



Ohio Treasurer of State

# Annual Report

## Fiscal Year 2007

August 1, 2007



**RICHARD CORDRAY**  
OHIO TREASURER *of* STATE



Annual Report  
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**Letter from the Treasurer to the Citizens of Ohio**

August 1, 2007

Dear Ohioans,

I am pleased to present the Ohio Treasurer of State's Annual Report for Fiscal Year 2007. This report is intended to increase the transparency of the Treasury by providing the public with information regarding its operations during fiscal year 2007.

The Treasurer of State is entrusted with the protection of public funds. I believe that we ought to be as zealous about protecting the money of the taxpayers as we are about protecting our own money.

Since taking office on January 8, 2007, we have found a variety of ways to save money for Ohio taxpayers, including correcting a banking billing error amounting to a savings of \$418,000, ending a billing service that cost \$600,000 by bringing that function in-house, and eliminating \$63,000 of redundant information technology services. We also sought no increases in the continuation budget proposed by the prior administration, which effectively flat-funded the Treasurer's Office for the next biennium.

Along with protecting and growing the state's assets, the treasury is focused on working with community and business leaders to create jobs and increase financial literacy. Through programs like the Agricultural Linked Deposit for farmers, the Small Business Linked Deposit for entrepreneurs, BidOhio for local banks, STAR Ohio for local governments, Center for Public Investment Managers for public finance officials, Teachers Academy for educators, and a wide variety of consumer financial education offerings, we are constantly working to sharpen our financial expertise and put it to the best use possible for the citizens of Ohio.

I hope you find the enclosed information illuminating. We eagerly want to be of assistance and I pledge that the Ohio Treasury will continue to serve as a resource in every possible way.

Respectfully,

A handwritten signature in blue ink that reads "Richard Cordray".

Richard Cordray  
Ohio Treasurer of State



### **Mission of the Ohio Treasurer's Office**

The mission of the Ohio Treasurer's Office is to protect, invest and collect state funds in accordance with Ohio law and sound financial policy. The Ohio Treasury also promotes economic growth and stability, prosperity and security through steadfast fiscal leadership. Additionally, the Ohio Treasury advances public and personal financial education and assists those who seek economic guidance about how to be more effective in managing their own affairs.

We will perform these duties as mindful servants to the People of the State of Ohio. We will work closely and amicably with local, county, state and federal agencies to the best of our ability. We will provide vision, integrity and ingenuity while renewing public trust and bestowing responsible fiscal leadership to the State of Ohio.



### **About Treasurer Richard Cordray**

Ohio Treasurer Richard Cordray was elected in November of 2006 and took office January 8, 2007. He manages all banking functions for the State of Ohio, an investment portfolio averaging almost \$14 billion. He is taking the lead to bring personal finance education to Ohio's schools.

Cordray is experienced in government, having served as Franklin County Treasurer, a State Representative, and as Ohio's first State Solicitor. An attorney, Cordray has argued six cases before the U.S. Supreme Court and taught for 15 years at The Ohio State University's Moritz College of Law.

Cordray is an active volunteer and received the Ohio Legal Assistance Foundation's Presidential Award for his work supporting legal services for the poor. In 2000, the Human Rights Campaign recognized him as its Humanitarian of the Year for his efforts to promote tolerance and understanding in our communities. In 2005, he was named National County Leader of the Year by *American City & County* magazine for his work as Franklin County Treasurer to revitalize vacant and abandoned properties, boost delinquent property tax collection, help homeowners in danger of foreclosure and promote personal finance education in the schools.

Cordray lives near Grove City with his wife Peggy and their twins, Danny and Holly.



## **Duties and Responsibilities of the Ohio Treasurer**

The Ohio Treasurer of State is responsible for managing and collecting a variety of Ohio's public funds. Additionally, Treasurer Cordray chairs the State Board of Deposit, which is responsible for selecting state depositories and negotiating contracts for the processing of Ohio's public monies.

Chapter 113 of the Ohio Revised Code spells out the duties of the Ohio Treasurer of State's office. Broadly, these are to collect, invest, and protect the state's financial assets.

### *Collect*

The Ohio Treasurer collects all state taxes except the personal income tax, horse racing wager tax, and liquor gallonage tax. (Those funds are collected by the state agency charged with administering each area and deposited by those agencies into the Treasury.) The Treasury also collects most fees and fines administered by the State of Ohio.

In Fiscal Year 2007, the total amount collected by or deposited into the Ohio Treasury was \$51.6 billion. Of that total, more than \$17 billion was collected directly by the Treasury, and \$34 billion was deposited into the Treasury by other state agencies.

### *Invest*

The Ohio Treasurer manages the state's three multi-billion dollar investment portfolios: the General Revenue Fund; the STAR Ohio investment pool; and the Lottery Deferred Prizes Trust Fund. In Fiscal Year 2007, the combined investment portfolio managed by Treasurer Cordray totaled more than \$13.9 billion.

### *Protect*

As of June 30, 2007, state assets managed or held by the Ohio Treasurer's office totaled more than \$183 billion. Custodial assets include those of the Public Employees Retirement System (PERS), State Teachers Retirement System (STRS), School Employees Retirement System (SERS), Police and Fire Pension Fund (OP&F), Highway Patrol Retirement System (HPRS), and several other state agencies including the Ohio Bureau of Workers' Compensation and the Ohio Lottery Commission.

### *Other Duties*

The Treasurer of State also:

- Makes appointments to various boards;
- Maintains various state accounts and processes payments of all state warrants and checks issued for claims and expenses incurred in the operation of state government;
- Serves as a member of the following: Sinking Fund Commission, which administers the sale and redemption of certain voter-authorized bonds; the Ohio Public Facilities Commission, which issues debt to fund public parks, hospitals, and education; the Agricultural Financing Commission; Financial Planning and Supervision Commission; Mine Subsidence Underwriting Board; Ohio Student Tuition Recovery Authority; and Petroleum Underground Storage Tank Release Compensation Board;
- Is the issuing authority for voter-approved general obligation highway improvement bonds, federally backed bonds for highway infrastructure projects, and bonds for economic development, mental health, and cultural arts facilities. The Treasurer also issues bonds for the Ohio Enterprise Bond and Ohio Centric Student Loan programs, and the State Infrastructure Bank.



### **History of the Ohio Treasurer's Office**

Richard Cordray is the 46th Treasurer of the State of Ohio. The first Treasurer of Ohio was John Armstrong, an adventurer, explorer, and the first and only Treasurer of the Northwest Territory. A native of New Jersey, Armstrong made his home in Marietta, Ohio and served as Treasurer of the Northwest Territory until Ohio became a state in 1803. The man who followed Armstrong as the first Treasurer of the new state of Ohio was William McFarland. Serving for 13 years, McFarland was also Ohio's longest serving Treasurer.

Ohio Treasurers were originally appointed by the state legislature to three-year terms, but the Ohio Constitution of 1851 provided for popular election and changed the length of the term to two years. In those early years of statehood, the Treasury followed the capitol from Chillicothe to Zanesville and then to Columbus. At the onset of the Civil War in 1861, the Treasury moved to the newly-constructed Statehouse. A large vault was built into the new office, which Treasurer A.P. Stone thought would be "sufficient for all time." (He clearly did not foresee today's Treasury, which oversees an average portfolio of about \$14 billion!) Two more vaults were needed before the Treasury was moved from the Statehouse across the street to the Rhodes State Office Tower in 1974.

Much has changed at the Ohio Treasury over the years, reflecting greater volume and sophistication, but the basic job remains the same. The Treasurer collects, protects, and invests all of Ohio's money (mostly tax dollars, but also fees and grants), and makes sure that enough money is available at all times to pay the bills of the state government. In addition, the Treasurer chairs the Board of Deposit and by law is custodian of all funds for the Bureau of Workers Compensation, the five state retirement systems, the Ohio Tuition Trust Authority, and other special funds. In 1959, the Ohio Constitution was amended to change the Treasurer's term of office to four years and today the Treasurer is responsible for safeguarding more than \$180 billion.

The Treasurer's ceremonial office is located on the first floor at the west side of the Ohio Statehouse. The main offices of the Treasury can be visited on the 9th and 10th floors of the Rhodes State Office Tower. Both offices are open to all Ohioans and other visitors.



## Overview of the Ohio Treasury

In the execution of the duties of collecting, protecting, and investing Ohio's tax dollars, the State Treasurer's Office operates a number of programs designed to help grow the economy and to provide solid financial resources for citizens.

### *Financial Literacy*

In 2010, Ohio high schools will be required to teach financial literacy. The Treasury is working with the Ohio Department of Education to train and support teachers now so that school districts can manage this new responsibility and students can benefit even sooner.

### *Linked Deposit Programs for Agriculture and Small Business*

The Treasury partners with eligible local banks to boost economic development by purchasing reduced-rate certificates of deposit (CDs). Lenders pass along the interest break in business loans to qualified farmers and entrepreneurs.

### *Community Financial Education*

The Treasury offers several education programs for citizens of all ages and income levels to assist them with financial planning and building a secure future.

### *State Treasury Asset Reserve of Ohio (STAR Ohio)*

STAR Ohio, a AAA-rated fund managed by the Ohio Treasury, is an investment pool through which local governments' deposits can earn more collectively.

### *Bid Ohio*

Eligible banks compete monthly for a portion of state deposits by bidding online. Certificates of deposit are purchased based on the highest interest rates offered, giving banks more money to work with locally, and the state a higher short-term return.

### *Center for Public Investment Management*

The Treasury provides annual training for local government public funds managers in how to safely, ethically and effectively handle resources. Classes are mandated by the state.



## Ohio Treasury by Department

Responsibilities in the Ohio Treasurer's Office are divided among the following departments.

### *Accounting*

Conducts accurate accounting of state and custodial funds received, disbursed and invested.

### *Administration*

Oversees all Treasury operations.

### *Community Education*

Educates the public and local officials through programs such as Women & Money, the Center for Public Investment Management and Teachers Academy.

### *Community Outreach*

Representatives throughout the state work with local governments, schools, banks and community groups to provide more accessible customer service and monitor Treasury programs.

### *Debt Management*

Directly responsible for some debt issuances on behalf of the state. Keeps track of monies owed to bond holders and issues funds as needed to satisfy all of the state's debt obligations.

### *Information Technology*

Develops and implements technological solutions and provides technical support for the operations of the Treasury.

### *Internal Audit*

Performs ongoing financial, operational, security and systems reviews, providing evaluations and recommendations to improve the efficiency and effectiveness of the Treasury.

### *Investments*

Manages the cash flow of the state and invests monies not earmarked for immediate use.

### *Legislative Affairs*

Treasury's representative to the General Assembly. Reviews all bills affecting the Treasury and financial issues and provides information and testimony when needed.

### *Public Affairs*

Answers questions and provides information about Treasury initiatives, programs and services. Researches and reports on relevant economic, financial and legislative issues.

### *Revenue Management*

Collects, processes and records state revenue. Provides cash management services to state agencies.

### *Securities Trust*

Collects and reports all investment income, reconciles all transactions and monitors compliance with statutes and the state's investment policies.



## **Ethics Policy of the Ohio Treasury**

### **Memorandum**

TO: ALL EMPLOYEES  
FROM: RICHARD CORDRAY  
RE: NEW ETHICS POLICY

The Ohio Treasury is a public trust that holds the future hopes of our fellow citizens. With this perspective, every Treasury employee shall be guided by these principles:

- Pursue the Public Interest: Always advance the public's interest, not your own.
- Create Trust: Show citizens that government is conducted openly and honestly in ways that deserve their respect and confidence.
- Maintain Integrity: Comply with all applicable laws and regulations, prevent fraud and abuse in every form, and help your colleagues to do the same.
- Serve Professionally: Act with courtesy and concern for the public, treat them as you would your own family, and see service to others as an honorable calling.
- Display Stewardship: Protect the public's money, avoid unnecessary expense, and use public resources carefully for official business only.
- Avoid Real and Perceived Impropriety: Prevent actual and potential conflicts between public responsibilities and private opportunities.
- Observe Openness in Government: Comply with all public records laws and requests promptly and cheerfully, as these are the public's records, not ours.
- Protect Personal Privacy: Keep confidential all private information acquired through public employment and protect personal information wherever possible.
- Practice Discretion: Do not speak ill of others, whether in our office or not, and use electronic communications with great care.

To advance these principles, the Ohio Treasurer hereby enacts this Ethics Policy:

#### **Policy Statement:**

All employees of the Treasury shall conduct themselves so as to advance the public interest and foster public confidence in the integrity of the Treasury, its processes, its objectives, and its achievements.

#### **General Standards of Ethical Conduct:**

Treasury employees must, at all times, abide by Ohio's Ethics Law, as found in Chapters 102 and 2921 of the Ohio Revised Code, and as interpreted by the Ohio Ethics Commission and Ohio courts. A copy of the Ethics Law is attached to this memorandum, and you are directed to read it and this policy in their entirety and then to submit a signed statement to Chris Glaros, General Counsel, affirming that you have reviewed and understand those provisions of the Ethics Law. Employees must conduct themselves, at all times, in a manner that avoids favoritism, bias, and the appearance of impropriety.

A general summary of the restraints upon the conduct of all employees includes, but is not limited to, those listed below. No employee shall:

- Solicit or accept anything of value (see below) from anyone doing business with the Treasury;
- Solicit or accept employment from anyone doing business with the Treasury (see below), unless the employee completely withdraws from Treasury activity regarding the party offering employment, and the Treasury approves the withdrawal;
- Use his or her public position to obtain benefits for the employee, a family member, or anyone with whom the employee has a business or employment relationship;



- Be paid or accept any form of compensation for personal services rendered on a matter before, or sell goods or services to, the Treasury;
- Be paid or accept any form of compensation for personal services rendered on a matter before, or sell (except by competitive bid) goods or services to, any state agency or office other than the Treasury, unless the employee first discloses the services or sales and withdraws from matters before the Treasury that directly affect officials and employees of the other state agency or office;
- Hold or benefit from a contract with, authorized by, or approved by, the Treasury (the Ethics Law does except some limited stock holdings, and some contracts objectively shown as the lowest cost services, where certain criteria are met);
- Vote, authorize, recommend, or in any other way use his or her position to secure approval of a Treasury contract (including employment or personal services) in which the employee, a family member, or anyone with whom the employee has a business or employment relationship, has an interest;
- Solicit or accept honoraria;
- During public service, and for one year after leaving public service, represent any person, in any fashion, before any public agency, with respect to a matter in which the official or employee personally participated while serving with the Treasury; or
- Use or disclose confidential information protected by law, unless appropriately authorized.

For purposes of this policy:

"Anything of value" includes anything of monetary value, including, but not limited to, money, gifts, food or beverages, social event tickets and expenses, travel expenses, golf outings, consulting fees, compensation, or employment.

"Value" means worth more than de minimis or nominal. Accordingly, the only items of value that the Treasurer and Treasury employees may accept are those given by:

- Close family members (parents, children, siblings, spouses, and domestic partners); or
- Personal friends who are not lobbyists, who have no contracts with the State, and who do not receive grants from the state; or
- Individuals or groups who, on occasion, present us an inexpensive, token gift such as a t-shirt, cap, mug, or lapel pin as an expression of kindness or friendship, or an inexpensive meal, beverage, or refreshment worth \$20 or less.

We will not accept any of the gifts listed above unless Ohio's ethics laws permit us to, and any gifts we do accept will be fully reported in the way the law requires.

"Anyone doing business with the Treasury" includes, but is not limited to, any person, corporation, or other party that is doing or seeking to do business with, regulated by, or has interests before the Treasury.

#### Financial Disclosure:

Every Treasury employee required to file a financial disclosure statement must file a complete and accurate statement with the Ethics Commission by April 15 of each year. Anyone who commences employment after February 15 and who is required to file a financial disclosure statement must file a statement within ninety days of employment.

#### Training:

Every Treasury employee shall be required to attend ethics training annually, which will be conducted by the Treasury in conjunction with Ethics Commission staff and will be announced in advance to all employees.

#### Reporting of Wrongdoing:

Treasury employees shall report any apparent wrongdoing so that corrective action may be taken. Suspected wrongdoing shall be reported to Chris Glaros, General Counsel, or Sue Hamilton, Chief of Operations, and may be done anonymously through an unsigned, typed letter left under his or her office door after hours. Alleged violations can also be reported to the Ohio Ethics Commission, which can be contacted at 614-466-7090. Treasury employees shall cooperate fully with any investigation of potential wrongdoing.



**Assistance:**

Treasury employees shall seek advice when unsure about the propriety of a considered action. The Ethics Commission is available to provide advice and assistance regarding the application of the Ethics Law and related statutes. The Commission can be contacted at (614) 466-7090 and its web site address is: [www.ethics.ohio.gov](http://www.ethics.ohio.gov). The Treasury's General Counsel, Chris Glaros, is also available to answer questions involving this policy.

**Vendor Ethics:**

Those who have contracts with the Treasury, including contracts for investments, should also play a role in making sure that Treasury employees follow the law and this policy. Accordingly, we shall require those doing business with the Treasury to certify, before they can receive any money from the Treasury, that they know and understand Ohio's ethics and conflict of interest laws, are aware of this ethics policy, and that they will not do anything inconsistent with those laws or this policy.

**Penalties:**

Failure of any Treasury employee to abide by this Ethics policy, or to comply with the Ethics Law and related statutes, will result in discipline, which may include dismissal, as well as any potential civil or criminal sanctions under the law.

**Improving this policy:**

This policy will be periodically updated as good, new suggestions about increasing ethical compliance come to my attention.



**Statement of Assets For State Funds**  
**As of June 30, 2007**

	<b>UNAUDITED</b>
<b>CASH ON HAND AND OTHER ITEMS:</b>	
Cash on Hand.....	\$ 80,311
Returned Checks and Other Items.....	271,554
Receivable from Custodial Funds for Warrants Settled-Prior Day.....	5,042,684
<b>TOTAL CASH ON HAND AND OTHER ITEMS.....</b>	<b>5,394,549</b>
<b>ACTIVE DEPOSITS (per BANK).....</b>	<b>30,656,474</b>
<b>INVESTMENT OF INTERIM FUNDS:</b>	
U.S. Government Securities (includes purchased accrued interest of \$3,113,074).....	1,446,457,153
U.S. Agency Securities (includes purchased accrued interest of \$1,754,528).....	4,579,200,456
Commercial Paper.....	1,882,377,222
Certificates of Deposit:	
BidOhio Program.....	300,000,000
Agricultural Linked Deposit Program.....	64,185,605
Small Business Linked Deposit Program.....	26,848,901
Money Market Funds.....	121,155,873
Israel Bonds.....	32,000,000
Lottery Commission's Structured Investment Portfolio:	
U.S. Government Securities.....	10,997,364
U.S. Agency Securities.....	585,078,034
STAR Ohio Investment Pool.....	1,928,037
<b>TOTAL INVESTMENT OF INTERIM FUNDS.....</b>	<b>9,050,228,645</b>
	9,086,279,668
Less: Net receipts unprocessed by state agencies, but invested by the Treasurer of State.....	(80,941,914)
<b>TOTAL STATE FUNDS, AS OF JUNE 30, 2007.....</b>	<b>\$ 9,005,337,754</b>

**Statement of Receipts, Disbursements and Changes in Assets in State Funds**  
**For the Year Ended June 30, 2007**

<b>BEGINNING BALANCE, JULY 1, 2006.....</b>	<b>\$ 8,366,914,259</b>
Receipts.....	51,680,518,142
Disbursements.....	(51,042,094,647)
<b>TOTAL STATE FUNDS, AS OF JUNE 30, 2007.....</b>	<b>\$ 9,005,337,754</b>

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



**Statement of Receipts, Disbursements and Net Changes in Investment Balances for Custodial Funds  
For the Year Ended June 30, 2007**

AGENCY/CUSTODIAL FUND	BALANCE JULY 1, 2006			RECEIPTS	DISBURSEMENTS	NET CHANGE IN INVESTMENTS	BALANCE JUNE 30, 2007		UNAUDITED
	CASH	INVESTMENTS					CASH	INVESTMENTS	
<b>Attorney General's Office</b>									
Revenue Recovery.....	\$ (138,376)	\$ -	\$ -	10,806,873	\$ (10,424,349)	\$ -	\$ 244,148	\$ -	-
<b>Capitol Square Review and Advisory Board</b>									
Escrow.....	100	-	-	-	-	-	100	-	-
<b>Ohio Board of Regents</b>									
Academic Scholarship.....	46,438	2,482,740	8,094,093		(8,223,715)	(128,807)	45,623	2,353,933	
Paul Douglas Teacher Scholarship .....	9,702	-	10,494		(9,702)	-	10,494	-	-
<b>Ohio Building Authority</b>									
Administrative .....	414,765	32,415	1,254,761		(1,296,885)	1,718	370,923	34,133	
<b>Ohio Bureau of Workers Compensation</b>									
Coal Workers Pneumoconiosis .....	1,223	223,934,181	25,038,128		(1,356,574)	23,681,554	1,223	247,615,735	
Disabled Workers Relief.....	11,659	1,066,277,455	119,550,726		(15,193,951)	104,356,775	11,659	1,170,634,230	
Marine Industry.....	1,993	14,646,355	2,047,843		(7,763)	2,040,080	1,993	16,686,435	
Public Work-Relief Employees' Compensation.....	2,241	20,381,270	2,577,590		(140,253)	2,437,336	2,242	22,818,606	
State Insurance.....	3,851,812	15,010,929,327	2,858,746,334		(2,406,482,670)	455,675,381	440,095	15,466,604,708	
Self-Insuring Employers .....	2,033	32,816,907	28,370,125		(14,671,233)	13,698,893	2,032	46,515,800	
<b>Ohio Department of Development</b>									
Electronic Funds Payment .....	1	-	19,984,424		(19,980,818)	-	3,607	-	-
Enterprise Bond Retirement .....	70,949	25,790,840	35,433,640		(43,140,491)	(7,629,656)	(6,246)	18,161,184	
Loan Guarantee.....	500	784,968	41,589		-	41,589	500	826,557	
Volume Cap .....	-	8,406,393	2,632,138		(2,909,623)	(278,485)	1,000	8,127,908	
<b>Ohio Department of Job and Family Services</b>									
Best Rx.....	101	704,079	966,139		(530,516)	435,724	-	1,139,803	
Child Support Payment Central.....	61,810,284	8,859,761	2,055,499,808		(2,064,598,688)	242,342	52,469,062	9,102,103	
IRS Payments.....	-	-	61,803		(61,803)	-	-	-	-
Unemployment Compensation Program:									
Auxiliary Services Personnel Unemployment.....	(33,758)	9,326,540	535,913		(1,569,717)	(1,189,476)	121,914	8,137,064	
Benefits.....	(2,176,148)	5,081,614	1,135,977,761		(1,137,653,263)	(4,942,900)	1,091,250	138,714	
Clearing.....	2,568,758	-	1,115,300,953		(1,116,804,923)	-	1,064,788	-	-
Federal Employees Benefits.....	25,165	-	2,163		(27,328)	-	-	-	-
Special Administrative.....	211,633	-	10,311,631		(9,968,822)	-	554,442	-	-
Trade .....	379,576	-	16,657,407		(16,130,941)	-	906,042	-	-
<b>Ohio Department of Natural Resources</b>									
Mine Subsidence Insurance.....	50,000	13,029,431	1,449,570		(572,818)	905,344	21,408	13,934,775	
Lake Katherine Management .....	4,795	117,386	5,998		-	5,793	5,000	123,179	
Reclamation.....	39,760	47,409	2,302		(37,215)	938	3,909	48,347	
Wildlife Habitat.....	-	121,113	127,729		(132,516)	(4,787)	-	116,326	
<b>Ohio Department of Taxation</b>									
Enforcement.....	8,530	-	1,438		(2,380)	-	7,588	-	-



**Statement of Receipts, Disbursements and Net Changes in Investment Balances for Custodial Funds**  
**For the Year Ended June 30, 2007**

AGENCY/CUSTODIAL FUND	BALANCE JULY 1, 2006			RECEIPTS	DISBURSEMENTS	NET CHANGE IN INVESTMENTS	BALANCE JUNE 30, 2007		UNAUDITED
	CASH	INVESTMENTS					CASH	INVESTMENTS	
<b>Ohio Department of Transportation</b>									
Letting Contracts.....	-	-		5,300,000	(4,450,000)	-	850,000	-	-
<b>Ohio Housing Finance Agency</b>									
Housing Development.....	506,857	35,740,387		75,253,406	(78,260,544)	(2,402,637)	(97,644)	33,337,750	
Multi-Family Housing .....	673	5,055,982		266,721	(987,608)	(721,279)	1,065	4,334,703	
<b>Ohio Lottery Commission</b>									
Lottery Gross Revenue .....	1,211,699	10,069,273		1,136,076,770	(1,134,583,517)	2,536,584	168,368	12,605,857	
<b>Ohio Public Employees Deferred Compensation Board</b>									
Employer Receiving.....	1,220,768	-		1,505,638,304	(1,505,489,719)	-	1,369,353	-	-
<b>Ohio Public Utilities Commission</b>									
Wireless 9-1-1 Government Assistance.....	2,174,960	9,058,492		23,044,114	(29,502,190)	(4,250,500)	(32,616)	4,807,992	
<b>Ohio Retirement Study Commission.....</b>									
	211,542	-		815,175	(813,973)	-	212,744	-	-
<b>Ohio State School for the Blind.....</b>									
	4,295	402,057		21,542	(160)	21,302	4,375	423,359	
<b>Ohio State School for the Deaf .....</b>									
	761	-		3,666	(3,928)	-	499	-	-
<b>Ohio Supreme Court</b>									
Attorney Registration.....	328,697	-		4,403,687	(3,184,963)	-	1,547,421	-	-
<b>Ohio Tobacco Prevention Foundation.....</b>									
	360	289,474,243		39,332,446	(39,521,186)	(5,215,896)	5,027,516	284,258,347	
<b>Ohio Tuition Trust Authority</b>									
Suspense.....	(45,690)	-		114,461,345	(113,368,680)	-	1,046,975	-	-
Trust .....	129,631	705,146,242		65,724,754	(85,183,063)	(19,278,678)	(50,000)	685,867,564	
Trust Reserve.....	41	69,173,028		3,158,446	(699,423)	2,459,064	-	71,632,092	
<b>Petroleum Underground Storage Tank Release Compensation Board</b>									
Financial Assurance.....	8,094,574	8,108,225		15,525,156	(10,851,715)	11,356,991	1,411,024	19,465,216	
<b>Retirement Systems</b>									
Police and Firemen's Disability and Pension Fund.....	8,922,252	9,958,623,378		1,451,889,793	(838,322,545)	615,173,279	7,316,221	10,573,796,657	
Public Employees Retirement System.....	(30,391,157)	63,433,335,842		9,499,001,330	(4,528,606,395)	4,912,976,145	27,027,633	68,346,311,987	
Public Employees Retirement System Escrow.....	20,599	-		95,165	(92,539)	-	23,225	-	-
School Employees Retirement System (SERS).....	6,565,126	8,667,785,430		3,263,255,911	(876,812,565)	2,392,311,368	697,104	11,060,096,798	
SERS Qualified Excess Benefit Arrangement.....	7,429	-		82,484	(84,830)	-	5,083	-	-
State Highway Patrol Retirement System.....	1,047,890	627,402,678		117,801,261	(58,620,533)	55,047,577	5,181,041	682,450,255	
State Teachers Retirement System.....	4,450,675	55,572,384,187		10,328,147,539	(4,714,344,919)	5,604,219,206	14,034,089	61,176,603,393	



**Statement of Receipts, Disbursements and Net Changes in Investment Balances for Custodial Funds  
For the Year Ended June 30, 2007**

AGENCY/CUSTODIAL FUND	BALANCE JULY 1, 2006			RECEIPTS	DISBURSEMENTS	NET CHANGE IN INVESTMENTS	BALANCE JUNE 30, 2007		UNAUDITED
	CASH	INVESTMENTS					CASH	INVESTMENTS	
<b>Southern Ohio Agriculture and Community Development Foundation.....</b>	600,569	26,726,033		15,178,593	(12,062,865)	2,618,724	1,097,573	29,344,757	
<b>Student Tuition Recovery Authority</b>									
Student Tuition Recovery.....	81,908	1,138,861		140,908	(22,798)	122,729	77,289	1,261,590	
<b>Treasurer of State's Office</b>									
General Obligation & Revenue Bond Service Funds:									
Capital Improvements Bond Retirement.....	678	-		-	-	-	678	-	
Development Bond Retirement.....	267,515	-		-	-	-	267,515	-	
Economic Development Bond Service.....	5,275	11,674,694		28,229,439	(30,105,833)	(1,876,119)	5,000	9,798,575	
Highway Improvement Bond Retirement.....	55,288	-		-	-	-	55,288	-	
Highway Obligations Bond Retirement.....	169,997	-		-	-	-	169,997	-	
Improvement Bond Retirement.....	130,255	-		-	-	-	130,255	-	
Korean Conflict Bond Retirement.....	435	-		-	-	-	435	-	
Major Thoroughfare Bond Retirement.....	7,701	-		-	-	-	7,701	-	
Public Improvements Bond Retirement.....	148,808	-		-	-	-	148,808	-	
Revitalization Projects Bond Service.....	10,000	4,359,098		9,371,990	(9,149,248)	227,742	5,000	4,586,840	
Vietnam Conflict Bond Retirement.....	28,353	-		-	-	-	28,353	-	
World War II Compensation Bond Retirement.....	240	-		-	-	-	240	-	
Sinking Fund Commission's Bond Clearance.....	44,728	54,443		820,338,561	(819,770,228)	37,268	575,793	91,711	
Treasurer of State's Bond Clearance.....	45,457	5,747		1,476,347,124	(1,475,964,250)	37,482	390,849	43,229	
Special Obligation Bond Service Funds:									
Cultural Facilities Commission Bond Service.....	7,859	3,383		93,558,446	(93,563,142)	(3,341)	6,504	42	
Elementary and Secondary School Bond Service and Administrative Expense.....	-	366,756		31,296,010	(31,608,088)	(312,078)	-	54,678	
Higher Education Bond Service.....	-	1,751,822		199,086,259	(200,792,513)	(1,709,025)	2,771	42,797	
Mental Health Bond Service.....	-	656,414		107,348,497	(107,954,887)	(641,371)	34,981	15,043	
Parks and Recreation Bond Service.....	-	510,616		33,942,139	(34,446,048)	(508,598)	4,689	2,018	
Other:									
Conservancy District Bond Clearing.....	27,401	-		93,025	(82,750)	-	37,676	-	
Torrens Law Assurance.....	26,158	1,310,922		69,455	-	69,455	26,158	1,380,377	
Treasurer of State's Contingent Fund.....	8,117,772	4,000,000		294,381,314	(287,781,757)	4,408,831	10,308,498	8,408,831	
<b>TOTAL.....</b>	<b>\$ 81,402,115</b>	<b>\$ 155,888,088,417</b>	<b>\$ 38,210,170,148</b>	<b>\$ (23,999,018,359)</b>	<b>\$ 14,156,053,581</b>	<b>\$ 136,500,323</b>	<b>\$ 170,044,141,998</b>		

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



## Notes to the Financial Statements

### *Introduction*

The Office of the Treasurer of State was established under Section 113, Ohio Revised Code, for the custodianship of public monies belonging to the State of Ohio. The Treasurer's Office collects and processes certain taxes, fees, and licenses, and it processes certain tax refunds. The Treasurer also calculates and verifies the payment of all warrants presented by the banks for cash settlement, manages the state's investment portfolio, and acts as the custodian and safekeeping agent for the State of Ohio's deposits and investments, including those of the various state agencies that administer custodial funds. Additionally, the Treasurer of State administers the internal operations of the Office, which receives appropriated funding from the Ohio General Assembly.

### *Note 1: Summary of Significant Accounting Policies*

#### A. Financial Reporting Entity

In accordance with the criteria set forth in Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*, the Treasurer of State's Office is considered to be a part of the State of Ohio's primary government, and in turn, the state's financial reporting entity. Therefore, the balances and activity reported within this report will be consolidated in the Ohio Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2007, which later will be compiled and published by the Ohio Office of Budget and Management.

*State Funds* — State funds are comprised of the state's cash and investment pool, the equity in which is allocated to the budgetary funds appropriated to the state agencies as reported in the State's Central Accounting System (CAS). Balances and activity of state funds is presented in the Statement of Assets and the Statement of Receipts, Disbursements, and Changes in Assets.

*Custodial Funds* — The Treasurer of State is designated under the Ohio Revised Code as custodian for the deposits and investments of certain state agencies and in some cases, other governmental entities. Balances and activity of the custodial funds are presented in the Statement of Receipts, Disbursements, and Net Changes in Investment Balances.

#### B. Basis of Accounting

Balances and activity of all funds are reported using the cash basis of accounting.

For state funds, the Treasurer's policy is to record receipts when pay-in documents have been received from the state agencies and processed by the Treasurer of State's Cashiers Department. Disbursements are recorded when warrants are presented for payment or when the Treasurer processes electronic fund transfers.

#### C. Fund Accounting

In order to observe the restrictions placed on resources and expenditures of funds, the Treasurer of State's Office follows the principles of fund accounting. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Individual funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.



### 1. State Funds

Chapter 131 of the Ohio Revised Code broadly outlines the establishment and governance of state funds. The Treasurer of State invests state funds in compliance with the Uniform Depository Act, as set for in Chapter 135 of the Ohio Revised Code. Legal provisions for investments are further discussed in Note 3.

Investments are reported on the settlement basis at cost, which includes purchased accrued interest when applicable.

### 2. Custodial Funds

Custodial funds are established under specific citations of the Ohio Revised Code that designate the Treasurer of State as custodian of the respective fund.

Custodial investments are valued at cost with the exception of real estate, venture capital, and selected other investments; the Treasurer records these investments at cost initially, but the investments are periodically revalued at market.

#### *Note 2: Receivable from custodial funds*

The \$5,042,684 receivable from the custodial funds, as reported on the Statement of Assets for State Funds, represents the balance due as reimbursement from the custodial funds for the cost of their warrants claimed by presenting banks and paid from the state's bank account on June 29, 2007. The custodial funds reimbursed state funds for this balance on July 2, 2007.

#### *Note 3: Deposits and Investments--State Funds*

**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 of the Ohio Revised Code), which requires that monies held by the state be maintained in one of the following three classifications:

##### *Active Deposits*

Active deposits are comprised of monies required to be kept in a cash or near-cash status to meet current demands. Active deposits must be maintained either as cash in the state treasury or in any of the following:

- A commercial account payable or withdrawable in whole or in part on demand;
- A negotiable order of withdrawal account;
- A money market deposit account; or
- A designated warrant clearance account.

Key Bank is the state's main depository bank where active deposits are held.

##### *Interim Deposits*

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

- U.S. Treasury bills, notes, bonds, or any other obligations or securities issued by the U.S. Treasury or any other obligation guaranteed as to principal and interest by the United States;
- Bonds, notes, debentures, or any 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;



- 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;
- 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;
- Various forms of commercial paper issued by any corporation that is incorporated under the laws of the United States or a state, which notes are rated at the time of purchase in the two highest categories by two nationally recognized rating agencies, provided that the total amount invested under this section in any commercial paper at any time shall not exceed 25 percent of the state's total average portfolio;
- Bankers' acceptances, maturing in 270 days or less, which are eligible for purchase by the Federal Reserve System, provided that the total amount invested in bankers' acceptances at any time shall not exceed 10 percent of the state's total average portfolio;
- Certificates of deposit in eligible institutions applying for interim monies, including linked deposits, agricultural linked deposits, and housing linked deposits;
- The State Treasurer's Local Government Investment Pool known as the State Treasury Asset Reserve (STAR) of Ohio;
- Debt interests, other than commercial paper, rated at the time of purchase in the three highest categories by two nationally recognized rating agencies and issued by corporations that are incorporated under the U.S. laws or a state, or issued by foreign nations diplomatically recognized by the U.S. government, or any instrument based on, derived from, or related to such interests, provided that the total amount so invested shall not exceed in the aggregate 25 percent of the state's total average portfolio. The investments in debt interests issued by foreign nations shall not exceed in the aggregate one percent of the state's total average portfolio. The investments made in the debt interests of a single issuer shall not exceed in the aggregate .5 percent of the state's total average portfolio;
- No-load money market mutual funds consisting exclusively of obligations of the United States, federal government agency, or commercial paper, as described above, and repurchase agreements secured by such obligations; and
- Obligations of a board of education issued under the authority of the Ohio Revised Code.

Repurchase agreements must be secured by obligations of or guaranteed by a federal agency or instrumentality, or by commercial paper issued by any corporation under the laws of the United States or a state, which notes are rated at the time of purchase in the two highest categories by two nationally recognized rating agencies.

### *Deposits*

As of June 30, 2007, deposits including active deposits and certificates of deposit accounts, were not exposed to custodial credit risk since the accounts were held in insured depositories approved by the State Board of Deposit and were fully collateralized. The financial institutions holding state deposits collateralize accounts for balances in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC), as required by Section 135.18, Ohio Revised Code. The Treasurer of State requires each depository institution to pledge either a surety bond or securities with a market value of at least 100 percent to 102 percent of the total value of the public monies that are on deposit at the financial institution. Any pledged securities are held by the Federal Reserve, the Federal Home Loan Bank, or an insured financial institution serving as agent of the Treasurer.



Certificates of deposit totaling \$391,034,506 comprise holdings under the Agricultural Linked Deposit, Small Business Linked Deposit, and BidOhio programs. Additionally, as part of the portfolio of the Agricultural Linked Deposit Program, the Treasurer holds a \$70 million Federal Farm Credit Banks adjustable rate bond, which has been included under U.S. Agency Securities on the Statement of Assets for state funds.

### *Investments*

Carrying and market values of investments held as of June 30, 2007, are detailed below.

Investment	Carrying Value	Market Value
U.S. Government Securities .....	\$1,446,457,153	\$1,435,753,611
U.S. Agency Securities.....	4,579,200,456	4,574,123,039
Commercial Paper.....	1,882,377,222	1,881,584,640
Money Market Funds.....	121,155,873	121,155,873
Israel Bonds .....	32,000,000	31,994,400
Lottery Commission's Structured Investment Portfolio:		
U.S. Government Securities.....	10,997,364	10,933,280
U.S. Agency Securities .....	585,078,034	675,911,448
STAR Ohio.....	1,928,037	1,928,037
Total Investments--State Funds, as of June 30, 2007 ....	<u>\$8,659,194,139</u>	<u>\$8,733,384,328</u>

Investments as of June 30, 2007 were not exposed to custodial credit risk since they were held by the Treasurer of State's agent in the state's name, nor were they by their nature subject to custodial credit risk.

### *Securities Lending*

During fiscal year 2007, the Treasurer of State participated in securities lending programs pursuant to Section 135.143, Ohio Revised Code for securities included in the state fund's portfolio. A securities lending agent administers each lending program, whereby certain securities are transferred to an independent broker/dealer (borrower) in exchange for collateral equal to no less than 102 percent of the market value of the securities at the time of lending and at least equal to the market value of the lent securities thereafter.

The Treasurer minimizes exposure to credit risk due to borrower by requiring the securities lending agent to determine daily that collateral requirements are met. During fiscal year 2007, the Treasurer of State did not experience any losses due to credit or market risk on securities lending activity.

As permitted under state law, the Treasurer of State's Office uses the income earned from securities lending to fund its operations in part.



**NOTE 4: STAR Ohio Fund**

As of June 30, 2007, the Treasurer of State reported \$164.1 million invested in the STAR Ohio Fund for the following state and custodial funds:

**State Funds:**

Ohio Lottery Commission--Structured Investments Portfolio .....	\$ 1,928,037
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**Custodial Funds:**

Ohio Board of Regents--Academic Scholarship .....	2,353,933
Ohio Building Authority--Escrow .....	34,133
Ohio Department of Development:	
Ohio Enterprise Bond.....	18,161,184
Loan Guarantee .....	826,557
Volume Cap .....	8,127,908
Ohio Department of Job and Family Services:	
Child Support Payment Central .....	9,102,103
Auxiliary Services Personnel Unemployment .....	8,137,064
Unemployment Benefits .....	138,714
Ohio Department of Natural Resources:	
Mine Subsidence Insurance.....	13,934,775
Lake Katherine Management.....	123,179
Reclamation .....	48,347
Wildlife Habitat .....	116,326
Ohio Housing Finance Agency:	
Housing Development.....	33,337,750
Multi-Family Housing.....	4,334,703
Ohio Lottery Commission-Gross Revenue .....	8,033,975
Ohio Public Utilities Commission--Wireless 9-1-1 Government Assistance.....	4,807,992
Ohio State School for the Blind.....	423,359
Petroleum Underground Storage Tank Release Compensation Board ....	19,465,216
Southern Ohio Agriculture and Community Development Foundation.....	5,011,078
Student Tuition Recovery Authority .....	1,261,590
Treasurer of State's Office:	
Economic Development Bond Service.....	9,798,575
Revitalization Projects Bond Service .....	4,586,840
Sinking Fund Commission Bond Clearance .....	91,711
Treasurer of State's Bond Clearance.....	43,229
Cultural Facilities Bond Service .....	42
Elementary and Secondary School Bond Service & Administrative Expense .....	54,678
Higher Education Bond Service .....	42,797
Mental Health Bond Service .....	15,043
Parks and Recreation Bond Service .....	2,018
Torrens Law Assurance .....	1,380,377
Treasurer of State's Contingent Fund.....	8,408,831

Total--Custodial Funds .....	162,204,027
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Total STAR Ohio Investments--State & Custodial Funds, as of June 30, 2007 .....	\$164,132,064
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*NOTE 5: Net Receipts Unprocessed by State Agencies*

The \$80.9 million adjustment reported on the Statement of Assets Presented for State Funds as of June 30, 2007 represents the amount of receipts collected and credited to the state's bank account, but for which the state agencies had not yet presented pay-in documents to the Treasurer's Cashiers Department for processing. Consequently, the collections had not been recorded as revenue transactions in the state's central accounting system as of June 30, 2007. While pending their recording in the central accounting system, however, the Treasurer of State invested the receipts collected.

*NOTE 6: Cigarette Tax Stamps*

As provided in Section 5743.05, Ohio Revised Code, the Treasurer of State has custody of and sells cigarette excise tax stamps. Vendors purchase the stamps, which are required to be affixed to each package of cigarettes sold in Ohio. As of June 30, 2007 the gross value of the inventory of cigarette stamps on hand with the Treasurer of State was \$310,152,980 while the value of the stamps net of the wholesale discount was \$298,987,473.



# RICHARD CORDRAY

OHIO TREASURER of STATE

## Summary of Realized Income For State Funds For the Fiscal Year Ended June 30, 2007

Month	Avg. Purch Yield	Month End Cost Balance	Structured		Bank		UNAUDITED
			Regular Account	Account Total	Initiatives	Total	
Jul-06	5.3020%	\$8,358,809,705	\$30,371,925	\$14,736,245	\$1,037,433	\$1,037,433	\$46,145,602
Aug-06	5.2660%	8,064,690,665	26,921,704	2,153,000	1,162,709	1,162,709	30,237,414
Sep-06	5.2040%	7,646,250,645	29,443,736	62,665,659	1,239,144	1,239,144	93,348,539
Oct-06	5.2050%	7,763,980,315	28,869,677	129,061,283	1,261,545	1,261,545	159,192,505
Nov-06	5.2490%	7,497,740,329	32,065,156	34,968,047	1,338,792	1,338,792	68,371,995
Dec-06	5.2800%	7,638,280,550	25,252,923	2,087,994	1,317,707	1,317,707	28,658,624
Jan-07	5.2710%	8,489,880,636	23,459,996	5,627,872	1,338,452	1,338,452	30,426,320
Feb-07	5.2960%	8,048,274,608	28,910,630	550,316	1,409,710	1,409,710	30,870,656
Mar-07	5.2550%	7,885,549,756	33,348,080	1,722,453	1,362,927	1,362,927	36,433,460
Apr-07	5.1270%	8,794,294,088	20,193,488	2,226,314	1,960,599	1,960,599	24,380,400
May-07	5.2030%	9,297,780,630	35,112,111	2,225,099	1,737,769	1,737,769	39,074,978
Jun-07	5.3070%	9,045,361,044	30,958,975	1,768,759	1,303,217	1,303,217	34,030,951
<b>FY07 AVG/TOTAL</b>	5.2471%	\$8,210,907,748	\$344,908,402	\$259,793,041	\$16,470,002	\$16,470,002	\$621,171,446



**RICHARD CORDRAY**  
OHIO TREASURER of STATE

**Summary of Investment Activity For State Funds  
Stated at Cost on a Settlement Basis  
For the Fiscal Year Ended June 30, 2007**

Investment Portfolio/Investment Category	Investment Portfolio Balance, July 1, 2006	Purchases of Principal	Average Purchase Yield	Proceeds from		Investment Portfolio Balance, June 30, 2007	Realized Income
				Sales, Calls & Paydowns	Maturities		
Regular Account-Core Portfolio:							
Commercial Paper.....	\$ -	\$ 1,140,557,828	5.35%	-	\$ 1,140,557,828	\$ -	\$ 354,172
FFCB Debenture.....	-	25,024,500	4.78%	-	-	25,024,500	170,708
FFCB Discount Note.....	-	24,462,446	5.30%	-	24,462,446	-	3,554
FFCB Medium Term Note.....	5,000,000	-	--	-	5,000,000	-	137,500
FHLB Debenture.....	50,000,000	274,972,281	5.27%	-	-	324,972,281	1,875,000
FHLB Medium Term Note.....	69,981,250	-	--	-	50,000,000	19,981,250	2,187,500
FHLMC Debenture.....	-	415,257,550	5.30%	-	-	415,257,550	160,417
FHLMC Medium Term Note.....	50,000,000	124,960,937	5.09%	-	-	174,960,937	2,101,042
FNMA Debenture.....	-	674,880,937	5.21%	-	-	674,880,937	1,535,320
FNMA Medium Term Note.....	100,000,000	-	--	-	50,000,000	50,000,000	2,637,500
Israel Bonds.....	-	20,000,000	5.10%	-	-	20,000,000	-
Money Market Funds.....	-	36,444,967	5.16%	30,295,941	-	6,149,026	75,171
Total Regular Account-Core Portfolio.....	274,981,250	2,736,561,446	5.28%	30,295,941	1,270,020,274	1,711,226,481	11,237,884
Regular Account-Regular Portfolio:							
Commercial Paper.....	1,657,266,433	25,804,737,330	5.34%	-	25,579,626,541	1,882,377,222	90,039,459
FFCB Adjustable Rate Bond.....	5,000,000	124,999,999	5.00%	107,436,557	17,563,442	5,000,000	972,868
FFCB Discount Note.....	-	1,177,280,216	5.18%	-	1,177,280,216	-	2,921,784
FHLB Discount Note.....	1,247,180,132	9,176,796,832	5.24%	-	9,544,025,352	879,951,612	43,478,648
FHLMC Discount Note.....	1,170,964,507	3,130,898,678	5.26%	-	4,121,797,900	180,065,285	34,416,101
FNMA Discount Note.....	776,971,009	7,123,283,973	5.24%	-	7,081,847,742	818,407,240	37,597,258
Israel Bonds.....	11,000,000	-	--	-	4,000,000	7,000,000	522,200
Money Market Funds.....	64,149,250	1,443,929,367	5.15%	1,400,138,000	-	107,940,617	7,297,442
Repurchase Agreements.....	11,574,000	516,330,277	5.14%	-	527,904,277	-	85,515
STAR Ohio Fund.....	-	50,085,986	5.17%	50,085,986	-	-	19,986
TVA Discount Note.....	-	146,206,778	5.18%	-	146,206,778	-	474,222
U.S. Treasury Bill.....	-	49,898,403	5.31%	-	49,898,403	-	101,597
Total Regular Account-Regular Portfolio.....	4,944,105,331	48,744,447,839	5.29%	1,557,660,543	48,250,150,651	3,880,741,976	217,927,080
Regular Account-Treasury Portfolio:							
Commercial Paper.....	27,264,067	7,132,033,006	5.32%	-	7,159,297,073	-	2,949,927
FFCB Debenture.....	-	50,183,500	4.86%	-	-	50,183,500	958,333
FFCB Discount Note.....	-	119,039,154	5.28%	-	119,039,154	-	119,846
FHLB Debenture.....	580,091,626	465,205,441	5.08%	432,655,293	106,721,224	505,920,550	33,160,959
FHLB Discount Note.....	-	108,444,903	5.17%	-	108,444,903	-	73,096
FHLB Medium Term Note.....	29,788,500	-	--	29,788,500	-	-	1,120,000
FHLMC Debenture.....	322,797,450	321,926,515	5.08%	539,839,040	29,919,300	74,965,625	15,753,047
FHLMC Discount Note.....	-	92,048,353	5.21%	-	92,048,353	-	74,647
FNMA Debenture.....	49,910,000	377,378,960	5.16%	119,414,300	307,874,660	-	12,063,092
FNMA Discount Note.....	-	164,690,453	5.22%	-	164,690,453	-	23,547
Israel Bonds.....	5,000,000	-	--	-	-	5,000,000	252,292
Money Market Funds.....	4,760,515	93,215,124	5.14%	90,909,408	-	7,066,231	410,932
STAR Ohio Fund.....	2,346,265	15,350,044	5.21%	17,696,309	-	-	158,652
U.S. Treasury Note.....	1,220,435,814	2,006,203,945	4.73%	1,770,596,153	149,626,648	1,306,416,958	44,696,561
Total Regular Account-Treasury Portfolio.....	2,242,394,237	10,945,719,398	5.18%	3,000,899,003	7,929,787,108	2,257,427,524	111,814,931



# **RICHARD CORDRAY** OHIO TREASURER of STATE

## **Summary of Investment Activity For State Funds Stated at Cost on a Settlement Basis For the Fiscal Year Ended June 30, 2007**

Investment Portfolio/Investment Category	Investment Portfolio Balance, July 1, 2006	Purchases of Principal	Average Purchase Yield	Proceeds from		Investment Portfolio Balance, June 30, 2007	Realized Income
				Sales, Calls & Paydowns	Maturities		
Infrastructure Improvement Fund Portfolio:							
State & Local Government Securities Demand Deposit.....	-	120,000,000	3.93%	60,005,694	-	59,994,306	1,882,550
Site Development Fund Portfolio:							
State & Local Government Securities Demand Deposit.....	-	29,953,236	3.86%	1,169,385	-	28,783,851	558,847
Third Frontier Fund Portfolio:							
State & Local Government Securities Demand Deposit.....	-	50,000,000	4.10%	1,851,036	-	48,148,964	1,487,110
BidOhio and Linked Deposit Programs:							
BidOhio Program.....	292,500,000	600,000,000	5.10%	-	592,500,000	300,000,000	14,948,978
Agricultural Linked Deposit Program:							
FFCB Adjustable Rate Bond.....	50,000,000	107,436,557	1.08%	49,999,999	37,436,558	70,000,000	447,263
Fixed Line of Credit.....	-	54,025,398	0.77%	-	-	54,025,398	-
Fixed-Rate Term Loan.....	-	10,345,207	1.08%	185,000	-	10,160,207	55
Agricultural Linked Deposit.....	68,553,904	-	--	3,835,563	64,718,341	-	721,906
Small Business Linked Deposit Program.....	16,083,120	17,105,632	1.75%	2,659,942	3,679,909	26,848,901	349,589
Additional Income.....	-	-	--	-	-	-	2,210
Total BidOhio and Linked Deposit Programs.....	427,137,024	788,912,794	4.13%	56,680,504	698,334,808	461,034,506	16,470,001
Ohio Lottery Structured Investment Portfolio:							
Commercial Paper.....	39,149,598	249,465,735	5.34%	-	288,615,333	-	856,667
Fed Judiciary.....	2,755,804	-	--	-	-	2,755,804	-
FFCB Medium Term Note.....	2,110,279	-	--	-	-	2,110,279	121,262
FHLB Debenture.....	13,283,555	12,722,846	5.15%	-	-	26,006,401	911,752
FHLMC Debenture.....	27,864,458	154,985,194	5.00%	23,208,305	6,637,550	153,003,797	3,797,830
FHLMC Strip.....	21,126,219	22,982,984	5.18%	1,188,657	-	42,920,546	15,704
FICO Strip.....	2,028,471	2,056,682	5.20%	-	-	4,085,153	-
FNMA Debenture.....	21,179,220	168,289,305	5.00%	20,165,200	-	169,303,325	4,861,460
FNMA Medium Term Note.....	8,494,026	-	--	-	-	8,494,026	518,624
FNMA Strip.....	66,570,773	18,145,688	5.16%	318,510	13,084,074	71,313,877	2,726,876
Ref Corp Strip.....	133,992,991	7,204,395	4.92%	114,514,905	14,592,290	12,090,191	216,985,892
STAR Ohio.....	2,132,186	114,960,093	5.20%	115,164,242	-	1,928,037	243,220
TVA Debenture.....	6,195,313	38,908,894	5.03%	-	-	45,104,207	1,542,957
TVA Strip.....	47,704,912	7,742,481	5.22%	880,760	6,676,204	47,890,429	5,130,692
U.S. Treasury Bond.....	27,529,687	-	--	27,529,687	-	-	6,596,926
U.S. Treasury Note.....	-	3,970,425	5.06%	-	3,970,425	-	124,196
U.S. Treasury Strip.....	21,634,238	10,997,364	4.80%	21,634,239	-	10,997,363	15,259,699
Total Ohio Lottery Structured Investment Portfolio.....	443,751,730	812,432,086	5.15%	324,604,505	333,575,876	598,003,435	259,693,757



**Summary of Investment Activity For State Funds  
Stated at Cost on a Settlement Basis  
For the Fiscal Year Ended June 30, 2007**

Investment Portfolio/Investment Category	Investment Portfolio Balance, July 1, 2006	Purchases of Principal	Average Purchase Yield	Proceeds from		Investment Portfolio Balance, June 30, 2007	Realized Income
				Sales, Calls & Paydowns	Maturities		
Ohio Lottery-Mega Millions Portfolio:							
U.S. Treasury Strip.....	-	35,067,250	4.83%	35,067,250	-	-	99,285
Total Ohio Lottery.....	443,751,730	847,499,336		359,671,755	333,575,876	598,003,435	259,793,042
Purchased Accrued Interest .....	8,332,369,572		5.25%			9,045,361,043	\$ 621,171,445
	1,686,404					4,867,602	
<b>TOTAL STATE FUNDS.....</b>	<b>\$ 8,334,055,976</b>	<b>\$ 64,263,094,049</b>		<b>\$ 5,068,233,861</b>	<b>\$ 58,481,868,717</b>	<b>\$ 9,050,228,645</b>	



## **Ohio Treasurer of State Investment Policy**

### *Purpose*

The purpose of this document is to identify the policies that will govern the investment activities of the Office of the Ohio Treasurer of State ("Treasurer") with regard to the management of the State Treasury. These policies have been adopted by, and can be changed only by the Treasurer.

These policies are designed to ensure the prudent management of public funds, conformance to the Ohio Revised Code ("O.R.C."), the availability of operating and capital funds when needed, and an investment return competitive with designated financial market indices.

All participants in the investment process shall act responsibly as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of prudence and professionalism that is worthy of the public trust.

### *Scope of the Investment Policy*

This policy applies to the investment of all interim funds of the State Treasury, including the Ohio Lottery Deferred Prizes Trust Fund ("DPTF"). Any practice not clearly authorized under these policies is prohibited. The guidance set forth herein is to be strictly followed by all those responsible for any aspect of the management or administration of these funds.

The State Treasury will consolidate cash and reserve balances from all funds to maximize earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration.

### *Investment Objectives*

The primary objectives, in priority order, of investment activities shall be: safety, liquidity and yield.

- **Safety of Principal** - The safety of interim funds is the single most important objective of the state investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
- **Credit Risk** - The Treasurer will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:
  - Limiting investments to the types of securities listed in the investment policy;
  - Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.
- **Interest Rate Risk** - The Treasurer will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates, by:
  - Structuring the portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity;
  - Investing operating funds primarily in shorter-term securities, money market funds, or similar investment pools and limiting the average maturity of the portfolio.
- **Preservation of Liquidity** - The portfolio shall be managed in such a manner that assures that funds are available as needed to meet those immediate and/or future operating requirements of the state. Since all possible cash demands cannot be anticipated, the portfolio should consist largely of liquid securities with active secondary markets. A portion of state interim funds may be placed in money market mutual funds or STAR Ohio which offer same-day liquidity for short-term funds.
- **Yield** - The portfolio shall be managed in such a fashion as to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the constraints of reinvestment risk and liquidity needs.



#### *Delegation of Authority*

The Treasurer is responsible for the prudent investment of funds within the State Treasury. The Director of Investments is responsible for the implementation of the investment program and the establishment of investment procedures consistent with this policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Director of Investments. The Director of Investments shall be responsible for all trades undertaken, and shall establish a system of controls to regulate the activities of subordinate officials and shall exercise control over that staff. Investment staff shall be bonded in amounts appropriate to levels of responsibility and portfolio characteristics.

#### *Standard of Prudence*

The standard of prudence to be applied to the investment of funds within the State Treasury shall be the industry standard "Prudent Investor Rule," which states:

*"Investments shall be made with judgment and care, under circumstances then prevailing which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."*

Investment staff acting in accordance with this policy or any other written procedures pertaining to the administration and management of the State Treasury and who exercise the proper due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that these deviations are reported immediately to the Treasurer and that appropriate action is taken to control and prevent any further adverse developments.

#### *Ethics and Conflict of Interest*

Employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Further, no employee involved in the investment process shall use the authority or influence of office or employment to secure anything of value or the promise or offer of anything of value that would create an improper influence upon the public official or employee with respect to that person's duties.

Employees and investment officials shall comply fully with the reporting and disclosure requirements of Chapter 102 of the Ohio Revised Code and the Ethics Policy specifically adopted by the Ohio Treasurer.

#### *Authorized Instruments*

The Treasurer of State is authorized to place the State Treasury in instruments as described in O.R.C. Sections 135.13 and 135.143, as summarized and restricted below:

**U.S. Treasury Obligations:** United States Treasury bills, notes, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States.

**Federal Agency Obligations:** Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality.

**Repurchase Agreements:** Investments in repurchase agreements if the following conditions are met:

- the contract is fully secured by deliverable obligations set forth in O.R.C. Section 135.143 A (4) maturing in no more than ten (10) years from the date of purchase and having a market value of at least one hundred-two percent (102%) of the amount of the contract;
- a master repurchase agreement or specific written repurchase agreement governs the transaction;
- the repurchase agreement has a term to maturity of no greater than ninety (90) days;
- the repurchase agreement is transacted on a delivery versus payment basis;



- the securities are held free and clear of any lien and by an independent third party custodian acting solely as agent for the state and is:
  - a Federal Reserve Bank; or
  - a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$25 million; or
  - a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 Code of Federal Regulations ("C.F.R.") 306.1 et seq. in such securities is created for the benefit of the state. For repurchase agreements with terms to maturity of greater than one (1) day, the Director of Investments or his designee will value the collateral securities daily unless market conditions warrant more frequent valuation and require that if additional collateral is required then that collateral must be delivered within one business day (if a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated). Substitutions of collateral will be permitted only with advance written approval of an authorized Treasury employee. The state will enter into repurchase agreements only with reputable firms that are:
    - primary government securities dealers who are members of the National Association of Securities Dealers, report daily to the Federal Reserve Bank of New York and have \$25 billion in assets and \$350 million in capital; or
    - a financial institution meeting the requirements of O.R.C. Section 135.03 having \$5 billion in assets and \$500 million in capital and regulated by the Superintendent of Financial Institutions, or through an institution regulated by the Comptroller of the Currency, Federal Deposit Insurance Corporation, or Board of Governors of the Federal Reserve System.

#### *Commercial Paper*

Unsecured short-term debt of corporations incorporated under the laws of the United States or a state if the following conditions are met:

- the maturity is no greater than one hundred-eighty days (180) days;
- the total amount invested in commercial paper at any time does not exceed twenty-five percent (25%) of the Total Average Portfolio;
- the total holdings of an issuer's paper does not represent more than five percent (5%) of the issuing corporation's total outstanding commercial paper; and
- the short-term debt rating, at the time of purchase, is at least "A1" or equivalent by all Nationally Recognized Statistical Rating Organizations (NRSROs) that rate the issuer. Under all circumstances, a minimum of two short-term debt ratings must be available.

Bankers' acceptances of any domestic bank or federally chartered domestic branch office of a foreign bank if the following requirements are met:

- the maturity is no greater than two hundred-seventy (270) days;
- the securities are eligible for purchase by the Federal Reserve System;
- the total amount invested in bankers acceptances at any time does not exceed ten percent (10%) of the Total Average Portfolio;
- the amount invested in any single issuer will not exceed five percent (5%) of the Total Average Portfolio on the date of acquisition; and
- the issuer, at the time of purchase, has a minimum "AA" long-term debt rating ("AAA" for foreign banks) by a majority of the NRSROs that have rated the issuer. The short-term debt rating, at the time of the purchase, must be at least "A1" or equivalent by all of the NRSROs that rate the issuer (minimum of two ratings must be available).

#### *Corporate Notes*

Investment grade debt obligations issued by corporations that are incorporated and operating under the laws of the United States or a state, which meet the following requirements:

- the maturity is no greater than two (2) years at the time of purchase;



- the total amount invested in corporate notes at any time does not exceed five percent (5%) of the Total Average Portfolio;
- has a minimum "Aa" long term debt rating by Moody's Investors Service and a minimum "AA" long term debt rating by Standard & Poor's at the time of purchase; and
- the amount invested in any single issuer does not exceed one-half of one percent (0.5%) of the Total Average Portfolio on the date of acquisition.

#### *Foreign Debt*

Investment grade debt obligations issued by foreign nations diplomatically recognized by the United States government, which meet the following requirements:

- the maturity is no greater than five (5) years at the time of purchase;
- the interest and principal is denominated and payable in United States funds;
- the total amount invested in foreign notes at any time does not exceed one percent (1%) of the Total Average Portfolio;
- is backed by the full faith and credit of that foreign nation;
- is guaranteed as to principal and interest by the United States or debt interest which is rated in the three highest categories by two nationally recognized rating agencies if either the debt interest itself or the issuer of the debt interest is rated, or implicitly rated at the time of purchase in the three highest categories by two nationally recognized ratings agencies; and
- the amount invested in any single issuer does not exceed one-half of one percent (0.5%) of the Total Average Portfolio on the date of acquisition.

#### *Obligations of the State of Ohio*

Bonds and other direct obligations of the Sinking Fund of the State of Ohio issued by the Treasurer, and of the Ohio Public Facilities Commission, the Ohio Building Authority and the Ohio Housing Finance Agency.

#### *Bank Deposits*

Time certificates of deposit, or savings or deposit accounts in an eligible institution as defined in Section 135.04 of the O.R.C. Collateralization are required on all deposits of state funds by Section 135.18 of the O.R.C. Any time certificate of deposit, with the exception of those related to a linked deposit program, shall mature not more than one year from the date of deposit, as required by O.R.C. Section 135.13. Any certificate of deposit placed as part of a linked deposit program shall meet the applicable statutory maturity requirements.

#### *State Pool*

State of Ohio Local Government Investment Pool (STAR Ohio) authorized under section 135.45 of the O.R.C.

#### *Registered Investment Companies (Mutual Funds)*

Shares in open-end, no-load money market mutual funds, provided such funds are registered under the Federal Investment Company Act of 1940 and invested exclusively in U.S. Treasury Obligations; Federal Agency Obligations; commercial paper and repurchase agreements secured by such obligations. The fund must be rated "AAM" or "AAM-G" or better by Standard & Poor's Corporation, or the equivalent by another NRSRO. The fund must also be properly registered for sale in the State of Ohio.

#### *Securities Lending*

Pursuant to O.R.C. Sections 135.143 and 135.47, the state may engage in securities lending, subject to policies adopted by the Treasurer.

#### *Diversification*

Each portfolio shall be structured to diversify investments to reduce the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific type of security. The maximum percentage of the Total Average Portfolio permitted in each eligible security is as follows:

- |    |                             |              |
|----|-----------------------------|--------------|
| A. | U.S. Treasury               | 100% maximum |
| B. | Federal Agency*(Fixed Rate) | 100% maximum |
| C. | Federal Agency* (Callable)  | 55% maximum  |



D.	Federal Agency* (Variable Rate)	10% maximum
E.	Repurchase Agreements	25% maximum
F.	Bankers' Acceptances	10% maximum
G.	Commercial Paper	25% maximum
H.	Corporate Notes	5% maximum
I.	Foreign Notes	1% maximum
J.	Certificates of Deposit	20% maximum
K.	Municipal Obligations	10% maximum
L.	STAR Ohio	25% maximum
M.	Mutual Funds	25% maximum

\*Includes Federal government agency or instrumentality securities

Each Portfolio will be further diversified to limit the exposure to any one issuer. No more than two percent (2%) of the Total Average Portfolio will be invested in the securities of any single issuer with the following exceptions:

1. U.S. Treasury, Agency or Instrumentality Obligations--100% maximum
2. Repurchase Agreements Counterparties--the lesser of 5% or \$250 million
3. Mutual Funds--10% maximum

#### *Maximum Maturity*

Maintenance of adequate liquidity to meet the cash flow needs of the state is essential. Accordingly, each portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of investment maturities must be consistent with the cash requirements in order to avoid the forced sale of securities prior to maturity.

For purposes of this investment policy, assets of the Regular Account Portfolio shall be segregated into two general categories based on expected liquidity needs and purposes: short-term funds and long-term funds. Assets categorized as short-term funds will be invested in permitted investments maturing in eighteen (18) months or less. The average weighted maturity of the short-term assets will not exceed ninety (90) days. Assets categorized as long-term funds will be invested in permitted investments with a stated maturity of no more than five (5) years from the date of purchase unless the security is matched to a specific obligation or debt of the State. The purchase of any security with a maturity of greater than five (5) years must be approved in advance by the Treasurer of State. To control the volatility of the assets categorized as long-term funds, the Treasurer of State will determine a duration target, not to exceed three (3) years.

The Lottery Deferred Prizes Trust Fund ("DPTF"), as defined in O.R.C. Section 3770.06, will be invested in permitted investments with a stated maturity of no more than thirty (30) years from the date of purchase. When necessary, the DPTF will be permitted to exceed the two percent (2%) single issuer limitation for federal agency and instrumentality security purchases only.

Notwithstanding these limitations, in no case will the assets in either portfolio be invested in securities with a term to maturity that exceeds the expected disbursement date of those funds.

#### *Variable Rate and Structured Notes*

The use of variable rate notes (VRNs) issued by U. S. Federal Agencies is considered to be prudent in the management of the portfolio provided that the following criteria are met:

The ultimate maturity of the VRN is less than three (3) years at the time of purchase;

The rate on the VRN resets with a frequency that produces a close tracking with money market rates;

The VRN is indexed to a money market rate such as Federal Funds, the 3-month Treasury Bill or the London Interbank Offered Rate (LIBOR), that correlates very highly (ninety-five percent (95%) or greater) with overall changes in money market rates even under wide swings in interest rates;



Any cap on the interest rate is at least 15% (1500 basis points) higher than the coupon at time of purchase;

No more than ten percent (10%) of the Total Average Portfolio will be invested in variable rate notes.

For each VRN held in the portfolio, the Director of Investments will prepare a written analysis establishing a justification for purchasing and holding the VRN addressing particularly the actual correlation of the VRN rate to money market rates such as LIBOR, Federal Funds and/or short-term Treasury Bills over a historic period that encompasses both rising and falling interest rates. This written analysis will also include a projection of yield and price volatility for interest rate movements of 300 basis points up and 300 basis points down and will be presented to the Treasurer.

The Director of Investments will use pricing services, pricing matrices and theoretical pricing models to calculate the market value of all VRNs held in the portfolio and will regularly receive and record actual bids on all VRNs. Any material variances between standard pricing and actual bids will be reported immediately to the Treasurer. (A material difference is one in which the actual bid falls below .99 of the standard pricing or book value of the VRN.) Further, the value of actual bids received will be used to value the portfolio holding.

#### *Prohibited Investments and Investment Practices*

The Treasurer is expressly prohibited from the following investments and investment practices. This is not an exclusive list.

- Short sales (selling a specific security before it has been legally purchased);
- Investment in complex derivatives such as range notes, dual index notes, inverse floating rate notes and de-leveraged notes, or notes linked to lagging indices or to long-term indices;
- Collateralized mortgage obligations (CMOs) and real estate mortgage investment conduits (REMICS);
- Investing in any security not specifically permitted by this policy;
- Monitoring and adjusting the portfolio

The authorized investment officers responsible for the day-to-day management of the portfolios will routinely monitor the contents of each portfolio, the available markets and the relative values of competing instruments, and will adjust each portfolio as necessary to meet the investment objectives listed above. It is recognized and understood that this non-speculative active management of portfolio holdings may cause a loss on the sale of an owned investment. It is the policy of the state to charge any such loss against the interest income account during the month in which the loss was realized.

The State of Ohio Office of Budget and Management, on a quarterly basis, allocates the net income/losses earned on investments of the Regular Account Portfolio to various funds based on each fund's cash balance in proportion to the State Treasury as a whole.

#### *Internal Controls*

The Director of Investments shall establish and be responsible for monitoring a system of internal controls governing the administration and management of the portfolio. These controls shall be documented in writing. Such controls shall be designed to prevent and control losses of the state funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by any personnel. The internal controls will address: control of collusion, separation of duties, separating transaction authority from accounting and record keeping, custodial safekeeping, clear delegation of authority, written confirmation of telephone transactions and documentation of investment transactions. The Internal Audit department of the Treasury shall also have independent authority to scrutinize and report on all operation of internal controls within the Investment Department and shall be given full access to personnel and records to carry out its intended functions.

As part of the annual audit, the Treasurer shall have the investment program reviewed by the Auditor of the State of Ohio or his/her designee. This audit will be designed to establish asset and liability valuations and measure compliance with the state investment policies and procedures. The Treasurer, at his or her discretion, may contract with an independent firm to audit the state investment program.



*Authorized Financial Institutions and Broker/Dealers*

An internal list will be maintained of financial institutions, depositories and advisors authorized to provide investment services to the State Treasurer. In addition, a list will be maintained of broker/dealers who have been approved to cover the state's portfolios. An organized evaluation process will be utilized by the Treasurer of State to determine the approval status and coverage parameters of qualified broker/dealers.

Qualified firms will be limited to primary dealers and other dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) that are registered with the Ohio Department of Commerce to do business in the State of Ohio. All financial institutions and broker dealers must provide the following information on a semi-annual basis:

*Annual financial statements.*

- Regulatory history, through either the Office of the Comptroller of the Currency for dealer banks, or the NASD (National Association of Securities Dealers) for securities firms;
- Statement of any pending lawsuits materially affecting the firm's business;
- A completed "Broker/Dealer Request for Information" as detailed in the Appendix to this policy;
- Financial institutions and broker/dealers will be required to sign and return this policy and to pledge to offer for sale only appropriate securities;
- Selection of investment instruments.

It will be the policy of the Treasurer to transact all securities purchase/sales only with approved financial institutions through a competitive process. The state will accept the offer which (a) has the highest rate of return within the maturity required; and (b) optimizes the investment objective of the overall portfolio. When selling a security, the Treasurer will select the bid that generates the highest sale price.

Primary fixed price Federal Agency offerings may be purchased from the list of qualified broker/dealers without competitive solicitation.

In making investment decisions, all other things being equal and subject to compliance with any applicable Internal Revenue Code requirements for bond proceeds, investment in corporations and financial institutions doing business in the State of Ohio will be given preference over other investment options.

*Investment of Bond Proceeds*

It shall be the duty of the Treasury's debt manager, with the assistance of financial advisors, to ensure that the Treasurer complies with all applicable sections of the Internal Revenue Code of 1986, Arbitrage Rebate Regulations and bond covenants with regard to the investment of bond proceeds. The Treasury's debt manager shall cooperate with the Director of Investments to ensure that the state's issuance of variable rate debt is considered in conjunction with the effect that the liquidity requirements of such debt may have on the investment returns of the Treasury portfolio.

*Safekeeping and Custody*

All investment securities purchased by the Treasurer or held as collateral on deposits or investments shall be held in third-party safekeeping at the Federal Reserve Bank of Cleveland or at a secured and insured depository as required by section 113.05 of the O.R.C.

All securities in the portfolio shall be held in the name of the Treasurer of State of Ohio and will be free and clear of any lien. Further, all investment transactions will be conducted on a delivery-vs.-payment basis. The depository shall issue a safekeeping receipt to the Treasurer listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the depository will also provide reports which list all securities held for the Treasurer, the book value of holdings and the market value as of month-end.



Appropriate Treasury officials and representatives of the depository responsible for, or in any manner involved with, the safekeeping and custody process of the state shall be bonded in such a fashion as to protect the state from losses from malfeasance and misfeasance.

#### *Performance Standards*

The portfolios shall be designed and managed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs of the state. Short-term funds will be compared to the return on an institutional money market mutual fund with comparable investment restrictions. The long-term portfolio will be compared to an index of U.S. Treasury securities and U.S. Government/Government backed obligations having a similar duration or other appropriate benchmark. Linked deposit investments will be excluded for purposes of computing investment performance.

#### *Reporting*

The Investment and Trust Departments shall maintain accurate, complete, and timely records of all investment activities. Within ten (10) business days of the end of the month, the Director of Investments shall submit an investment report to the Treasurer. This report shall include: (i.) a listing of the existing portfolios in terms of investment securities, amortized book value, maturity date, return, market value and other features deemed relevant; (ii.) a listing of all transactions executed during the month; (iii.) the total return of the portfolios; and (iv.) a summary of linked deposit investments. The market values presented in these reports will be consistent with accounting guidelines in the Governmental Accounting Standards Board (GASB) Statement 31 pertaining to the valuation of investments and the treatment of unrealized gains/losses. The report will also include a statement that the investments of the State Treasury are in compliance with this investment policy. The report will be submitted to the Board of Deposit on a monthly basis and will be fully accessible to the public on the Treasury website. The Director of Investments will also prepare annual reports in sufficient detail to provide full disclosure of all investment activities to the Treasurer and the general public.

#### *Conflict of Law*

In the event that any portion of this policy is in conflict with any state or federal law, that law will prevail.

#### *Investment Policy Adoption*

This policy is adopted this 1st day of June 2007

  
\_\_\_\_\_  
Treasurer of State of Ohio



## **Terror-Free Investment Policy**

All Ohioans wish to live in a peaceful world, free of the threat of terrorism. And all surely agree that public funds should not be invested in ways that promote terrorism. The Ohio Treasurer therefore enacts this Terror-Free Investment Policy to prevent public funds from supporting terrorism.

The conduct of foreign affairs is, of course, the responsibility of our federal government. Indeed, the United States Supreme Court has long prevented "intrusion[s] by the State[s] into the field of foreign affairs which the Constitution entrusts to the President and the Congress." In recent years, the Congress and the President have enacted policies designed to disrupt terrorist networks and isolate state sponsors of terrorism. While mindful of the federal government's responsibility to chart American foreign policy, the State of Ohio should nonetheless do all it can to assist in and conform to these federal anti-terrorism efforts.

Accordingly, through the procedures outlined below, the Ohio Treasurer's office will ensure that it supports the following anti-terrorism policies of the federal government and any other such policies required by law:

### *State Sponsors of Terrorism List*

The United States designates as state sponsors of terrorism those countries whose governments have repeatedly provided support for acts of international terrorism. Five countries are currently so designated: Cuba, Iran, North Korea, Sudan, and Syria. These designations impose four sets of U.S. Government sanctions:

- A ban on arms-related exports and sales;
- Controls over exports of dual-use items, requiring 30-day Congressional notification for goods or services that could significantly enhance the terrorist-list country's military capability or ability to support terrorism;
- Prohibitions on economic assistance;
- Imposition of miscellaneous financial and other restrictions, including:
  - Requiring the United States to oppose loans by the World Bank and other international financial institutions;
  - Lifting diplomatic immunity to allow families of terrorist victims to file civil lawsuits in U.S. courts;
  - Denying companies and individuals tax credits for income earned in terrorist-listed countries;
  - Denial of duty-free treatment of goods exported to the United States;
  - Authority to prohibit any U.S. citizen from engaging in a financial transaction with a terrorist-list government without a Treasury Department license; and
  - Prohibition of Defense Department contracts above \$100,000 with companies controlled by terrorist-list states.

### *Executive Order 13224 List*

On September 23, 2001, the President signed Executive Order 13224 to disrupt the financial support network of terrorists and terrorist organizations by authorizing the federal government to designate and block the assets of foreign individuals and entities that commit, or pose a significant risk of committing, acts of terrorism. The Order also authorizes the federal government to block the assets of individuals and entities that provide support, services, or assistance to, or otherwise associate with, terrorists and terrorist organizations designated under the Order, as well as their subsidiaries, front organizations, agents, and associates. A current list of 443 terrorists and entities identified under this Order is available at:

<http://www.treasury.gov/offices/enforcement/ofac/programs/terror/terror.pdf>

### *Foreign Terrorist Organizations List*

The United States maintains a list of foreign terrorist organizations (FTOs), to which a person in the United States cannot provide material support or resources. Unlawful support or services to FTOs includes, but is not limited to, any property, tangible or intangible, or service, including currency or monetary instruments or financial securities or financial services. Furthermore, any U.S. financial institution that becomes aware that it has possession of or control over funds in which a designated FTO or its agent has an interest must retain possession of or control over the funds and report the funds to the Office of Foreign Assets Control of the U.S. Department of the Treasury. A current list of nearly 50 FTOs is available at:

<http://www.treasury.gov/offices/enforcement/ofac/programs/terror/terror.pdf>



#### *Sanctions List*

The federal government, through the U.S. Department of the Treasury's Office of Foreign Assets Control, administers and enforces economic and trade sanctions against targeted foreign countries, terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction. Specially Designated Nationals and Blocked Persons (SDNs) are individuals and entities located throughout the world that are blocked pursuant to the various sanctions programs administered by the federal government. American citizens and companies are prohibited from engaging in any transactions with SDNs and must block any property in their possession or under their control in which an SDN has an interest. A current list of approximately 5,000 SDNs is available at:

<http://www.treas.gov/offices/enforcement/ofac/index.shtml>

#### *New Policies and Procedures of the Ohio Treasurer's Office*

The Ohio Treasury shall create, for the first time, a comprehensive program to track and abide by the federal government's anti-terrorism and sanctions requirements. To do so, the Treasury's General Counsel and Investment Director shall work to ensure that all of the investments controlled by the Treasurer's office comply with federal law concerning:

- the State Sponsors of Terrorism List
- the President's Executive Order 13224
- the Foreign Terrorist Organizations List
- the Sanctions SDN List

Within 30 days of this new policy being issued, the General Counsel and Investment Director shall certify to the Treasurer that no funds controlled by the Treasury are invested in terror-related entities as proscribed by these federal policies. Thereafter, the General Counsel and Investment Director shall meet on a quarterly basis to ensure and to certify continued compliance with these and other such requirements that may be enacted by the federal government.

#### *Terror-Free Investment Policy Adoption*

This policy is adopted this 18th day of April 2007

A handwritten signature in blue ink that reads "Richard Cordray".

Treasurer of State of Ohio



**Revenue Management Collections**

**For the Fiscal Year Ended June 30, 2007**

**FY 2007**

<b><u>TYPE OF TAX</u></b>	<b><u>COLLECTIONS</u></b>	<b><u>BAD CHECKS</u></b>	<b><u>NET AMOUNT</u></b>
Sales	\$5,026,073,286	\$0	\$5,026,073,286
Streamline Sales	0	0	0
Withholding	5,839,172,454	0	5,839,172,454
Child Abuse	3,974,598	0	3,974,598
Child Restraint	146,819	0	146,819
Cigarette	965,082,169	0	965,082,169
Cigarette Enforcement	69,581	0	69,581
Cigarette Floor Tax	657,428	0	657,428
Conscience Fund	94,983	0	94,983
Commercial Activity Tax	249,509,523	0	249,509,523
Corporate Franchise Tax	759,412,466	0	759,412,466
Dealers In Intangibles	34,259,273	0	34,259,273
Estate Tax	72,109,429	0	72,109,429
Expungements	283,300	0	283,300
Family Violence Prevention	1,933,145	0	1,933,145
Gasoline	1,701,399,180	0	1,701,399,180
Highway Patrol	12,636,909	0	12,636,909
Housing Trust	60,727,736	0	60,727,736
IFTA	546,318	0	546,318
Insurance Companies	449,433,678	43,149	449,390,529
IOLTA	23,528,281	0	23,528,281
Kilowatt	501,274,965	0	501,274,965
Legal Aid	15,310,470	0	15,310,470
Liquor Control	727,802	0	727,802
MCF	7,728,448	0	7,728,448
Motor Vehicle Sales	1,168,030,024	0	1,168,030,024
Municipal Income Tax	36,588,389	0	36,588,389
Ohio Putative Fathers Registry	140,438	0	140,438
Public Utilities	171,038,070	0	171,038,070
Reparations Rotary	37,863,323	0	37,863,323
Seat Belts	4,699,365	0	4,699,365
Surplus Lines	29,826,759	205	29,826,554
Watercraft Sales	15,601,388	0	15,601,388
<b>TOTAL COLLECTIONS</b>	<b>\$17,189,879,997</b>	<b>\$43,354</b>	<b>\$17,189,836,643</b>



**Statement of Additional Securities Held in Trust**  
**As of June 29, 2007**

**UNAUDITED**

Under the provisions of the citations stated below, the Treasurer of State is the trustee for securities pledged for various purposes. This statement reports the amount held in trust as of June 29, 2007. These deposits are not reported in either the Statement of Receipts and Disbursements of State Funds or Custodial Funds.

Abandoned Service Stations (Sec. 3791.11 [D] O.R.C.)	\$900,000
Bureau of Workers' Compensation-Self Insured (Sec. 4123.35 O.R.C.)	9,586,514
Department of Commerce-Superintendent of Financial Institutions (Sec. 1111.04 O.R.C.)	10,030,000
Department of Insurance- Insurance Company Legal Reserve (Sec. 3903.73 O.R.C.)	250,000
Department of Jobs and Family Services-Bureau of Employment Services (Sec. 4141.241 O.R.C.)	7,635,376
Department of Taxation-Motor Vehicle Liquid Fuel (Sec. 5735.03 O.R.C.)	0
Mental Retardation & Developmental Disabilities-Office of Support (Sec. 5121.04 O.R.C.)	277,746
Ohio Department of Natural Resources:	
Division of Forestry (Sec. 1503.05 O.R.C.)	298,350
Division of Water (Sec. 1521.061 O.R.C.)	640,400
Division of Parks and Recreation (Sec. 1501.10 O.R.C.)	25,500
Mineral Resources (Sec. 1509.07, 1513.08, 1514.04 O.R.C.)	13,268,640
Public Safety Bureau of Motor Vehicles- Safety Responsibility (Sec. 4509.62 O.R.C.)	190,000
Title Guaranty and Trust Company (Sec. 3903.73 O.R.C.)	137,232
Total:	<u><u>\$43,239,757</u></u>



**Approved Linked Deposit Activity  
For Fiscal Year 2007**

<b>County</b>	<b>Access For Individuals (Outstanding)</b>	<b>Agricultural Linked Deposit</b>	<b>Small Biz Linked Deposit (2YR Rolling)</b>	<b>Total Per County</b>
Adams		\$1,131,060		\$1,131,060
Allen		2,981,000	\$150,000	3,131,000
Ashland		710,000		710,000
Ashtabula			250,000	250,000
Athens		145,000		145,000
Auglaize		1,305,925	650,000	1,955,925
Belmont			1,047,017	1,047,017
Brown		2,211,900	25,000	2,236,900
Butler		260,615		260,615
Carroll				0
Champaign	\$4,180	2,102,000		2,106,180
Clark	3,180	3,094,500	205,000	3,302,680
Clermont		1,155,340	400,000	1,555,340
Clinton	3,790	2,083,450		2,087,240
Columbiana			80,000	80,000
Coshocton		332,000		332,000
Crawford		3,923,000	1,434,725	5,357,725
Cuyahoga	38,510		2,071,932	2,110,442
Darke	1,000	4,273,515		4,274,515
Defiance		3,219,500	1,511,375	4,730,875
Delaware		941,262	422,820	1,364,082
Erie		200,000	250,000	450,000
Fairfield		836,400	394,000	1,230,400
Fayette		1,492,500		1,492,500
Franklin	31,000	641,000	1,824,178	2,496,178
Fulton	42,000	2,768,000	350,000	3,160,000
Gallia			26,775	26,775
Geauga		120,000	390,000	510,000
Greene		1,438,000		1,438,000
Guernsey		100,000		100,000
Hamilton		175,000	838,377	1,013,377
Hancock		8,197,910	796,827	8,994,737
Hardin		4,087,920	264,741	4,352,661
Harrison		200,000		200,000
Henry		1,767,120	445,000	2,212,120
Highland		928,595		928,595
Hocking	8,500	41,000		49,500
Holmes		300,000		300,000
Huron		3,532,200	100,000	3,632,200
Jackson		65,000		65,000
Jefferson			235,000	235,000
Knox		435,000		435,000
Lake	11,600	100,000	935,000	1,046,600
Lawrence		96,118		96,118
Licking		215,000	500,000	715,000



County	Access For Individuals (Outstanding)	Agricultural Linked Deposit	Small Biz Linked Deposit (2YR Rolling)	Total Per County
Logan		1,723,610	231,800	1,955,410
Lorain		200,000	161,000	361,000
Lucas	1,387	1,309,760	2,771,794	4,082,941
Madison		2,558,675	125,000	2,683,675
Mahoning			945,833	945,833
Marion		3,789,010	1,094,211	4,883,221
Medina		350,000	100,000	450,000
Meigs		191,150	250,000	441,150
Mercer		3,286,625	766,500	4,053,125
Miami	3,903	1,490,000	805,000	2,298,903
Monroe				0
Montgomery	52,971	1,060,000	500,000	1,612,971
Morgan		100,000		100,000
Morrow		3,995,304	40,000	4,035,304
Muskingum		440,000		440,000
Noble				0
Ottawa		2,233,000	382,194	2,615,194
Paulding		2,489,087		2,489,087
Perry		936,000		936,000
Pickaway		3,135,499		3,135,499
Pike		710,475	612,404	1,322,879
Portage		100,000	369,000	469,000
Preble		1,654,076		1,654,076
Putnam		4,693,383		4,693,383
Richland		400,000	695,825	1,095,825
Ross		2,434,000	533,500	2,967,500
Sandusky		4,155,000	642,327	4,797,327
Scioto		467,497	190,000	657,497
Seneca	4,380	6,309,765	486,700	6,800,845
Shelby		1,070,100	957,000	2,027,100
Stark		390,162	25,000	415,162
Summit		35,000	854,557	889,557
Trumbull		100,000	374,442	474,442
Tuscarawas				0
Union	9,500	2,277,480	371,707	2,658,687
Van Wert		2,014,512	246,268	2,260,780
Vinton				0
Warren	6,000	150,000	250,000	406,000
Washington		100,000	416,700	516,700
Wayne		2,394,000	313,000	2,707,000
Williams		1,952,000	441,431	2,393,431
Wood		3,398,500	747,949	4,146,449
Wyandot	4,980	3,299,500	1,433,278	4,737,758
<b>Total Per Program</b>	<b>\$226,881</b>	<b>\$125,000,000</b>	<b>\$33,732,188</b>	<b>\$158,959,069</b>

No. of Participants	27	1630	238	1895
No. of Counties	17	76	58	83