 billion in Higher Education Capital Facilities Bonds, of which \$2.6 billion has been issued.

Through the 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, 2012, the General Assembly has authorized the issuance of approximately \$2.77 billion in Highway Capital Improvements Bonds, of which \$2.29 billion has been issued.

Constitutional amendments in 1995 and 2005 allowed for the issuance of \$3.75 billion of general obligation bonds for infrastructure improvements (Infrastructure Bonds). Issuances are limited to \$120 million in any fiscal year through fiscal year 2012, with an increase in the annual issuance amount to \$150 million beginning in fiscal year 2013. As of June 30, 2012, the General Assembly had authorized \$3.45 billion of these bonds to be sold (excluding any amounts for unaccreted discount on capital appreciation bonds at issuance), of which \$3 billion had been issued (net of \$214 million in unaccreted discounts at issuance).

Coal Research and Development Bonds and Parks, Recreation, and Natural Resources Bonds may be issued as long as the outstanding principal amounts do not exceed \$100 and \$200 million, respectively. As of June 30, 2012, the General Assembly had authorized the issuance of \$246 million in Coal Research and Development Bonds, of which \$210 million had been issued. Legislative authorizations for the issuance of Natural Resources Capital Facilities Bonds totaled \$373 million, as of June 30, 2012, of which \$348 million had been issued.

Constitutional amendments in 2000 and 2008 allowed for outstanding Conservation Projects Bonds of up to \$400 million. No more than \$50 million may be issued during a fiscal year. As of June 30, 2012, the General Assembly had authorized the issuance of approximately \$348 million in Conservation Projects Bonds of which \$300 million had been issued.



NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Through approval of the May 2010 and November 2005 amendments, voters authorized the issuance of \$1.2 billion of Third Frontier Research and Development Bonds. Obligations that may be issued are limited to \$450 million for fiscal years 2006 through 2011, \$225 million in fiscal year 2012, and \$175 million in any fiscal year thereafter, plus any obligations unissued from previous fiscal years. As of June 30, 2012, the General Assembly had authorized the issuance of \$850 million in Third Frontier Research and Development Bonds, of which \$460.7 million had been issued.

The issuance of \$150 million of Site Development Bonds was also authorized through the approval of the November 2005 amendment. Not more than \$30 million may be issued in each of the first three years, beginning with fiscal year 2006, and not more than \$15 million may be issued in any of the subsequent fiscal years. The General Assembly had authorized the issuance of \$150 million in Site Development Bonds as of June 30, 2012, of which \$115 million had been issued.

A 2009 constitutional amendment provides for the issuance of up to \$200 million in Veterans Compensation Bonds. No obligations may be issued after December 31, 2013. As of June 30, 2012, the General Assembly had authorized all \$200 million in Veterans' Compensation Bonds, of which \$65.9 million had been issued.

General obligation bonds outstanding and future general obligation debt service requirements, as of June 30, 2012, are presented in the table below. For the variable-rate bonds, using the assumption that current interest rates remain the same over their term, the interest and net swap payment amounts are based on rates as of June 30, 2012. As rates vary, variable-rate bond interest payments and net swap payments vary.

**Primary Government-Governmental Activities
Summary of General Obligation Bonds
As of June 30, 2012
(dollars in thousands)**

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Common Schools Capital Facilities	2002-12	1.8%-5.5%	2032	\$3,279,707	\$ 400,000
Higher Education Capital Facilities	2002-12	1.4%-5.5%	2032	2,145,728	428,000
Highway Capital Improvements	2003-11	2.0%-5.3%	2025	670,927	482,000
Infrastructure Improvements	1993-12	1.8%-6.1%	2032	1,834,587	450,014
Coal Research and Development	2002-12	1.5%-4.3%	2022	28,178	36,000
Natural Resources Capital Facilities	2002-12	2.0%-5.0%	2027	159,063	25,000
Conservation Projects	2004-12	2.0%-5.3%	2026	221,224	48,000
Third Frontier Research and Development	2007-12	.7%-5.5%	2022	387,464	389,300
Site Development	2007-11	2.0%-5.3%	2021	96,297	35,000
Veterans' Compensation	2011-12	.4%-4.9%	2027	64,910	134,090
Total General Obligation Bonds				<u>\$8,888,085</u>	<u>\$ 2,427,404</u>



NOTE 10 GENERAL OBLIGATION BONDS (Continued)

**Primary Government-Governmental Activities
Summary of Future Funding Requirements
As of June 30, 2012
(dollars in thousands)**

Future Funding of Current Interest and Capital Appreciation Bonds:

Year Ending June 30,	Principal	Interest	Total
2013.....	\$ 626,485	\$ 340,448	\$ 966,933
2014.....	628,475	323,872	952,347
2015.....	614,925	295,823	910,748
2016.....	594,165	268,817	862,982
2017.....	563,765	241,880	805,645
2018-2022	2,740,550	828,779	3,569,329
2023-2027	1,503,770	291,981	1,795,751
2028-2032	565,650	65,078	630,728
Total Current Interest and Capital Appreciation Bonds	<u>\$ 7,837,785</u>	<u>\$ 2,656,678</u>	<u>\$ 10,494,463</u>

Future Funding of Variable-Rate Bonds:

Year Ending June 30,	Principal	Interest	Interest Rate Sw aps, Net	Total
2013.....	\$ 18,125	\$ 10,936	\$ 10,783	\$ 39,844
2014.....	36,045	10,417	10,528	56,990
2015.....	51,895	9,370	10,116	71,381
2016.....	62,410	8,036	9,539	79,985
2017.....	70,600	6,531	8,940	86,071
2018-2022	266,855	17,516	30,597	314,968
2023-2027	125,555	3,437	5,188	134,180
Total Variable-Rate Bonds	<u>\$ 631,485</u>	<u>\$ 66,243</u>	<u>\$ 85,691</u>	<u>\$ 783,419</u>
Total General Obligation Bonds	\$ 8,469,270			
Unamortized Premium/(Discount), Net.....	567,516			
Deferred Refunding Loss	(148,701)			
Total.....	<u>\$ 8,888,085</u>			

For the year ended June 30, 2012, NOTE 15 summarizes changes in general obligation bonds.

Hedging Derivatives

As of June 30, 2012, approximately \$337 million of Infrastructure Improvement Bonds and Common Schools Bonds have associated cash flow hedges with a fair value of (\$59.1) million. The value of these bonds is reported as part of the Bonds and Notes Payable section and the negative fair value of the cash flow hedges is reported in the Other Noncurrent Liabilities section on the Statement of Net Assets. The fair value decreased \$22.4 million during fiscal year 2012. This decrease is reported on the Statement of Net Assets as part of Deferred Outflows of Resources. Fair value of the cash flow hedges is determined using the zero-coupon method.

The State was not exposed to credit risk because these swaps had negative fair values at June 30, 2012. However, should interest rates change and the fair values of the swaps become positive, the State would be exposed to credit risk in the amount of the derivative's positive fair value.

Except for the swap counterparty on the Infrastructure Improvements, Series 2001B bond, each of the State's swap counterparties is required to post collateral to a third party when their respective credit rating, as determined by specified nationally recognized credit rating agencies, falls below the trigger level defined in the swap agreement. This arrangement protects the State by mitigating 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 and held by a third-party custodian. Net payments are made on the same date, as specified in the agreements. For Infrastructure Improvements, Series 2001B, the agreement includes a substitution provision that enables the State to substitute counterparties if the long term credit rating falls below the "A" rating category. This provision is akin to the collateral posting provisions of the State's other swaps and serves to mitigate credit and termination risk.



NOTE 10 GENERAL OBLIGATION BONDS (Continued)

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.

Terms and objectives of the State's hedging derivatives are provided in the following table.

**Hedging Derivatives
As of June 30, 2012
(dollars in thousands)**

Issue	Type of Cash Flow Hedge	Notional Amount	Underlying Index	Counterparty's Sw ap Rate at 06/30/2012	State's Sw ap Rate at 06/30/2012	Effective Date	Termination (Maturity) Date
Infrastructure Improvements, Series 2001B	Pay-fixed interest rate sw ap	\$63,900	SIFMA Index	0.18%	4.63%	11/29/2001	8/1/2021
Objective: Convert Series 2001B variable-rate bonds into a synthetic fixed rate to minimize exposure to changing interest rates							
Embedded Option: The counterparties may elect to terminate the sw ap if the SIFMA index averages 7 percent or higher over a 180-day period.							
Credit Quality Ratings of Counterparty: 50% Aa3/A+ JPMorgan Chase; 50% Baa1/A- Morgan Stanley Capital Services							
Infrastructure Improvements, Refunding Series 2004A	Pay-fixed interest rate sw ap	\$54,930	LIBOR (See terms below)	0.41%	3.51%	3/3/2004	2/1/2023
Objective: Convert Series 2004A variable-rate bonds into a synthetic fixed rate to minimize exposure to changing interest rates							
Credit Quality Ratings of Counterparty: Baa1/A- Morgan Stanley Capital Services							
Terms: 63% of LIBOR + 25 basis points							
Common Schools, Series 2003D	Pay-fixed interest rate sw ap	\$67,000	LIBOR (see terms below)	0.41%	3.41%	9/14/2007	3/15/2024
Objective: Convert Series 2003D variable-rate bonds into a synthetic fixed rate to minimize exposure to changing interest rates							
Credit Quality Ratings of Counterparty: 50% Aa3/A+ JPMorgan Chase; 50% Baa1/A- Morgan Stanley Capital Services							
Terms: 65% of 1-month LIBOR + 25 basis points							
Common Schools, Series 2006B	Pay-fixed interest rate sw ap	\$75,580	LIBOR (see terms below)	0.41%	3.20%	6/15/2006	6/15/2026
Objective: Convert Series 2006B variable-rate bonds into a synthetic fixed rate to minimize exposure to changing interest rates							
Credit Quality Ratings of Counterparty: 50% A2/A UBS AG; 50% Aa3/AA- Royal Bank of Canada							
Terms: 65% of 1-month LIBOR + 25 basis points							
Common Schools, Series 2006C	Pay-fixed interest rate sw ap	\$75,580	LIBOR (see terms below)	0.41%	3.20%	6/15/2006	6/15/2026
Objective: Convert Series 2006C variable-rate bonds into a synthetic fixed rate to minimize exposure to changing interest rates							
Credit Quality Ratings of Counterparty: 50% A2/A UBS AG; 50% Aa3/AA- Royal Bank of Canada							
Terms: 65% of 1-month LIBOR + 25 basis points							



NOTE 10 GENERAL OBLIGATION BONDS (Continued)

These swaps expose the State to basis risk or a mismatch between the floating rate received on the swap and the variable rate paid on the underlying variable-rate bonds. A mismatch would increase or decrease the interest cost paid by the State.

For Infrastructure Improvements, Series 2001B, the SIFMA municipal swap index has proven to be an effective proxy for the State's variable-rate debt and substantially mitigates basis risk.

For Infrastructure Improvements, Series 2004A and for Common Schools, Series 2003D, 2006B, and 2006C, the State assumes the risk of reductions in marginal federal tax rates or elimination of the tax preference for municipal securities, given that the variable swap receipt is based on a taxable index (LIBOR). Those changes would increase the interest rates on the underlying variable-rate debt but would not impact the variable-rate swap receipt based on the LIBOR index.

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

Advance Refundings

During fiscal year 2012, there were fifteen advance refundings of general obligations bonds. Four of these refundings, sometimes called restructurings, were for GRF debt service relief rather than economic savings. Details on the advanced refundings are presented in the following table.

**Primary Government — Governmental Activities
General Obligation Bonds
Details of Advance Refundings
For the Year Ended June 30, 2012
(dollars in thousands)**

Refunding Bond Issue	Date of Refunding	Amount of Refunding Bonds Issued	True Interest Cost Rates of Refunding Bonds	Carrying Amount of Bonds (in substance)	Refunding Bond Proceeds Placed in Escrow	Reduction (Increase) in Debt Service Payments	Economic Gain / (Loss) Resulting from Refunding
Common Schools, Series 2011A....	7/28/2011	\$ 211,530	2.77%	\$ 231,990	\$ 245,018	(\$16,110)/14 yrs	\$ 8,157
Higher Education, Series 2011A....	7/28/2011	127,765	2.95%	140,030	147,347	(12,666)/14 yrs	4,207
Infrastructure, Series 2011B.....	7/28/2011	114,285	2.90%	126,670	130,645	(36,949)/14 yrs	(12,374)
Natural Resources, Series P.....	7/28/2011	35,195	2.46%	35,705	37,059	(3,825)/14 yrs	788
Common Schools, Series 2011C....	11/30/2011	63,000	2.80%	67,285	73,005	11,647/12 yrs	8,695
Higher Education, Series 2011B....	11/30/2011	28,765	2.79%	30,945	33,207	5,460/12 yrs	3,930
Infrastructure, Series 2011C.....	11/30/2011	18,320	2.82%	19,000	20,342	2,867/12 yrs	2,220
Common Schools, Series 2012A....	1/24/2012	117,420	1.88%	131,775	143,891	24,705/13 yrs	20,872
Higher Education, Series 2012B....	4/3/2012	102,615	2.25%	110,815	121,474	14,837/13 yrs	11,002
Infrastructure, Series 2012B.....	4/3/2012	40,150	2.11%	43,540	47,613	5,861/10 yrs	4,491
Common Schools, Series 2012C....	6/22/2012	139,135	1.82%	154,335	168,639	26,513/12 yrs	21,412
Higher Education, Series 2012C....	6/22/2012	103,650	2.22%	113,520	127,194	16,440/13 yrs	13,185
Infrastructure, Series 2012C.....	6/22/2012	15,505	2.39%	17,565	19,232	3,872/12 yrs	3,146
Natural Resources, Series R.....	6/22/2012	15,755	1.27%	16,595	17,538	1,149/8 yrs	916
Conservation, Series 2012A.....	6/22/2012	15,070	1.13%	16,155	17,681	1,958/7 yrs	1,678
Total		<u>\$ 1,148,160</u>		<u>\$ 1,255,925</u>	<u>\$ 1,349,885</u>		<u>\$ 92,325</u>



NOTE 10 GENERAL OBLIGATION BONDS (Continued)

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

The State had defeased general obligation bonds from prior years and placed the proceeds in irrevocable trusts. As of June 30, 2012, the balances in these trusts for bonds defeased in prior years were \$49.7 million for Infrastructure Improvement Bonds, \$5 million for Natural Resources Bonds, \$197.1 million for Common Schools Bonds, \$39.9 million for Conservation Bonds, and \$181.4 million for Higher Education Bonds.

NOTE 11 REVENUE BONDS AND NOTES

The State Constitution permits state agencies and authorities to issue bonds and notes that are not supported by the full faith and credit of the State. These bonds and notes pledge income derived from user fees and rentals on the acquired or constructed assets to pay the debt service.

Issuers for the primary government include the Treasurer of State for the Ohio Department of Development, including its Office of Financial Incentives, and the Ohio Department of Transportation; and the Buckeye Tobacco Settlement Financing Authority (BTSFA). In addition, the Ohio Building Authority (OBA) issued revenue bonds on its own behalf and for the Ohio Bureau of Workers' Compensation in the past. Effective January 1, 2012, the operations of the OBA were moved to other state agencies and OBA ceased to exist.

Major issuers for the State's component units include the Ohio Water Development Authority, the Ohio State University, and the University of Cincinnati.

A. Primary Government

Economic Development Bonds and Notes, issued by the Treasurer of State for the Office of Financial Incentive's Direct Loan Program, provide financing for loans and loan guarantees to businesses within the State for economic development projects that create or retain jobs in the State. The taxable bonds and notes, payable through 2030, 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 Bonds and Notes provide financing to enable the remediation or cleanup of contaminated publicly or privately owned lands to allow for their environmentally safe and productive development. The bonds and notes, payable through 2026, are also backed with profits derived from the sale of spirituous liquor by the Division of Liquor Control.

Pledged net liquor revenues through the maturity of the Economic Development and Revitalization Project revenue bonds and notes total approximately \$973.1 million. During fiscal year 2012, pledged net revenues were \$248.1 million. Principal and interest requirements for fiscal year 2012 totaled \$151.2 million.

Since fiscal year 1998, the Treasurer of State has issued a total of \$1.75 billion in State Infrastructure Bank Bonds for various transportation construction projects financed by the Department of Transportation. The State has pledged federal highway receipts and loan repayments received under the State Infrastructure Bank Loan Program as the primary source of moneys for meeting the principal and interest requirements on the bonds.

Issuances for the State Infrastructure Bank are, in part, used for the acquisition, construction, or improvement of capital assets. Total pledged federal highway receipts and loan repayments through the maturity of the bonds in 2022 are estimated at approximately \$1.02 billion. For fiscal year 2012, principal and interest payments on the revenue bonds was \$173.6 million and pledged receipts was \$152.6 million.



NOTE 11 REVENUE BONDS AND NOTES (Continued)

BTSFA is authorized by the Ohio General Assembly to issue and to sell obligations, the aggregate principle amount of which shall not exceed \$6 billion, exclusive of obligations issued to refund, renew, or advance refund other obligations issued or incurred. On October 29, 2007, BTSFA successfully securitized 100 percent of the projected tobacco settlement receipts for the next 45 years through the issuance of five series of asset-backed revenue bonds, aggregating in the amount of \$5.53 billion. The future tobacco settlement receipts, including related investment earnings and net of specified operating and enforcement expenses, have been pledged to repay the bonds, which are payable through 2052. Annual principal and interest payments on the bonds will require 100 percent of the net tobacco settlement receipts. As of June 30, 2012, the total principal and interest payments remaining to be paid on the bonds were \$17.92 billion. Principal and interest paid and total net tobacco settlement receipts for fiscal year 2012 were \$295.2 million and \$295 million, respectively. In the event that the assets of BTSFA have been exhausted, no amounts will thereafter be paid on the bonds. After the bonds and any related operating expenses have been fully paid, any remaining tobacco settlement receipts will become payable to the State. The bonds include fixed rate serial bonds, fixed rate current interest turbo term bonds, and capital appreciation turbo term bonds which will convert to fixed rate current interest turbo term bonds. They were issued to fund long-lived capital projects at state-supported institutions of higher education and to pay the State's share of the cost of rebuilding elementary and secondary school facilities across the State. Additional information on these bonds can be found in BTSFA's stand-alone financial report.

Revenue bonds accounted for in business-type activities finance the construction costs of the William Green Building, which houses the main operations of the Ohio Bureau of Workers' Compensation in Columbus. The debt issuance for the William Green Building has been used for acquisition and construction of capital assets. The bonds are collateralized by lease rental payments pledged by BWC to the Treasurer of State. The lease rental payments are based on the estimated debt service of the bonds, but are limited to an amount appropriated by the Ohio General Assembly in the biennial budget. Total pledged payments through the maturity of the bonds in 2014 are estimated at approximately \$33.4 million. For fiscal year 2012, both the total lease rental payments and the principal and interest payments on the revenue bonds were \$18.2 million.

Revenue bonds and notes outstanding for the primary government, as of June 30, 2012, are presented in the following table. For the year ended June 30, 2012, NOTE 15 summarizes changes in revenue bonds and notes.

Primary Government
Summary of Revenue Bonds and Notes
As of June 30, 2012
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Governmental Activities:				
Treasurer of State:				
Economic Development	2004-12	.4%-7.7%	2030	\$ 497,229
Revitalization Project	2003-12	.4%-5.9%	2026	260,465
State Infrastructure Bank	2006-11	2.3%-6.0%	2022	873,856
Buckeye Tobacco Settlement Financing Authority....	2008	4.7%-7.5%	2052	5,498,236
Total Governmental Activities				<u>7,129,786</u>
Business-Type Activities:				
Bureau of Workers' Compensation	2003	1.6%-4.0%	2014	31,633
Total Business-Type Activities				<u>31,633</u>
Total Revenue Bonds				<u>\$7,161,419</u>



NOTE 11 REVENUE BONDS AND NOTES (Continued)

Future bond service requirements for revenue bonds and notes of the primary government, as of June 30, 2012, are presented in the following table.

Primary Government
Future Funding Requirements for Revenue Bonds and Notes
As of June 30, 2012
(dollars in thousands)

Year Ending June 30,	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2013.....	\$ 411,900 *	\$ 344,386	\$ 756,286	\$ 15,915	\$ 1,543	\$ 17,458
2014.....	213,695	333,061	546,756	15,200	751	15,951
2015.....	221,745	322,944	544,689	-	-	-
2016.....	222,865	312,004	534,869	-	-	-
2017.....	211,775	301,513	513,288	-	-	-
2018-2022	1,062,695	1,338,143	2,400,838	-	-	-
2023-2027.....	720,185	1,094,364	1,814,549	-	-	-
2028-2032.....	617,640	908,124	1,525,764	-	-	-
2033-2037.....	632,169	759,936	1,392,105	-	-	-
2038-2042.....	978,430	612,488	1,590,918	-	-	-
2043-2047.....	1,670,472	3,208,499	4,878,971	-	-	-
2048-2052.....	179,716	3,237,584	3,417,300	-	-	-
	<u>7,143,287</u>	<u>12,773,046</u>	<u>19,916,333</u>	<u>31,115</u>	<u>2,294</u>	<u>33,409</u>
Unamortized						
Premium/(Discount), Net....	(9,276)	-	(9,276)	649	-	649
Deferred Refunding Loss	(4,225)	-	(4,225)	(131)	-	(131)
Total	<u>\$ 7,129,786</u>	<u>\$ 12,773,046</u>	<u>\$ 19,902,832</u>	<u>\$ 31,633</u>	<u>\$ 2,294</u>	<u>\$ 33,927</u>

Year Ending June 30,	Total		
	Principal	Interest	Total
2013.....	\$ 427,815	\$ 345,929	\$ 773,744
2014.....	228,895	333,812	562,707
2015.....	221,745	322,944	544,689
2016.....	222,865	312,004	534,869
2017.....	211,775	301,513	513,288
2018-2022	1,062,695	1,338,143	2,400,838
2023-2027.....	720,185	1,094,364	1,814,549
2028-2032.....	617,640	908,124	1,525,764
2033-2037.....	632,169	759,936	1,392,105
2038-2042.....	978,430	612,488	1,590,918
2043-2047.....	1,670,472	3,208,499	4,878,971
2048-2052.....	179,716	3,237,584	3,417,300
	<u>7,174,402</u>	<u>12,775,340</u>	<u>19,949,742</u>
Unamortized			
Premium/(Discount), Net....	(8,627)	-	(8,627)
Deferred Refunding Loss	(4,356)	-	(4,356)
Total	<u>\$ 7,161,419</u>	<u>\$ 12,775,340</u>	<u>\$ 19,936,759</u>

* Fiscal year 2013 principal of the Governmental Activities includes \$194 million of Bond Anticipation Notes (BANS) that are outstanding as of June 30, 2012. These BANS are expected to be retired, renewed, or refunded into long term debt.



NOTE 11 REVENUE BONDS AND NOTES (Continued)

B. Major Discretely Presented 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 and 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, 2011, approximately \$1.85 billion in bonds were outstanding for this program.

Future bond service requirements for the Water Pollution Control Loan Program revenue bonds, as of December 31, 2011, were as follows (dollars in thousands):

Year Ending December 31,	Principal	Interest	Total
2012.....	\$ 118,255	\$ 82,339	\$ 200,594
2013.....	114,100	78,021	192,121
2014.....	130,050	72,983	203,033
2015.....	125,530	67,794	193,324
2016.....	123,630	62,225	185,855
2017-2021.....	535,405	223,852	759,257
2022-2026.....	365,770	125,008	490,778
2027-2031.....	237,170	37,830	275,000
2032-2036.....	49,130	3,813	52,943
	<u>1,799,040</u>	<u>753,865</u>	<u>2,552,905</u>
Unamortized			
Premium/(Discount), Net.....	115,604	-	115,604
Deferred Refunding Loss.....	(65,231)	-	(65,231)
Total	<u>\$ 1,849,413</u>	<u>\$ 753,865</u>	<u>\$ 2,603,278</u>

Generally, bonds and notes issued by the state universities and state community colleges are payable from the institutions' available receipts, including student fees, rental income, and gifts and donations, as may be provided for in the respective bond proceedings, for the construction of educational and student resident 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.



NOTE 11 REVENUE BONDS AND NOTES (Continued)

Future bond service requirements for revenue bonds and notes reported for the major discretely presented component units, as of June 30, 2012, are shown in the following tables.

**Major Discretely Presented Component Units
Future Funding Requirements for Revenue Bonds and Notes
As of June 30, 2012
(dollars in thousands)**

Year Ending December 31 or June 30,	Ohio Water Development Authority (12/31/2011)			Ohio State University		
	Principal	Interest	Total	Principal	Interest	Total
2012.....	\$ 212,025	\$ 128,083	\$ 340,108			
2013.....	213,135	120,520	333,655	\$ 549,175	\$ 68,792	\$ 617,967
2014.....	218,605	112,200	330,805	57,648	65,938	123,586
2015.....	213,915	104,081	317,996	59,909	64,202	124,111
2016.....	225,980	95,459	321,439	60,039	63,132	123,171
2017.....	-	-	-	62,794	62,055	124,849
2017-2021.....	804,105	349,122	1,153,227	-	-	-
2018-2022.....	-	-	-	217,604	294,598	512,202
2022-2026.....	530,130	193,559	723,689	-	-	-
2023-2027.....	-	-	-	134,259	261,203	395,462
2027-2031.....	338,615	73,087	411,702	-	-	-
2028-2032.....	-	-	-	78,856	234,555	313,411
2032-2036.....	106,345	18,826	125,171	-	-	-
2033-2037.....	-	-	-	17,626	225,267	242,893
2037-2041.....	27,040	3,030	30,070	-	-	-
2038-2042.....	-	-	-	654,786	203,590	858,376
2042-2046.....	500	13	513	-	-	-
2043-2047.....	-	-	-	-	120,000	120,000
2048-2052.....	-	-	-	-	120,000	120,000
2053-2057.....	-	-	-	-	120,000	120,000
2058-2062.....	-	-	-	-	120,000	120,000
2063-2067.....	-	-	-	-	120,000	120,000
2068-2072.....	-	-	-	-	120,000	120,000
2073-2077.....	-	-	-	-	120,000	120,000
2078-2082.....	-	-	-	-	120,000	120,000
2083-2087.....	-	-	-	-	120,000	120,000
2088-2092.....	-	-	-	-	120,000	120,000
2093-2097.....	-	-	-	-	120,000	120,000
2098-2102.....	-	-	-	-	120,000	120,000
2103-2107.....	-	-	-	-	120,000	120,000
2108-2112.....	-	-	-	500,000	96,000	596,000
	<u>2,890,395</u>	<u>1,197,980</u>	<u>4,088,375</u>	<u>2,392,696</u>	<u>3,199,332</u>	<u>5,592,028</u>
Unamortized Premium/(Discount), Net....	153,807	-	153,807	66,042	-	66,042
Deferred Refunding Loss	(100,804)	-	(100,804)	-	-	-
Total	<u>\$ 2,943,398</u>	<u>\$ 1,197,980</u>	<u>\$ 4,141,378</u>	<u>\$ 2,458,738</u>	<u>\$3,199,332</u>	<u>\$5,658,070</u>



NOTE 11 REVENUE BONDS AND NOTES (Continued)

**Major Discretely Presented Component Units
Future Funding Requirements for Revenue Bonds and Notes
As of June 30, 2012
(dollars in thousands)**

Year Ending June 30,	University of Cincinnati		
	Principal	Interest	Total
2013.....	\$ 121,340	* \$ 48,464	\$ 169,804
2014.....	43,495	45,328	88,823
2015.....	46,700	43,442	90,142
2016.....	47,275	41,387	88,662
2017.....	52,330	39,268	91,598
2018-2022.....	265,300	158,008	423,308
2023-2027.....	219,825	95,809	315,634
2028-2032.....	144,565	48,521	193,086
2033-2037.....	71,405	19,729	91,134
2038-2042.....	27,430	2,628	30,058
	<u>1,039,665</u>	<u>542,584</u>	<u>1,582,249</u>
Unamortized Premium/(Discount), Net....	<u>19,340</u>	<u>-</u>	<u>19,340</u>
Total	<u>\$1,059,005</u>	<u>\$ 542,584</u>	<u>\$1,601,589</u>

* Fiscal year 2013 principal of the University of Cincinnati includes \$84 million of Bond Anticipation Notes (BANS) that are outstanding as of June 30, 2012. These BANS are expected to be retired, renewed, or refunded into long term debt.

NOTE 12 SPECIAL OBLIGATION BONDS

The Treasurer of State issues special obligation bonds reported in governmental activities. The Ohio Building Authority (OBA) also issued special obligation bonds until Amended Substitute House Bill 153 transferred all matters relating to the issuance of obligations for financing of capital facilities for housing state government to the Treasurer, effective January 1, 2012. At that time, OBA ceased operations.

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 developmental disabilities institutions, parks and recreation, cultural and sports facilities, correctional facilities, office buildings for state departments and agencies, and, in some cases, related facilities for local governments. These issuances are, in part, used for acquisition, construction, or improvement of capital assets.

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, 2012, are presented in the following table.

**Primary Government-Governmental Activities
Summary of Special Obligation Bonds
As of June 30, 2012
(dollars in thousands)**

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized but Unissued
Treasurer of State Lease Rental Bonds.....	2001-12	1.9%-5.6%	2032	<u>\$ 2,090,889</u>	<u>\$ 446,440</u>
Total Special Obligation Bonds.....				<u>\$ 2,090,889</u>	<u>\$ 446,440</u>



NOTE 12 SPECIAL OBLIGATION BONDS (Continued)

Future special obligation debt service requirements, as of June 30, 2012, are as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2013.....	\$ 259,525	\$ 89,265	\$ 348,790
2014.....	222,210	78,769	300,979
2015.....	220,625	68,836	289,461
2016.....	200,960	59,396	260,356
2017.....	178,765	50,179	228,944
2018-2022.....	631,740	144,971	776,711
2023-2027.....	258,820	35,663	294,483
2028-2032.....	46,440	4,593	51,033
	<u>2,019,085</u>	<u>531,672</u>	<u>2,550,757</u>
Unamortized			
Premium/(Discount), Net.....	108,307	-	108,307
Deferred Refunding Loss.....	(36,503)	-	(36,503)
Total	<u>\$2,090,889</u>	<u>\$ 531,672</u>	<u>\$2,622,561</u>

For the year ended June 30, 2012, NOTE 15 summarizes changes in special obligation bonds.

During fiscal year 2012, Treasurer of State Lease Rental had seven current/advance refunding issues. The proceeds of the refunding bonds were used to purchase U.S. Government securities in amounts sufficient without further investment, to pay when due, the principle, interest and redemption premium on the bonds being refunded.

Details on the advanced refunding for fiscal year 2012 are presented in the following table.

Primary Government — Governmental Activities
Special Obligation Bonds
Details of Advance Refundings
For the Year Ended June 30, 2012
(dollars in thousands)

Refunding Bond Issue	Date of Refunding	Amount of Refunding Bonds Issued	True Interest Cost Rates of Refunding Bonds	Carrying Amount of Bonds Refunded (in substance)	Refunding Proceeds Placed in Escrow	Reduction (Increase) in Debt Service Payments	Economic Gain / (Loss) Resulting from Refunding
Treasurer of State Lease Rental Bonds:							
Administrative Facilities 2011 Series A.....	9/15/2011	\$ 38,595	3.00%	\$ 42,595	\$ 43,338	(10,744)/14 yrs	\$ (354)
State Correctional Facilities 2011 Series B.....	9/15/2011	101,530	2.65%	108,994	111,624	(11,202)/14 yrs	3,477
Juvenile Correctional 2011 Series B.....	9/15/2011	9,215	2.90%	9,365	9,539	(2,322)/14 yrs	(12)
Administrative Facilities 2012 Series B.....	3/8/2012	28,055	2.60%	30,742	33,685	3,709/12 yrs	3,109
Mental Health Facilities 2012 Series A.....	5/17/2012	24,175	1.46%	25,902	27,238	1,984/8 yrs	1,959
Parks and Recreation Facilities 2012 Series A	5/17/2012	7,570	1.54%	8,003	8,554	681/8 yrs	651
State Correctional Facilities 2012 Series A.....	5/17/2012	17,360	2.46%	20,024	20,783	2,461/11 yrs	2,146
Total		<u>\$ 226,500</u>		<u>\$ 245,625</u>	<u>\$ 254,761</u>		<u>\$ 10,976</u>

In prior years, 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, 2012, \$182.7 million of lease rental special obligations bonds are considered defeased and no longer outstanding.



NOTE 13 CERTIFICATES OF PARTICIPATION

A. Primary Government

As of June 30, 2012, approximately \$156.7 million in certificate of participation (COP) obligations were reported in governmental activities.

Beginning in fiscal year 2005, the Ohio Department of Administrative Services participated in the issuance of \$185.2 million of COP obligations to finance the acquisition of the Ohio Administrative Knowledge System (OAKS), a statewide Enterprise Resource Planning (ERP) system. These issuances are, in part, used for the acquisition, construction, or improvement of capital assets.

In fiscal year 2008, the Ohio Department of Administrative Services participated in the issuance of \$40.1 million of COP obligations to finance the cost of acquisition of the State Taxation Accounting and Revenue System (STARS).

Under the COP financing arrangements, the State is required to make rental payments from the OAKS Certificates of Participation Debt Service Fund, the STARS 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, 2012, are presented in the following table.

Primary Government — Governmental Activities				
Summary of Certificate of Participation Obligations				
As of June 30, 2012				
<i>(dollars in thousands)</i>				
	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Department of Administrative Services:				
Ohio Administrative Knowledge System (OAKS)	2005-09	2.5%-5.3%	2019	\$ 126,590
State Taxation Accounting and Revenue System (STARS)...	2008	3.7%-5.0%	2019	30,074
Total Certificates of Participation				<u>\$ 156,664</u>

As of June 30, 2012, the primary government's future commitments under the COP financing arrangements were as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2013.....	\$ 21,610	\$ 6,357	\$ 27,967
2014.....	22,530	5,431	27,961
2015.....	23,540	4,401	27,941
2016.....	24,645	3,289	27,934
2017.....	25,795	2,123	27,918
2018-2019.....	35,575	1,519	37,094
	153,695	23,120	176,815
Unamortized			
Premium, Net.....	2,969	-	2,969
Total	<u>\$ 156,664</u>	<u>\$ 23,120</u>	<u>\$ 179,784</u>

For the year ended June 30, 2012, NOTE 15 summarizes changes in COP obligations.



NOTE 13 CERTIFICATES OF PARTICIPATION (Continued)

B. Major Discretely Presented Component Units

Approximately \$3.3 million in COP obligations are reported in the major discretely presented component unit funds. The obligations finance building construction costs at the Ohio State University.

As of June 30, 2012, future commitments under the COP financing arrangements for the State's major discretely presented component units are detailed in the following table.

Major Discretely Presented Component Units			
Future Funding Requirements for Certificate of Participation			
Obligations			
As of June 30, 2012			
<i>(dollars in thousands)</i>			
Year Ending June 30,	<i>Ohio State University</i>		
	Principal	Interest	Total
2013.....	\$ 490	\$ 156	\$ 646
2014.....	515	131	646
2015.....	540	104	644
2016.....	570	76	646
2017.....	595	47	642
2018-2022.....	625	16	641
Total.....	<u>\$ 3,335</u>	<u>\$ 530</u>	<u>\$ 3,865</u>

NOTE 14 OTHER NONCURRENT LIABILITIES

As of June 30, 2012, in addition to bonds and certificates of participation obligations discussed in NOTES 10 through 13, the State reports the following noncurrent liabilities in its financial statements (dollars in thousands):

Non-Current Liabilities	
Governmental Activities:	
Compensated Absences	\$ 440,410
Net Pension Obligation.....	8,389
Net OPEB Obligation.....	83,911
Capital Leases Payable	4,199
Derivatives.....	81,818
Pollution Remediation Liabilities.....	3,129
Estimated Claims Payable	3,030
Liability for Escheat Property	216,921
Total Governmental Activities	<u>841,807</u>
Business-Type Activities:	
Compensated Absences	40,774
Capital Leases Payable	45,289
Workers' Compensation:	
Benefits Payable	17,815,100
Other	1,986,161
Unemployment Compensation:	
Intergovernmental Payable	1,878,387
Deferred Prize Awards Payable	606,218
Tuition Benefits Payable	553,000
Total Business-Type Activities	<u>22,924,929</u>
Total Primary Government	<u>\$ 23,766,736</u>

For the year ended June 30, 2012, 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, 2012, was \$481.2 million, of which \$440.4 million is allocable to governmental activities and \$40.8 million is allocable to business-type activities.



NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

As of June 30, 2012, major discretely presented component units reported a total of \$199.4 million in compensated absences liabilities, as detailed by major discretely presented component unit in NOTE 15.

B. Net Pension Obligation and Net OPEB Obligation

The State recognizes a net pension obligation and a net OPEB obligation in the amount of \$8.4 million and \$83.9 million, respectively, as of June 30, 2012. The net pension obligation represents the cumulative difference between the annual pension cost and the employer's contributions to the State Highway Patrol Retirement System (SHPRS). The net OPEB obligation represents the cumulative difference between the annual OPEB cost and the employer's contributions to the SHPRS. The SHPRS is a blended component unit reported as a fiduciary pension trust fund. See NOTE 9 for further details.

C. Lease Agreements

The State's primary government leases office buildings and computer and office 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.

Operating leases (leases on assets not recorded in the Statement of Net Assets) contain various renewable 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 2012 were approximately \$78.9 million. Fiscal year 2013 future minimum lease commitments for operating leases judged to be noncancelable, as of June 30, 2012, were \$3.7 million.

Assets acquired through capital leasing are valued at the lower of fair value or the present value of the future minimum lease payments at the lease's inception. Capital leases are used for the acquisition of capital assets. Future minimum lease commitments for capital leases judged to be noncancelable, as of June 30, 2012, are below (dollars in thousands):

Year Ending June 30,	Capital Leases		
	Governmental Activities	Business- Type Activities	Total
2013.....	\$ 2,107	\$ 18,814	\$ 20,921
2014.....	1,412	28,728	30,140
2015.....	676	-	676
2016.....	187	-	187
2017.....	33	-	33
2018-2022.....	21	-	21
Total Minimum Lease Payments..	4,436	47,542	51,978
Amount for Interest.....	(237)	(2,253)	(2,490)
Present Value of Net Minimum Lease Payments.....	\$ 4,199	\$ 45,289	\$ 49,488

As of June 30, 2012, the primary government had the following capital assets under capital leases (dollars in thousands):

	Capital Assets		
	Governmental Activities	Business- Type Activities	Total
Equipment	\$ 11,372	\$ 93,476	\$ 104,848
Vehicles	3,209	-	3,209
Total	\$ 14,581	\$ 93,476	\$ 108,057



NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

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

Capital leases are reported under the “Refund and Other Liabilities” account in the proprietary and discretely presented component unit funds.

Future minimum lease commitments for capital leases judged to be noncancelable and capital assets under capital leases for the major discretely presented component unit funds, as of June 30, 2012, are presented in the table below (dollars in thousands):

Year Ending June 30,	Capital Leases	
	Major Discretely Presented Component Units	
	Ohio State University	University of Cincinnati
2013.....	\$ 3,885	\$ 9,463
2014.....	3,776	9,809
2015.....	2,067	9,858
2016.....	1,836	10,517
2017.....	1,659	7,693
2018-2022.....	2,802	39,372
2023-2027.....	-	26,647
2028-2032.....	-	17,397
2033-2037.....	-	3,481
Total Minimum Lease Payments.....	16,025	134,237
Amount for Interest.....	(1,115)	(43,572)
Present Value of Net Minimum Lease Payments.....	<u>\$ 14,910</u>	<u>\$ 90,665</u>
Equipment & Vehicles.....	\$ 40,260	\$ -
Buildings	-	183,997
Total	<u>\$ 40,260</u>	<u>\$ 183,997</u>

D. Derivatives

For governmental activities, the State has reported (\$81.8) million of investment and hedging derivatives as of June 30, 2012. Additional information regarding the State’s derivatives is included in NOTE 4 and NOTE 10.

As of June 30, 2012, the major discretely presented component units reported a total of (\$5.3) million of investment derivatives. Additional information regarding the major discretely presented component units’ derivatives is included in NOTE 4.

E. Litigation Liabilities

In instances when the unfavorable outcome of a pending litigation has been assessed to be probable, liabilities are recorded in the financial statements. As of June 30, 2012, no noncurrent liabilities ultimately payable from various governmental funds have been recorded for this purpose. For information on the State’s loss contingencies arising from pending litigation, see NOTE 19.

F. Pollution Remediation Liabilities

The State recognizes a liability for pollution remediation in the amount \$3.1 million, as of June 30, 2012. This represents the cost to the State to the extent that is probable for future clean up and reclamation of polluted sites within the State. See NOTE 19 for further detail.

G. Estimated Claims Payable

For governmental activities, the State reported \$3 million in estimated claims for defaulted loans under the Ohio Enterprise Bond Programs at the Development Services Agency, as of June 30, 2012. The program is included in governmental activities and is accounted for in the nonmajor governmental funds.



NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

H. 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, 2012, the liability totaled approximately \$216.9 million.

I. Worker's Compensation

Benefits Payable

As discussed in NOTE 20, the Worker's 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, 2012, in the amount of approximately \$17.82 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.

J. Unemployment Compensation

As of June 30, 2012, the State's Unemployment Compensation Fund is recognizing an intergovernmental payable liability for repayable advances from the Federal government of \$1.88 billion. These advances were used for the payment of compensation benefits.

K. Deferred Prize Awards Payable

Future installment payments for the deferred prize awards payable are reported at present value based upon interest rates that the Treasurer of State provides to the Lottery Commission Enterprise Fund. The interest rates, ranging from 2.3 to 9 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 State reduces prize liabilities by an estimate of the amount of the prize that will ultimately be unclaimed. As of June 30, 2012, this payable totals \$606.2 million.

Future payments of prize awards, stated at present value, as of June 30, 2012, follow (dollars in thousands):

Year Ending June 30,	
2013.....	\$ 78,439
2014.....	77,447
2015.....	77,309
2016.....	77,285
2017.....	69,797
2018-2022.....	247,993
2023-2027.....	110,640
2028-2032.....	62,675
2033-2037.....	12,578
2038-2042.....	972
	<u>815,135</u>
Unamortized Discount	<u>(208,917)</u>
Net Prize Liability	<u>\$ 606,218</u>

L. Tuition Benefits Payable

The actuarial present value of future tuition benefits payable from the Tuition Trust Authority Enterprise Fund was approximately \$553 million, as of June 30, 2012. 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 in state universities and state community colleges and termination of participant contracts under the plan.

The following assumptions were used in the actuarial determination of tuition benefits payable: 5.5 percent rate of return, compounded annually, on the investment of current and future assets; a projected annual tuition increase of seven percent, as well as a 2.5 percent Consumer Price Index inflation rate.

As of June 30, 2012, the market value of actuarial net assets available for the payment of the tuition benefits payable was \$520 million.



NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

M. Other Liabilities

The Workers' Compensation Enterprise Fund reports approximately \$1.99 billion in other noncurrent liabilities, as of June 30, 2012, of which 1.) \$1.89 billion is comprised of the compensation adjustment expenses liability for estimated future expenses to be incurred in the settlement of claims, as discussed further in NOTE 20, 2.) \$86.3 million represents premium payment security deposits collected in advance from private employers to reduce credit risk for premiums collected in subsequent periods, and 3.) \$10.3 million consists of other miscellaneous liabilities.

NOTE 15 CHANGES IN NONCURRENT LIABILITIES

A. Primary Government

Changes in noncurrent liabilities, for the year ended June 30, 2012, are presented for the primary government in the following table.

Primary Government
Changes in Noncurrent Liabilities
For the Fiscal Year Ended June 30, 2012
(dollars in thousands)

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amount Due Within One Year
Governmental Activities:					
Bonds and Notes Payable:					
General Obligation Bonds (NOTE 10)	\$ 7,872,276	\$ 2,655,173	\$ 1,639,364	\$ 8,888,085	\$ 643,639
Revenue Bonds and Notes (NOTE 11)	7,156,025	250,046	276,285	7,129,786	413,243
Special Obligation Bonds (NOTE 12)	2,260,853	300,167	470,131	2,090,889	271,178
Total Bonds and Notes Payable	<u>17,289,154</u>	<u>3,205,386</u>	<u>2,385,780</u>	<u>18,108,760</u>	<u>1,328,060</u>
Certificates of Participation (NOTE 13)	179,935	7	23,278	156,664	21,689
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	464,077	376,747	400,414	440,410	62,054
Net Pension Obligation	4,299	27,056	22,966	8,389	-
Net OPEB Obligation	66,593	19,364	2,046	83,911	-
Capital Leases Payable	6,530	560	2,891	4,199	1,968
Derivatives	53,119	28,699	-	81,818	-
Pollution Remediation Liabilities	4,851	1,271	2,993	3,129	588
Estimated Claims Payable	10,385	-	7,355	3,030	320
Liability for Escheat Property	219,770	45,359	48,208	216,921	65,046
Total Other Noncurrent Liabilities	<u>829,624</u>	<u>499,056</u>	<u>486,873</u>	<u>841,807</u>	<u>129,976</u>
Total Noncurrent Liabilities	<u><u>\$ 18,298,713</u></u>	<u><u>\$ 3,704,449</u></u>	<u><u>\$ 2,895,931</u></u>	<u><u>\$ 19,107,231</u></u>	<u><u>\$ 1,479,725</u></u>
Business-Type Activities:					
Bonds and Notes Payable:					
Revenue Bonds (NOTE 11)	\$ 47,889	\$ 166	\$ 16,422	\$ 31,633	\$ 15,914
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	42,948	28,041	30,215	40,774	4,744
Capital Leases Payable	58,007	5,438	18,156	45,289	19,821
Workers' Compensation:					
Benefits Payable	18,012,600	1,476,429	1,673,929	17,815,100	2,024,705
Other:					
Adjustment Expenses Liability	1,937,300	356,571	404,269	1,889,602	386,954
Premium Payment Security Deposits	87,664	2,029	3,408	86,285	-
Miscellaneous	12,701	25,627	28,054	10,274	10,274
Unemployment Compensation:					
Intergovernmental Payable	2,314,187	297,200	733,000	1,878,387	250,000
Deferred Prize Awards Payable	643,074	41,354	78,210	606,218	48,397
Tuition Benefits Payable	592,599	-	39,599	553,000	84,000
Total Other Noncurrent Liabilities	<u>23,701,080</u>	<u>2,232,689</u>	<u>3,008,840</u>	<u>22,924,929</u>	<u>2,828,895</u>
Total Noncurrent Liabilities	<u><u>\$ 23,748,969</u></u>	<u><u>\$ 2,232,855</u></u>	<u><u>\$ 3,025,262</u></u>	<u><u>\$ 22,956,562</u></u>	<u><u>\$ 2,844,809</u></u>

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 nonmajor governmental funds will primarily liquidate the other noncurrent liabilities balance attributable to governmental activities.



NOTE 15 CHANGES IN NONCURRENT LIABILITIES (Continued)

For fiscal year 2012, 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 and 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.

Governmental Activities:

Primary, Secondary and Other Education	\$ 338,358
Higher Education Support	136,123
Health and Human Services.....	3,170
Environmental Protection and Natural Resources	1,228
Transportation.....	50,431
Community and Economic Development.....	147,975
	<u>677,285</u>
Total Interest Expense Charged to Governmental Functions	<u>\$ 677,285</u>

B. Major Discretely Presented Component Units

Changes in noncurrent liabilities, for the year ended June 30, 2012 (December 31, 2011 for the Ohio Water Development Authority), are presented in the following table for the State's major discretely presented component units.

**Major Discretely Presented Component Units
Changes in Noncurrent Liabilities
For the Fiscal Year Ended June 30, 2012
(dollars in thousands)**

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amount Due Within One Year
<i>School Facilities Commission:</i>					
Intergovernmental Payable	\$ 747,697	\$ 212,040	\$ 451,839	\$ 507,898	\$ 296,307
Compensated Absences*	913	26	15	924	127
Total	<u>\$ 748,610</u>	<u>\$ 212,066</u>	<u>\$ 451,854</u>	<u>\$ 508,822</u>	<u>\$ 296,434</u>
<i>Ohio Water Development Authority (12/31/11):</i>					
Revenue Bonds & Notes Payable (NOTE 11)	\$ 3,137,317	\$ 278,423	\$ 472,342	\$ 2,943,398	\$ 212,328
Compensated Absences*	207	142	129	220	-
Total	<u>\$ 3,137,524</u>	<u>\$ 278,565</u>	<u>\$ 472,471</u>	<u>\$ 2,943,618</u>	<u>\$ 212,328</u>
<i>Ohio State University:</i>					
Compensated Absences*	\$ 124,687	\$ 26,025	\$ 12,134	\$ 138,578	\$ 12,134
Capital Leases Payable* (NOTE 14).....	11,209	6,011	2,310	14,910	3,485
Derivatives*.....	1,846	-	1,846	-	-
Other Liabilities*	213,539	372,403	303,210	282,732	63,161
Revenue Bonds & Notes Payable (NOTE 11)	2,018,704	515,047	75,013	2,458,738	549,175
Certificates of Participation (NOTE 13)	3,800	-	465	3,335	490
Total	<u>\$ 2,373,785</u>	<u>\$ 919,486</u>	<u>\$ 394,978</u>	<u>\$ 2,898,293</u>	<u>\$ 628,445</u>
<i>University of Cincinnati:</i>					
Intergovernmental Payable	\$ -	\$ 25,212	\$ 44	\$ 25,168	\$ -
Compensated Absences*	60,894	1,059	2,294	59,659	37,818
Capital Leases Payable* (NOTE 14).....	106,500	-	15,835	90,665	4,920
Derivatives*.....	2,062	3,201	-	5,263	-
Other Liabilities*	38,977	-	35,869	3,108	458
Revenue Bonds & Notes Payable (NOTE 11)	1,096,893	127,920	165,808	1,059,005	124,648
Total	<u>\$ 1,305,326</u>	<u>\$ 157,392</u>	<u>\$ 219,850</u>	<u>\$ 1,242,868</u>	<u>\$ 167,844</u>

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



NOTE 16 NO COMMITMENT DEBT

The State of Ohio, by action of the General Assembly, created various financing authorities for the expressed purpose of making available to non-profit and, in some cases, for profit private entities, lower cost sources of capital financing for facilities and projects found to be for a public purpose. Fees are assessed to recover related processing and application costs incurred.

The authorities' debt instruments represent a limited obligation 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, 2012 (December 31, 2011 for discretely presented component units), revenue bonds and notes outstanding that represent "no commitment" debt for the State were as follows (dollars in thousands):

	<u>Outstanding Amount</u>
Primary Government:	
Ohio Department of Development:	
Ohio Enterprise Bond Program	\$ 235,550
Hospital Facilities Bonds	6,310
Ohio Department of Transportation:	
State Transportation Infrastructure Bond Fund Program.....	29,190
Total Primary Government	<u>\$ 271,050</u>
Discretely Presented Component Units (12/31/11):	
Ohio Water Development Authority	\$ 2,196,125
Ohio Air Quality Development Authority	2,400,000
Total Component Units	<u>\$ 4,596,125</u>

NOTE 17 FUND DEFICITS AND FUND BALANCE REPORTING

A. Fund Deficits

The following individual funds reported deficits that are reflected in the State's basic financial statements, as of June 30, 2012 (dollars in thousands):

Primary Government:	
Major Proprietary Funds:	
Unemployment Compensation.....	\$ (1,612,895)
Nonmajor Proprietary Funds:	
Tuition Trust Authority.....	(10,309)
Total Proprietary Funds	<u>\$ (1,623,204)</u>
Discretely Presented Component Units:	
Major Component Units:	
School Facilities Commission Fund	\$ (3,745,792)
Nonmajor Component Units:	
Ohio Capital Fund.....	(41,366)
Total Component Units.....	<u>\$ (3,787,158)</u>

The Unemployment Compensation Fund deficit disclosed above is due to an unusually high level of benefit claims and a reduction in State revenues as a result of current economic conditions. Federal loans have been required to maintain current benefit levels.

Deficits for the other funds are due to the timing of revenue recognition and the accrual of expenses not recorded under the cash basis of accounting.



NOTE 17 FUND DEFICITS AND FUND BALANCE REPORTING (Continued)

B. Fund Balance Reporting-Constraints by Purpose

Fund balance constraints reported in the governmental funds, as of June 30, 2012, are presented by purpose in the following table:

Fund Balance:	Primary Government Fund Balance Constraints by Purpose (dollars in thousands)							
	Major Funds	General	Job, Family & Other Human Services	Buckeye Tobacco Settlement Financing Authority Revenue Bonds	Nonmajor Governmental Funds	Total		
Nonspendable								
Inventories.....	\$	31,307	\$	-	\$	74,532	\$	105,839
Noncurrent Portion of Loans Receivable.....		3,099		-		-		3,099
Prepays.....		16,416	2,470			9,689		28,575
Advances to Local Government.....		36,160				-		36,160
Total Nonspendable.....		<u>86,982</u>	<u>2,470</u>	<u>-</u>	<u>84,221</u>	<u>84,221</u>		<u>173,673</u>
Restricted								
Primary, Secondary and Other Education.....		1,047	41			127,018		128,106
Public Assistance and Medicaid.....		-	83,620			20		83,640
Health and Human Services.....		-	-			49,908		49,908
Justice and Public Protection.....		301	414			115,453		116,168
Environmental Protection and Natural Resources.....		6,195				94,971		101,166
Transportation.....		-				1,230,223		1,230,223
General Government.....		8,344	31,292			36,848		76,484
Community and Economic Development.....		1,011,998	9			269,575		1,281,582
Capital Outlay.....		-	-			222,778		222,778
Debt Service.....		-	-	5,144,288		72,022		5,216,310
Total Restricted.....		<u>1,027,885</u>	<u>115,376</u>	<u>5,144,288</u>	<u>2,218,816</u>	<u>2,218,816</u>		<u>8,506,365</u>
Committed								
Primary, Secondary and Other Education.....		88,402				20,739		109,141
Higher Education Support.....		-				230		230
Public Assistance and Medicaid.....		12,319	63,172			-		75,491
Health and Human Services.....		4,509				24,922		29,431
Justice and Public Protection.....		676	5,059			117,695		123,430
Environmental Protection and Natural Resources.....		-				180,311		180,311
Transportation.....		-				931		931
General Government.....		20,767	10,582			56,956		88,305
Community and Economic Development.....		697,934				81,252		779,186
Total Committed.....		<u>824,607</u>	<u>78,813</u>	<u>-</u>	<u>483,036</u>	<u>483,036</u>		<u>1,386,456</u>
Assigned								
Primary, Secondary and Other Education.....		61,126				-		61,126
Public Assistance and Medicaid.....		264,454				-		264,454
Health and Human Services.....		64,659				-		64,659
Justice and Public Protection.....		116,270				-		116,270
Environmental Protection and Natural Resources.....		15,534				-		15,534
General Government.....		1,072,865				-		1,072,865
Community and Economic Development.....		71,269				-		71,269
Total Assigned.....		<u>1,666,177</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		<u>1,666,177</u>
Unassigned.....		<u>(415,658)</u>	<u>(547)</u>	<u>-</u>	<u>-</u>	<u>-</u>		<u>(416,205)</u>
Total Fund Balance.....	\$	<u>3,189,993</u>	\$ <u>196,112</u>	\$ <u>5,144,288</u>	\$ <u>2,786,073</u>	\$ <u>2,786,073</u>		<u>\$11,316,466</u>

As of June 30, 2012, the Budget Stabilization Fund had a fund balance of \$246.9 million which was included as a part of the unassigned fund balance in the General Fund.



NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS

A. Joint Ventures

Great Lakes Protection Fund (GLPF)

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

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

Annually, one-third of the GLPF's net earnings is allocated and paid to the member states in proportion to their respective cash contributions to the GLPF. The allocation is based on the amount and period of time the state's contributions were invested. GLPF earnings distributions are to be used by the states to finance projects that are compatible with the GLPF's objectives. Ohio applies its distribution (approximately \$78 thousand) to operations of its own protection program, known as the Lake Erie Protection Program, which is modeled after the GLPF.

Required contributions and contributions received from the states, which border the Great Lakes, as of December 31, 2011 (the GLPF's year-end), are presented below (dollars in thousands):

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

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

Summary Financial information for the GLPF, for the fiscal year ended December 31, 2011, was as follows (dollars in thousands):

Cash and Investments	\$ 105,517
Other Assets	153
Total Assets	<u>\$ 105,670</u>
Total Liabilities	\$ 904
Total Net Assets	<u>104,766</u>
Total Liabilities and Net Assets	<u>\$ 105,670</u>
Total Revenues and Other Additions.....	\$ 2,846
Total Expenditures	<u>(10,016)</u>
Net Increase in Net Assets	<u>\$ (7,170)</u>

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



NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

Local Community and Technical Colleges

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

The governing boards of the technical colleges consist of either seven or nine trustees, of which state officials appoint two or 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 Tobacco Settlement revenue bonds issued by the Buckeye Tobacco Settlement Financing Authority, the Higher Education Capital Facilities general obligation bonds issued by the Ohio Public Facilities Commission (OPFC), and the Higher Education Facilities special obligation bonds, previously issued by the OPFC, for these purposes. The bonds provide funding for capital appropriations, which are available to the local community and technical colleges for spending on capital construction.

Fiscal year 2012 expenses that were included in the "Higher Education Support" function under governmental activities in the Statement of Activities for state assistance to the local community and technical colleges are presented below (dollars in thousands).

	Operating Subsidies	Capital Subsidies	Total
Local Community Colleges:			
Cuyahoga	\$ 56,217	\$ 4,402	\$ 60,619
Eastern.....	4,736	27	4,763
Lakeland	17,682	547	18,229
Lorain County	24,032	2,144	26,176
Rio Grande	4,908	371	5,279
Sinclair	47,137	628	47,765
Total Local Community Colleges.....	<u>154,712</u>	<u>8,119</u>	<u>162,831</u>
Technical Colleges:			
Belmont	5,451	71	5,522
Central Ohio	10,268	162	10,430
Hocking	14,064	216	14,280
James A. Rhodes	9,664	1,070	10,734
Marion	5,657	84	5,741
Zane	6,038	98	6,136
North Central	7,122	599	7,721
Stark	24,728	425	25,153
Total Technical Colleges	<u>82,992</u>	<u>2,725</u>	<u>85,717</u>
Total	<u>\$ 237,704</u>	<u>\$ 10,844</u>	<u>\$ 248,548</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 Housing Finance Agency, the Ohio Turnpike Commission, the Petroleum Underground Storage Tank Release Compensation Board, the Higher Education Facility Commission, and the Ohio Legal Assistance Foundation. However, the primary government's accountability for these organizations does not extend beyond making the appointments.



NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

During fiscal year 2012, the State had the following related-party transactions with its related organizations:

- The General Fund reports a \$184.1 million loans receivable balance due from the Ohio Housing Finance Agency. The State made the loans to finance and support the agency's housing programs.
- The Ohio Department of Taxation paid the Ohio Turnpike Commission \$2.1 million from the General Fund for the Commission's share of the State's motor vehicle fuel excise tax allocation.
- Separate funds, established for the Ohio Housing Finance Agency, the Petroleum Underground Storage Tank Release Compensation Board, and the Higher Education Facility Commission, were accounted for on the primary government's Ohio Administrative Knowledge System. The primary purpose of the funds is to streamline payroll and other administrative disbursement processing for these organizations. The financial activities of the funds, which do not receive any funding support from the primary government, have been included in the agency funds.
- From the Job, Family and Other Human Services Fund, the Public Defender's Office paid the Ohio Legal Assistance Foundation approximately \$3.9 million for administrative services performed under contract for the distribution of state funding to nonprofit legal aid societies.

NOTE 19 CONTINGENCIES AND COMMITMENTS

A. Litigation

The State, its units, and employees are parties to numerous legal proceedings, which normally occur in governmental operations. Pending litigation affecting the Department of Commerce, the Department of Natural Resources, and the Bureau of Workers' Compensation is discussed below. 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.

Department of Commerce (COM)

In the *Sogg v. Department of Commerce* case, the plaintiff claimed a provision in Section 169.08(D) of Ohio Revised Code created an unconstitutional taking of property in violation of the takings clause of the United States and Ohio Constitutions. In April 2009, the Supreme Court of Ohio declared Section 169.08(D) unconstitutional. The Court held that the State may not retain the interest earned on unclaimed funds and that claimants are entitled to interest on the funds for the four years prior to the filing of the claim. The case was remanded to the trial court to determine the method for determining the amount of interest owed to each claimant in the class. On August 18, 2009, the trial court issued an opinion in which it found that the eligible class members should be awarded interest on their accounts at the rate of six percent per annum as well as a percentage of the State's liability as attorney's fees. On March 19, 2010, the trial court issued a decision on the contested calculations used to determine the State's total liability. This decision was appealed to the Tenth District Court of Appeals, which reversed the decision in part. The plaintiff-class unsuccessfully sought a discretionary appeal in the Ohio Supreme Court. The trial court ordered COM to calculate its liability and share that information with the plaintiff-class counsel. A trial was scheduled for December 22, 2011, but a settlement was tentatively reached in lieu of trial for \$15 million. On June 4, 2012, all parties signed the \$15 million Settlement Agreement and the court granted preliminary approval. The settlement distribution cut-off was set at \$5 dollars. A Fairness Hearing to finalize the class of plaintiffs and award attorney fees was held on September 6, 2012. On September 7, 2012, a Final Judgment Entry was signed in the amount of \$15.4 million. This amount constituted the final settlement amount plus additional interest earned from May 31, 2012, to August 31, 2012.

The settlement requires COM to pay interest on future successful claims for unclaimed funds, unless and until the statute is changed. Interest on claims will be calculated based on a formula of 100 percent of interest earned by COM and 40 percent of interest earned by other state entities. COM estimates the average interest earnings payable annually on future claims to be \$1.2 million, assuming the current interest rates.

During fiscal year 2009, COM deposited \$1.2 million in an escrow account that has been used for the final settlement. The additional \$13.8 million required by the settlement has been included in fiscal year 2012 as "Refund and Other Liabilities" for the General fund in the governmental funds' Balance Sheet and for governmental activities in the government-wide Statement of Net Assets.



NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

Department of Natural Resources (DNR)

In the case originally styled *Doner v. Zody* case, approximately 88 landowners sought a writ of mandamus ordering DNR to appropriate their lands which were alleged to have been “taken” as a result of a 1997 change to the spillway at Grand Lake St. Marys in Mercer County. In December of 2011, the Ohio Supreme Court ruled in favor of the plaintiffs, holding that the actions of DNR to modify the spillway and to cease adjusting water levels at Grand Lake St. Marys constituted a taking of the plaintiffs’ property since those decisions caused intermittent, recurrent flooding on their properties. The Court did not specify how much property was taken nor did it value the property taken.

Since that decision, six landowners effectively separated from the original class by completing appropriations proceedings in Mercer County Common Pleas Court. On December 5, 2012, the Supreme Court ordered DNR to file separate appropriation cases for each remaining landowner from the original class within 120 days. The remaining 82 of the original relators now have separate appropriation cases and Mercer County Court of Common Pleas will determine the value taken. The State’s ultimate liability will be paid from the General fund.

The ultimate outcome of this litigation cannot be presently determined. Accordingly, no provision for any liability resulting from this case has been reported in the financial statements.

In the *State ex rel. Merrill v. Ohio Dept. of Natural Resources* class action case, property owners bordering Lake Erie sought declaratory relief as to title for shoreline land consistent with their deeds (that they own the land between the “ordinary high-water mark” and the legal boundary of their properties). Plaintiffs also sought to compel appropriations from the State and DNR for taking of this land. DNR and the State sought declaratory judgment that the State actually holds this land in trust for the people of Ohio. On December 11, 2007, the trial court in Lake County Common Pleas Court granted the plaintiffs’ Motion for Summary Judgment and denied DNR’s Motion for Summary Judgment. Defendants other than DNR appealed to the Eleventh District Court of Appeals. Plaintiff filed cross-appeals. On August 24, 2009, the Eleventh District issued its opinion substantially affirming the trial court’s granting of Summary Judgment to Plaintiffs-Appellees. The State and other defendants sought review of the Appellate Court decision by the Ohio Supreme Court.

On March 3, 2010, the Ohio Supreme Court held that the State of Ohio had standing to appeal a judgment when it is an aggrieved party affected by the action (reversing the lower courts). All merit and reply briefing was concluded on December 16, 2010. Oral argument was held February 1, 2011. On September 14, 2011, the Ohio Supreme Court reversed the Court of Appeals and determined that the territory of Lake Erie held in public trust by the State extends to the “natural shoreline” which is the “line at which water usually stands when free from disturbing causes.” Upon remand to the Lake County Common Pleas Court, on August 27, 2012, an order sua sponte was issued certifying a class for the second count of the complaint, which requested relief in mandamus to force DNR to bring a reverse condemnation action against each landowner on the Lake Erie shore. The order further clarified the previous decision regarding whether a taking of “the natural shoreline” is determined by a high or low watermark. DNR was also ordered to repay landowners for all submerged land lease fees collected since 1998.

On September 24, 2012, DNR filed an appeal of the decision. On October 3, 2012, permission was granted to Intervening-Defendants National Wildlife Federation and Ohio Environmental Council to join the appeal of DNR. On November 21, 2012, the court issued an Order to Show Cause to all defendants why the appeal should not be dismissed for lack of a final, appealable order. On December 5, 2012, DNR filed a Brief Regarding the Final Appealable Order in response to the court’s Order to Show Cause. On December 10, 2012, the Intervening-Defendants filed a Motion to Stay. Plaintiffs filed support of the Motion to Stay on December 14, 2012. On the same date, plaintiffs filed a Response in Opposition to the State’s Response in Order to Show Cause. On December 17, 2012, DNR filed a final Merit Brief appeal. On December 19, 2012, Intervening-Defendants filed assignments of error and a brief. On January 8, 2013, Intervening-Plaintiffs Homer S. Taft, et al. filed an Answer Brief. On January 18, 2013, Intervening-Defendants filed a Reply to the Answer Brief of Intervening-Plaintiffs. On February 8, 2013, plaintiffs filed a Merit Brief with a request for oral argument. On February 19, 2013, Intervening-Defendants filed a response to plaintiffs’ Merit Brief.

The ultimate outcome of this litigation cannot be presently determined. Accordingly, no provision for any liability resulting from this case has been reported in the financial statements.



NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

Bureau of Workers' Compensation/Industrial Commission (BWC/IC)

In the *San Allen, Inc. dba Corky and Lenny's v. BWC* class action case, plaintiffs allege that non-group-rated employers subsidize group-rated employers, and that this bias in premiums violates various provisions of the Ohio Constitution. Plaintiffs have asked the court to declare the group rating plan unconstitutional and require BWC to repay to the class members all excessive premiums collected by BWC, with interest and attorney fees. In April 2008, plaintiffs filed a motion for a preliminary injunction enjoining BWC from enforcing the group rating statutes during pendency of the action (beginning July 1, 2008). A hearing was held on the injunction request in August 2008. In December 2008, the Cuyahoga County Common Pleas Court issued the requested preliminary injunction restraining BWC from continuing its current group rating plan for the policy year beginning July 1, 2009. At the same time, the common pleas court ordered that BWC enact a group retrospective rating plan for the policy year beginning July 1, 2009. BWC filed an appeal and a motion for stay with the common pleas court. On December 17, 2008, the General Assembly passed House Bill 79 clarifying that Ohio's group rating program was not intended to be retrospective only. On January 6, 2009, the Governor signed the bill making it effective immediately. On January 7, 2009, BWC filed a motion to dissolve the preliminary injunction and in March 2009 the common pleas court issued an order vacating the preliminary injunction. Plaintiff has filed a motion for class certification and BWC filed a response in opposition. In January 2010, the common pleas court granted class certification and BWC appealed. Oral arguments on BWC's appeal of the class certification were held on February 16, 2011. On April 7, 2011, the court issued its written decision affirming the trial court's decision to grant class certification and remanding the case to trial court. On August 20, 2012, a bench trial on the merits and the question of damages commenced in the trial court and concluded on August 31, 2012. On October 5, 2012, post-trial briefs were filed by all parties. On December 28, 2012, the Court found for the plaintiffs and awarded damages yet to be specified. The Court found that BWC must pay plaintiffs the unlawfully collected excess premiums but that interest is not to be charged on the overpayment. On March 20, 2013, the Court issued a final order and opinion.

On January 4, 2013, BWC renewed its motion for findings of fact and conclusions of law. On January 14, 2013, plaintiffs filed a Reply to BWC's renewed motion. On January 22, 2013, BWC filed a Response to Plaintiff's Reply. On January 25, 2013, BWC filed an appeal of the Court's Order to the Eighth District Court of Appeals, which appeal was dismissed as untimely by the Court of Appeals on February 15, 2013. BWC will be filing a new notice of appeal now that the restitution amount has been finalized at the trial level. BWC will be appealing both the underlying issue of liability and the amount of restitution awarded.

The ultimate outcome of this litigation cannot be presently determined. Accordingly, no provision for any liability resulting from this case has been reported in the financial statements.

B. Federal Awards

The State of Ohio receives significant awards from the Federal Government in the form of grants and entitlements, including certain non-cash programs. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the spending 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 2011 State of Ohio Single Audit (issued in March 2012), \$8.3 million of federal expenditures were in question as not being appropriate under the terms of the respective grants. No provision for any liability or adjustments has been recognized for the questioned costs in the state's financial statements for the fiscal year ended June 30, 2012.



NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

C. Construction Commitments

As of June 30, 2012, the Ohio Department of Transportation had total contractual commitments of approximately \$2.36 billion for highway construction projects. Funding for future projects is expected to be provided from federal, primary government, general obligation and revenue bonds, and local government sources in amounts of \$1.65 billion, \$345.8 million, \$308.3 million and \$49.1 million, respectively.

As of June 30, 2012, other major non-highway construction commitments for the primary government’s budgeted capital projects funds and major discretely presented component unit funds were as follows (dollars in thousands):

<u>Primary Government</u>	
Mental Health/Developmental Disabilities	
Facilities Improvements	\$ 32,421
Parks and Recreation Improvements	8,655
Administrative Services	
Building Improvements	9,580
Youth Services Building Improvements	9,566
Adult Correctional Building Improvements	18,308
Highway Safety Building Improvements	25
Ohio Parks and Natural Resources	4,948
Total	<u>\$ 83,503</u>
<u>Major Discretely Presented Component Units</u>	
Ohio State University	\$ 705,909
University of Cincinnati	229,759

D. Tobacco Settlement

In November 1998, the Attorneys General of 46 states, five U.S. territories, and the District of Columbia signed the Master Settlement Agreement (MSA) with the nation’s largest tobacco manufacturers. This signaled the end of litigation brought by the Attorneys General against the manufacturers in 1996 for state healthcare 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.

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

While BTSFA’s share of the total base payments to the states through 2052 will not change over time, estimating the amount of annual payments that actually will be received in any given year can be complex, since under the terms of the MSA, payments are subject to a number of adjustment factors, including an inflation adjustment, a volume adjustment, and a potential adjustment for market share losses of participating manufacturers. Some of these adjustments, such as the inflation adjustment, result in BTSFA receiving higher payments. Other factors, such as the volume adjustment and the market share adjustment can work to reduce the amount of the State’s annual payments.

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

During fiscal year 2012, Ohio received \$294.6 million, which is approximately \$88.8 million or 23.2 percent less than the pre-adjusted base payment for the year.



NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

As of June 30, 2012, the estimated tobacco settlement receivable in the amount of \$394.3 million is included in "Other Receivables" reported for the governmental funds. The receivable includes \$143.2 million for payments withheld from BTSFA beginning fiscal year 2008 and \$72.7 million for payments withheld from the State for fiscal years 2006 and 2007. These amounts were withheld by the cigarette manufacturers when they exercised the market share loss provisions of the MSA. The moneys are on deposit in an escrow account until pending litigation between the States and the manufacturers is resolved. Both the Authority and the State contend that they have met their obligations under the MSA and are due the payments withheld.

The Tobacco Settlement receipts provide funding for the construction of primary and secondary school capital facilities, education technology for primary and secondary education and for higher education, programs for smoking cessation and other health-related purposes, biomedical research and technology, and assistance to tobacco-growing areas in Ohio.

The BTSFA revenue bonds are secured by and payable solely from the tobacco settlement receipts and other collateral pledged under an indenture between BTSFA and U.S. Bank National Association, as trustee. In the event that the assets of BTSFA have been exhausted, no amounts will thereafter be paid on the bonds.

The enforcement of the terms of the MSA has been challenged by lawsuits and may continue to be challenged in the future. In the event of an adverse court ruling, BTFSA may not have adequate financial resources to make payment on the bonds.

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
2013.....	\$ 363,783	\$ 23,966	\$ 387,749
2014.....	367,789	24,230	392,019
2015.....	371,684	24,486	396,170
2016.....	376,306	24,791	401,097
2017.....	380,940	25,096	406,036
2018-2022.....	2,207,289	—	2,207,289
2023-2027.....	2,346,281	—	2,346,281
2028-2032.....	2,505,977	—	2,505,977
2033-2037.....	2,674,512	—	2,674,512
2038-2042.....	2,848,790	—	2,848,790
2043-2047.....	3,030,814	—	3,030,814
2048-2052.....	3,228,246	—	3,228,246
Total	<u>\$ 20,702,411</u>	<u>\$ 122,569</u>	<u>\$ 20,824,980</u>



NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

E. Pollution Remediation Activities

During fiscal year 2012, the State was involved in remediation activities for pollution at various sites. These activities include site investigation, cleanup, and monitoring. The following describe the sites and the estimated cost of remediation activities (in general, projects with a liability of less than \$100 thousand at June 30 are not listed).

As a result of the imminent danger to public health, the Ohio Environmental Protection Agency (EPA) has assumed responsibility for operating and maintaining the collection and treatment system at the Lincoln Fields contaminated water system in Mansfield. The liability at June 30 is estimated at \$1.7 million. Cost was estimated by the EPA site coordinator using actual invoices to date.

In accordance with Resource Conservation Recovery Act (RCRA) regulations, the Ohio Department of Natural Resources (DNR) continues pollution monitoring and maintenance activities at the closed Cowan Lake S. P. Wood Treatment Plant at an estimated cost of \$280 thousand. DNR estimated the cost using previous invoices to date and projecting the costs over the remaining 18 year commitment to test the site for contamination.

The Ohio Department of Public Safety has been named as a responsible party to remediate pollution resulting from soil (sandstone) contamination that may be coming from former underground storage facilities at two of its sites. Due to the nature of the activity, cost estimates are currently unavailable.

The Ohio Department of Youth Services (DYS) has assumed responsibility to remediate pollution resulting from soil contamination coming from a former underground storage facility at its Scioto Juvenile Correctional Facility. The liability at June 30 is estimated at \$106 thousand. Cost was estimated by the DYS site coordinator using actual invoices to date.

The Ohio Department of Transportation has been named as a responsible party to remediate pollution at two sites owned by the agency. The pollution at one of the sites is the result of an underground storage tank leak. Another site has contaminated soil on the agency-owned property and contaminated groundwater on the surrounding properties. In total, the June 30 liability to eliminate the pollution and continue monitoring activities is estimated to be \$1.1 million. Cost was estimated by the onsite coordinators using actual invoices to date.

The liabilities described above are reported as "Refund and Other Liabilities," "Other Noncurrent Liabilities-Due in One Year," and "Other Noncurrent Liabilities-Due in More Than One Year" for governmental activities in the government-wide Statement of Net Assets. The reported liabilities for these activities are estimates and are subject to change over time. Variances in the final costs may result from changes in technology, changes in responsible parties, results of environmental studies, and changes in laws and regulations. Future recoveries from other responsible parties may also reduce the final cost paid by the State.

Capital assets may be created during the pollution remediation process. These capital assets will be reported in accordance with the State's capital assets policy. As of June 30, 2012, no capital assets were created nor reported as a result of any pollution remediation process.

F. Encumbrances

At June 30, 2012, the State has significant encumbrances of \$603.1 million in the General Fund, \$897.1 million in the Job, Family and Other Human Services Special Revenue Fund, and \$3.75 billion in the nonmajor governmental funds.

NOTE 20 RISK FINANCING

A. Workers' Compensation Benefits

The Ohio Workers' Compensation System, which the Ohio Bureau of Workers' Compensation and the Industrial Commission of Ohio 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.



NOTE 20 RISK FINANCING (Continued)

“Benefits Payable” of \$17.82 billion is reported in the Workers’ Compensation Enterprise Fund (Fund) as of June 30, 2012. This amount represents 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 \$1.89 billion, is an estimate of future expenses to be incurred in the settlement of claims. The estimate for this liability is based on projected claim-related expenses, estimated costs of the managed care Health Partnership Program, nonincremental adjustment expense, and the reserve for compensation.

Management of the Bureau of Workers’ Compensation and the Industrial Commission believes that the recorded reserves for compensation and compensation adjustment expenses make for a reasonable and appropriate provision for expected future losses. While management uses available information to estimate the reserves for compensation and compensation adjustment expenses, future changes to the reserves for compensation and compensation adjustment expenses may be necessary based on claims experience and changing claims frequency and severity conditions. The methods of making such estimates and for establishing the resulting liabilities are reviewed quarterly and updated based on current circumstances. Any adjustments resulting from changes in estimates are recognized in the current period.

Benefits payable and the compensation adjustment expenses liability have been discounted at four 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 \$32.2 billion, as of June 30, 2012, and \$32.5 billion, as of June 30, 2011. For additional information, refer to the Fund’s separate audited financial report, for the fiscal year ended June 30, 2012.

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.

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

	Fiscal Year 2012	Fiscal Year 2011
Benefits Payable and Compensation		
Adjustment Expenses Liability, as of July 1	\$ 19,950	\$ 19,804
Incurring Compensation		
and Compensation Adjustment Benefits.....	1,833	2,239
Incurring Compensation		
and Compensation Adjustment Benefit Payments		
and Other Adjustments	<u>(2,078)</u>	<u>(2,093)</u>
Benefits Payable and Compensation		
Adjustment Expenses Liability, as of June 30	<u>\$ 19,705</u>	<u>\$ 19,950</u>

B. State Employee Healthcare Plans

Employees of the primary government have the option of participating in the Ohio Med PPO Plan. The plan is managed by two third party administrators (TPAs), Medical Mutual of Ohio (MMO) and United Healthcare (UHC). The two TPAs are responsible for covering separate regions throughout 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 TPAs’ actuaries calculate estimated claims liabilities based on prior claims data, employee enrollment figures, medical trends, and experience.



NOTE 20 RISK FINANCING (Continued)

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 MMO or UHC for claims settlement. Prior to July 1, 2011, Aetna had served as a healthcare plan provider to the State; as such, the primary government may also submit payments to Aetna for claims settlements for claims incurred through June 30, 2011.

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, 2012, approximately \$40 million in total assets was available in the Payroll Withholding and Fringe Benefits Agency Fund to cover claims for MMO. Changes in the balance of claims liabilities for MMO during the past two fiscal years were as follows (dollars in thousands):

MMO		
	Fiscal Year 2012	Fiscal Year 2011
Claims Liabilities, as of July 1	\$ 34,606	\$ 33,046
Incurred Claims	142,936	258,766
Claims Payments	(161,283)	(257,206)
Claims Liabilities, as of June 30	<u>\$ 16,259</u>	<u>\$ 34,606</u>

As of June 30, 2012, the resources on deposit in the Agency Fund for MMO exceeded the estimated claims liability by approximately \$23.7 million, thereby resulting in a funding surplus. Eighty-five percent or \$20.2 million of the surplus, representing the employer share, was reallocated back to the governmental and proprietary funds, with a resulting reduction in expenditures/expenses.

As of June 30, 2012, approximately \$45.5 million in total assets was available in the Payroll Withholding and Fringe Benefits Agency Fund to cover claims for UHC. Changes in the balance of claims liabilities for UHC during the past two fiscal years were as follows (dollars in thousands):

UHC		
	Fiscal Year 2012	Fiscal Year 2011
Claims Liabilities, as of July 1	\$ 8,423	\$ 8,582
Incurred Claims	260,358	68,521
Claims Payments	(246,430)	(68,680)
Claims Liabilities, as of June 30	<u>\$ 22,351</u>	<u>\$ 8,423</u>

As of June 30, 2012, the resources on deposit in the Agency Fund for UHC exceeded the estimated claims liability by approximately \$23.1 million, thereby resulting in a funding surplus. Eighty-five percent or \$19.7 million of the surplus, representing the employer share, was reallocated back to the governmental and proprietary funds, with a resulting reduction in expenditures/expenses.

As noted previously, effective July 1, 2011, the State terminated their contract with Aetna to serve as one of the State's healthcare providers. As of June 30, 2012, the State had not yet paid all Aetna claims incurred through June 30, 2011. As of June 30, 2012, approximately \$25.9 million in total assets was available in the Payroll Withholding and Fringe Benefits Agency Fund to cover Aetna claims incurred through June 30, 2011. Changes in the balance of claims liabilities for the plan during the past two fiscal years were as follows (dollars in thousands):

Aetna		
	Fiscal Year 2012	Fiscal Year 2011
Claims Liabilities, as of July 1	\$ 8,424	\$ 10,129
Incurred Claims	-	71,777
Claims Payments	(7,833)	(73,482)
Claims Liabilities, as of June 30	<u>\$ 591</u>	<u>\$ 8,424</u>



NOTE 20 RISK FINANCING (Continued)

As of June 30, 2012, the resources on deposit in the Agency Fund for Aetna exceeded the estimated claims liability by approximately \$25.3 million, thereby resulting in a funding surplus. The residual amount remaining for Aetna after all claims have been paid will be allocated to the MMO and UHC accounts.

C. Other Risk Financing Programs

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

NOTE 21 SUBSEQUENT EVENTS

A. Bond Issuances

Subsequent to June 30, 2012 (December 31, 2011, for the Ohio Water Development Authority), the State issued major debt as detailed in the table below:

Debt Issuances			
Subsequent to June 30, 2012			
<i>(dollars in thousands)</i>			
	Date Issued	Net Interest Rate or True Interest Cost	Amount
Primary Government:			
<i>Ohio Public Facilities Commission-General Obligation Bonds:</i>			
Infrastructure Improvements, Series 2013A.....	01/08/13	2.77%	\$150,000
Infrastructure Improvements, Refunding Series 2013B.....	01/08/13	1.80%	66,385
Common Schools Capital Facilities, Refunding Series 2013A.....	02/14/13	1.83%	194,775
Higher Education Capital Facilities, Refunding Series 2013A.....	02/14/13	1.81%	66,915
Total General Obligation Bonds			<u>478,075</u>
<i>Treasurer of State-General Obligation Bonds:</i>			
Highway Capital Improvement-Tax Exempt, Series Q	10/11/12	2.40%	154,405
Total General Obligation Bonds			<u>154,405</u>
<i>Treasurer of State-Revenue Bonds:</i>			
State Infrastructure Project, Series 2012-1.....	11/06/12	2.08%	183,530
Total Revenue Bonds			<u>183,530</u>
<i>Treasurer of State-Special Obligation Bonds:</i>			
Juvenile Correctional Facilities, Series 2013A.....	01/15/13	2.41%	15,000
Mental Health Facilities Improvement, Series 2013A.....	02/26/13	1.93%	25,000
Mental Health Facilities Improvement, Refunding Series 2013B.....	02/26/13	1.30%	15,375
Cultural and Sports Capital Facilities, Series 2013A	02/26/13	1.96%	18,000
Cultural and Sports Capital Facilities, Refunding Series 2013B	02/26/13	1.40%	19,890
Adult Correctional Facilities, Refunding Series 2013A.....	02/26/13	2.10%	47,320
Total Special Obligation Bonds			<u>140,585</u>
<i>Ohio Department of Administrative Services</i>			
<i>Certificates of Participation:</i>			
Multi-Agency Radio Communications System (MARCS), Series 2012.....	09/05/12	2.63%	56,235
Total Certificates of Participation			<u>56,235</u>
Total Primary Government			<u>\$1,012,830</u>
Major Component Units:			
<i>Ohio Water Development Authority:</i>			
WPCLF Revenue Bonds, Refunding Water Quality Series 2012A.....	03/07/12	0.28% - 1.80%	\$62,555
WPCLF Notes-Water Quality Floating Rate Notes Series 2012A.....	11/20/12	Variable	50,000
Total Ohio Water Development Authority			<u>\$112,555</u>
<i>The Ohio State University:</i>			
General Receipts Bonds-Tax Exempt, Series 2012A	07/19/12	2.00% - 5.00%	\$91,165
General Receipts Bonds-Taxable, Series 2012B	07/19/12	0.48% - 3.67%	23,170
Special Purpose General Receipts Bonds, Series 2013A	01/31/13	3.50% - 5.00%	337,955
Energy Efficiency Improvements Notes	12/20/12	0.56% - 1.56%	6,942
Total The Ohio State University			<u>\$459,232</u>
<i>University of Cincinnati:</i>			
General Receipts Bonds-Tax Exempt, Series 2012C	12/06/12	2.00% - 5.00%	\$82,600
Bond Anticipation Notes, Series 2012D	12/13/12	1.50%	2,500
Total University of Cincinnati			<u>\$85,100</u>



NOTE 21 SUBSEQUENT EVENTS (Continued)

B. Transfer of the State's Spirituous Liquor System Franchise

On February 1, 2013, the State transferred its spirituous liquor distribution and merchandising operations for a period of 25-years to JobsOhio Beverage System, a nonprofit corporation the sole member of which is JobsOhio, which is itself a nonprofit corporation created to promote economic development, job creation and retention, job training, and the recruitment of business to the State. In exchange, the State received a payment of \$1.46 billion, distributed as \$500 million to the GRF, \$863.5 million to provide for the payment of all debt service on the outstanding Economic Development and Revitalization revenue bonds and notes (see NOTE 11), and \$100 million to fund certain revitalization projects. With that transfer, the State will forgo deposits to the GRF from the net liquor profits but expects to receive a portion of future liquor profits annually. In addition, pursuant to the terms of the franchise agreement with JobsOhio, the State may not issue additional obligations secured by a pledge of profits from the sale of spirituous liquor during the 25-year term of that franchise. Litigation related to JobsOhio and the General Assembly's February 2011 law that authorized its creation has been filed and is currently pending.