

**“BOOK-ENTRY ONLY”
NEW ISSUE**

**RATINGS: Moody’s: Aa3
Standard & Poor’s: AA-
Fitch: AA-
(See “RATINGS” herein)**

In the opinions of Calfee, Halter & Griswold LLP and Haynes & Haynes, Co-Bond Counsel, under existing law and assuming compliance with certain covenants, interest on the Series 1998-1 Bonds is excluded from gross income for federal income tax purposes, is not treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended, and is exempt from the Ohio personal income tax, the Ohio corporation franchise tax (to the extent computed on the net income basis) and income taxes imposed by municipalities and other political subdivisions in Ohio. Interest on the Series 1998-1 Bonds may be subject to certain federal taxes imposed on certain corporations, including imposition of the corporate alternative minimum tax on a portion of that interest. (For a more complete discussion of tax aspects, see “TAX EXEMPTION” herein).

**\$70,000,000
STATE OF OHIO
MAJOR NEW STATE INFRASTRUCTURE PROJECT REVENUE BONDS
SERIES 1998-1**

Dated: May 1, 1998

Due: Serially on December 15, as shown below

The Series 1998-1 Bonds are special obligations of the State of Ohio (the “State”), issued pursuant to the Trust Agreement dated as of May 1, 1998 (the “Original Trust Agreement”) between the State and National City Bank, as trustee (the “Trustee”), and the First Supplemental Trust Agreement dated as of May 1, 1998 (the “First Supplemental Trust Agreement”) between the State and the Trustee (together, the “Trust Series 1998-1 Projects.”) The Ohio Department of Transportation (the “Department”) has entered into a Certificate and Agreement with the Treasurer of State of the State of Ohio (the “Treasurer”) dated as of May 1, 1998 (the “Certificate and Agreement”) pursuant to which the Department has agreed to make deposits with the Treasurer equal to the Bond Service Charges on the Series 1998-1 Bonds (the “Bond Service Charges”) plus certain related costs primarily from Pledged Federal Highway Receipts (as defined herein).

Interest on the Series 1998-1 Bonds will be payable, from the date of issuance, on June 15 and December 15, commencing December 15, 1998. The Series 1998-1 Bonds mature on December 15, as shown below:

Maturity Schedule*

| <u>Due</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Price or Yield</u> | <u>Due</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Price or Yield</u> |
|------------|---------------|----------------------|-----------------------|------------|---------------|----------------------|-----------------------|
| 1998 | \$6,775,000 | 4.250% | 3.650% | 2003 | \$6,960,000 | 5.000% | 4.370% |
| 1999 | 5,785,000 | 4.250% | 3.900% | 2004 | 7,310,000 | 5.000% | 4.420% |
| 2000 | 6,030,000 | 4.750% | 4.100% | 2005 | 7,675,000 | 5.000% | 4.520% |
| 2001 | 6,315,000 | 5.000% | 4.220% | 2006 | 8,060,000 | 5.000% | 4.570% |
| 2002 | 6,630,000 | 5.000% | 4.320% | 2007 | 8,460,000 | 5.000% | 4.600% |

The Series 1998-1 Bonds will be issued only as fully registered bonds in the denominations of \$5,000 or any integral multiple thereof. The Series 1998-1 Bonds will be issued in a book-entry form, registered in the name of The Depository Trust Company (“DTC”) or its nominee. There will be no distribution of the Series 1998-1 Bonds to the ultimate purchasers (“Book-Entry Interest Owners”). See “BOOK-ENTRY FORM” herein. Principal of the Series 1998-1 Bonds will be payable to the registered owner thereof (DTC or its nominee) at the principal corporate trust office of the Trustee. Interest on the Series 1998-1 Bonds will be payable by check or draft mailed by the Trustee or under certain conditions by wire transfer, to the registered owner as shown on the registration records maintained by the Trustee as bond registrar.

The Series 1998-1 Bonds are special obligations of the State, secured under the Trust Agreement solely by a pledge of the Pledged Receipts (as defined herein), and payable primarily from the deposits to be made by the Department under the Certificate and Agreement and certain funds held by the Trustee pursuant to the Trust Agreement. The obligation of the Department to make the deposits required under the Certificate and Agreement is subject to and dependant upon biennial appropriations being made to the Department for such purpose by the General Assembly of Ohio (the “General Assembly”). The failure of the General Assembly to so appropriate moneys to the Department will result in the termination of the Department’s obligations involving expenditures under the Certificate and Agreement, including the obligation to cause moneys to be deposited with the Treasurer sufficient for the payment of Bond Service Charges with respect to the Series 1998-1 Bonds. The Series 1998-1 Bonds do not represent or constitute a debt of the Treasurer, the Department or the State, or a pledge of the faith and credit of the State, or a pledge of the taxing power of the State, and the Holders and Book-Entry Interest Owners of the Series 1998-1 Bonds shall have no right to have moneys raised by taxation by the State obligated or pledged for the payment of Bond Service Charges.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Series 1998-1 Bonds are offered, subject to prior sale, when, as and if issued by the State and accepted by the Underwriters subject to approval of legality by Calfee, Halter & Griswold LLP and Haynes & Haynes, Co-Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Baker & Hostetler L.L.P. and Bowen & Bowen, Co-Underwriters’ Counsel. Certain legal matters will be passed upon for the Treasurer and the Department by their counsel, the Attorney General of Ohio, Betty D. Montgomery. It is expected that delivery of the Series 1998-1 Bonds will be made to or upon the order of DTC in New York, New York on or about May 21, 1998, against payment therefor.

**FIRST ALBANY CORPORATION
MESIROW FINANCIAL, INC.
ROSS SINCLAIRE & ASSOCIATES, INC.**

**MORGAN STANLEY DEAN WITTER
THE OHIO COMPANY
SIEBERT, BRANFORD, SHANK & CO.**

The Date of this Official Statement is May 6, 1998.

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REGARDING THE USE OF THIS OFFICIAL STATEMENT

This Official Statement does not constitute an offering of any security other than the original offering of the Series 1998-1 Bonds identified on the cover page of this Official Statement. No person has been authorized by the Department, the Treasurer, or the State to give any information or to make any representation, other than that contained in this Official Statement, and if given or made, such other information or representation not so authorized must not be relied upon as having been given or authorized by the Treasurer, the Department or the State. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Series 1998-1 Bonds by any person, in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State since the date hereof.

The Series 1998-1 Bonds will not be registered under the Securities Act of 1933, as amended, or any state securities law, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency will have passed upon the accuracy or adequacy of this Official Statement or approved the Series 1998-1 Bonds for sale.

All financial and other information presented herein has been provided by the State from its records, except for information expressly attributed to other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the State. No representation is made that past experience, as might be shown by such financial and other information, will necessarily continue or be repeated in the future.

References herein to provisions of Ohio law, whether codified in the Ohio Revised Code (the "Revised Code") or uncodified, or of the Ohio Constitution, are references to such provisions as they presently exist. Any of those provisions may from time to time be amended, repealed or supplemented.

IN CONNECTION WITH THE OFFERING OF THE SERIES 1998-1 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 1998-1 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and exhibits hereto, is to provide certain information with respect to the original issuance and sale of \$70,000,000 State of Ohio, Major New State Infrastructure Project Revenue Bonds Series 1998-1 (the "Series 1998-1 Bonds").

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained elsewhere in the Official Statement and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of Series 1998-1 Bonds to potential investors is made only by means of the entire Official Statement. **CAPITALIZED TERMS NOT OTHERWISE DEFINED IN THE TEXT OF THIS OFFICIAL STATEMENT ARE DEFINED IN THE GLOSSARY.**

Authorization

The Series 1998-1 Bonds are being issued by the Treasurer of State of the State of Ohio (the "Treasurer") pursuant to the provisions of the Constitution of Ohio, particularly Section 13 of Article VIII thereof, Section 5531.10 of the Ohio Revised Code (the "Act"), the General Bond Order of the Treasurer, Series Bond Order No. 98-1 of the Treasurer, and the Trust Agreement and the First Supplemental Trust Agreement (together, the "Trust Agreement"), each dated as of May 1, 1998 between the Treasurer and the Trustee.

Security and Sources of Payment

The Series 1998-1 Bonds are special obligations of the State payable primarily from and secured under the Trust Agreement solely by the Pledged Receipts. "Pledged Receipts" consist of (a) all moneys apportioned as a grant to the State of Ohio by the United States Secretary of Transportation under Title 23 of the United States Code, or any successor legislation, or any other federal law relating to federal aid for highways, which are lawfully available to pay Bond Service Charges (the "Pledged Federal Highway Receipts") (excepting the portions thereof designated for payment of administrative expenses, project costs or rebate or limited to a certain series of Bonds); (b) all amounts standing to the credit of the State Infrastructure Bank Revenue Bond Service Fund created by the Act, other than amounts which are limited to a certain series of Bonds or Parity Obligations and other than any moneys therein raised by taxation by the State of Ohio; (c) any gifts, grants, donations and pledges, and receipts therefrom, received by the State available for the payment of Bond Service Charges, to the extent not previously pledged and to the extent not prohibited by the terms of such gifts, grants, donations or pledges; and (d) any other moneys accruing to the State from the sources described in the Act, which are subsequently pledged to the payment of Bond Service Charges. Pledged Receipts specifically do not include any money or investment in the Administrative Expense Fund, the Infrastructure Bank Obligations Fund and the Rebate Fund. See "SOURCES OF FUNDS FOR PAYMENT OF SERIES 1998-1 BONDS," "THE TRUST AGREEMENT -- Security", and "THE CERTIFICATE AND AGREEMENT -- Payments and Pledges".

The Certificate and Agreement requires the Department to make annual deposits with the Treasurer sufficient in amount to pay the Bond Service Charges with respect to the Series 1998-1 Bonds for credit to the appropriate fund or account under the Trust Agreement. See the "CERTIFICATE AND AGREEMENT -- Payments and Pledges." In the Trust Agreement, the Treasurer has assigned its rights to the moneys deposited by the Department under the Certificate and Agreement to the Trustee to secure the payment of the Series 1998-1 Bonds. See "THE TRUST AGREEMENT -- Security."

The obligations of the Department to cause money to be deposited with the Treasurer for the payment of Bond Service Charges and to perform other obligations involving expenditures under the Certificate and Agreement are subject to and dependent upon biennial appropriations being made to the Department by the General Assembly for such purposes. If the General Assembly fails to appropriate moneys to enable the Department to perform its obligations involving expenditures under the Certificate and Agreement, those obligations of the Department under the Certificate and Agreement will terminate. The General Assembly may not, under the provisions of the Ohio Constitution, make appropriations for a period longer than two years. While the Treasurer and the Department expect that the General Assembly will, for each State fiscal biennium, continue to appropriate amounts to the Department sufficient to meet its obligations involving expenditures under the Certificate and Agreement to the Treasurer, the General Assembly is under no legal obligation to make such appropriations. The Series 1998-1 Bonds are special obligations of the State payable solely from the Pledged Receipts under the Trust

Agreement. The Series 1998-1 Bonds do not represent or constitute a debt of the Treasurer, the Department, the State, or of any political subdivision thereof, nor a pledge of the faith and credit of the State, or any political subdivision thereof. The Holders and Book-Entry Interest Owners of the Series 1998-1 Bonds will have no right to have excises or taxes levied by the General Assembly for the payment of the Bond Service Charges on the Series 1998-1 Bonds, and those Holders and Book-Entry Interest Owners will have no right to have moneys raised by taxation by the State obligated or pledged for the payment of Bond Service Charges. The Series 1998-1 Projects are not pledged or mortgaged as security for the Series 1998-1 Bonds and the Trustee will not have the right to take possession or operate the Series 1998-1 Projects upon a default or termination of the Certificate and Agreement.

Purpose of the Series 1998-1 Bonds

The Act authorizes the Treasurer, upon the certification by the Director of the Department of the amount of moneys needed, to issue Bonds for the purpose of paying the costs of certain State Infrastructure Projects. The Series 1998-1 Bonds are being issued to pay the costs of the Series 1998-1 Projects. See "PURPOSE OF THE SERIES 1998-1 BONDS -- The Series 1998-1 Projects."

Prior Redemption

The Series 1998-1 Bonds are not subject to redemption prior to maturity.

Registration

The Series 1998-1 Bonds will be issued only as fully registered bonds, one for each respective maturity, in the name of CEDE & CO. as nominee for The Depository Trust Company ("DTC"), as Holder of all the Series 1998-1 Bonds. The fully registered Series 1998-1 Bonds will be retained and immobilized in the custody of DTC. See "BOOK-ENTRY FORM." As used in this Official Statement, "Holder" means the registered holder of a Series 1998-1 Bond and "Book-Entry Interest Owner" means the owner of a book-entry interest in Series 1998-1 Bonds held by a depository in book entry form. DTC (or any successor securities depository), for all purposes under the Trust Agreement will be and will be considered to be the sole Holder of the Series 1998-1 Bonds.

Payment

The principal of and premium, if any, on the Series 1998-1 Bonds will be payable to the Holder (initially DTC or its nominee) upon presentation and surrender at the principal corporate trust office of the Trustee. The Series 1998-1 Bonds will bear interest on their unpaid principal amounts payable on each Interest Payment Date to the Holder (initially DTC or its nominee) at the address shown on the Register as of the close of business on the 15th day of the calendar month next preceding such Interest Payment Date. Interest on the Series 1998-1 Bonds will be payable by check or draft mailed by the Trustee or under certain conditions by wire transfer, to the Holder as shown on the registration records maintained by the Trustee as Bond Registrar. Interest is payable June 15 and December 15, commencing December 15, 1998. See "BOOK-ENTRY FORM."

Additional Bonds

One or more series of Additional Bonds may be issued under the Trust Agreement for the purpose of paying additional costs of Major New State Infrastructure Projects or for the purpose of refunding Obligations previously issued under the Act. Any such Additional Bonds will be on a parity with the Series 1998-1 Bonds, payable from and secured by the Pledged Receipts except for bond service reserve accounts or Credit Support Instruments, if any, applicable only to a certain series of outstanding Bonds. See "THE TRUST AGREEMENT -- Additional Bonds."

Parity Obligations

The Trust Agreement contemplates the issuance of Parity Obligations. "Parity Obligations" mean any obligation of any person, other than the Series 1998-1 Bonds and any Additional Bonds, which is payable from or secured by Pledged Federal Highway Receipts and which is not expressly subordinated to the Bonds. See "THE TRUST AGREEMENT -- Parity Obligations." The Department has agreed in the Certificate and Agreement that it shall not permit any Additional Bonds or Parity Obligations to be issued if, upon such issuance, the total amount of Bond Service Charges payable with respect to the Series 1998-1 Bonds and any Additional Bonds in any Fiscal Year plus the total amount payable as debt service on all Parity Obligations in that Fiscal Year would exceed the lesser of (i) 25% of the lowest amount of Pledged Federal Highway Receipts received by the Department in any of the three immediately previous Fiscal Years, or (ii) One Hundred Million Dollars (\$100,000,000). See "SOURCES OF FUNDS FOR PAYMENT OF SERIES 1998-1 BONDS" and "THE CERTIFICATE AND AGREEMENT -- Further Covenants."

Tax Exemption

In the opinions of Calfee, Halter & Griswold LLP and Haynes & Haynes, Co-Bond Counsel, under existing law and assuming compliance with certain covenants, interest on the Series 1998-1 Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as Amended (the "Code"), and is not treated as an item of tax preference under Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals and corporations. The Series 1998-1 Bonds are exempt from the Ohio personal income tax, the Ohio corporation franchise tax (to the extent computed on the net income basis), and income taxes imposed by municipalities and other political subdivisions in Ohio. See "TAX EXEMPTION."

Disclosure Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. This Official Statement and the continuing disclosure documents of the Treasurer are intended to be made available through one or more repositories (see "**Continuing Disclosure**"). Copies of the basic documentation relating to the Series 1998-1 Bonds, including the Original Trust Agreement and First Supplemental Trust Agreement, are available from the Treasurer.

The Treasurer has deemed this Official Statement to be final for the purposes of Securities and Exchange Commission Rule 15c2-12(b)(1), except for certain information on the cover page and contained herein which has been omitted in accordance with such Rule and which will be supplied with the final Official Statement.

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DESCRIPTION OF THE SERIES 1998-1 BONDS

General

The Series 1998-1 Bonds shall be dated as of May 1, 1998 and shall bear interest from such date at the rates set forth below, payable on June 15 and December 15 of each year, commencing December 15, 1998, until maturity. The Series 1998-1 Bonds are being issued as fully registered bonds, without coupons, in the denomination of \$5,000 or any integral multiple thereof.

The Series 1998-1 Bonds mature on December 15 of each year as follows:

| <u>Year</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Year</u> | <u>Amount</u> | <u>Interest Rate</u> |
|-------------|---------------|----------------------|-------------|---------------|----------------------|
| 1998 | \$6,775,000 | 4.250% | 2003 | 6,960,000 | 5.000% |
| 1999 | 5,785,000 | 4.250% | 2004 | 7,310,000 | 5.000% |
| 2000 | 6,030,000 | 4.750% | 2005 | 7,675,000 | 5.000% |
| 2001 | 6,315,000 | 5.000% | 2006 | 8,060,000 | 5.000% |
| 2002 | 6,630,000 | 5.000% | 2007 | 8,460,000 | 5.000% |

Redemption Provisions

The Series 1998-1 Bonds are not subject to redemption prior to maturity.

Payment of Principal and Interest

The principal of and any premium on any Series 1998-1 Bond shall be payable when due upon presentation and surrender of that Series 1998-1 Bond at the principal corporate trust office of the Trustee or at the office of any paying agent designated for that purpose pursuant to the Trust Agreement.

The interest on any Series 1998-1 Bond due on each Interest Payment Date shall be paid by check or draft mailed to the person in whose name the Series 1998-1 Bond is registered at the close of business on the 1st day of the calendar month in which an Interest Payment Date applicable to the Series 1998-1 Bonds occurs (the "Regular Record Date"), at the address shown on the registration records kept by the Trustee as bond registrar. If any interest is not timely paid or duly provided for, the Trustee is required to establish a Special Record

Date for the payment of overdue interest to the Holders of Series 1998-1 Bonds as of that Special Record Date. Notice of the Special Record Date will be mailed to Holders of Series 1998-1 Bonds not less than ten days prior to the Special Record Date.

With the approval of the Treasurer, the Trustee may enter into an agreement with DTC, or the nominee of DTC, that is the Holder of a Series 1998-1 Bond in the custody of DTC providing for the making of all payments to DTC of principal of and interest and any premium on that Series 1998-1 Bond or any portion thereof (other than any payment of its entire unpaid principal amount) at a place and in a manner (including wire transfer of funds) without prior presentation or surrender of the Series 1998-1 Bond, upon any conditions which shall be satisfactory to the Trustee and the Treasurer. That payment in any event shall be made to the person who is the Holder of that Series 1998-1 Bond on the date that principal and premium is due, or, with respect to the payment of interest, as of the applicable Regular Record Date or Special Record Date or other date agreed upon, as the case may be.

BOOK-ENTRY FORM

General

Book-Entry Interest Owners of the Series 1998-1 Bonds will not receive or have the right to receive physical delivery of the Series 1998-1 Bonds and will not be or be considered to be, and will not have any rights as, Holders, of the Series 1998-1 Bonds under the Trust Agreement.

The following information on Book-Entry Form applicable to the Series 1998-1 Bonds has been supplied by DTC. The Treasurer, the Department, the State, the Underwriters and the Trustee do not make any representations, warranties or guarantees with respect to the accuracy or completeness of this information and have no responsibility for the accuracy thereof.

DTC will act as Depository for the Series 1998-1 Bonds. The Series 1998-1 Bonds will be issued as securities registered in the name of CEDE & CO. (DTC's partnership nominee). One fully-registered bond certificate will be issued for each maturity of Series 1998-1 Bonds in the aggregate principal amount of the respective maturity and will be deposited with DTC.

DTC is a limited-purpose trust company organized under New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that DTC Participants deposit with DTC. DTC also facilitates the settlement among DTC Participants of securities transactions, such as transfers and pledges, in deposit securities through electronic

computerized book-entry changes in DTC Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and DTC Participants are on file with the Securities and Exchange Commission.

Purchasers of the Series 1998-1 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 1998-1 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 1998-1 Bond ("Book-Entry Interest Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Book-Entry Interest Owners will not receive written confirmation from DTC of their purchase, but Book-Entry Interest Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Book-Entry Interest Owner entered into the transaction. Transfers of ownership interests in the Series 1998-1 Bonds are to be accomplished by entries made on the books of DTC Participants acting on behalf of Book-Entry Interest Owners. Book-Entry Interest Owners will not receive certificates representing their ownership interest in the Series 1998-1 Bonds except in the event that use of the Book-Entry Form of the Series 1998-1 Bonds is discontinued.

To facilitate subsequent transfers, all Series 1998-1 Bonds deposited with DTC are registered in the name of DTC's partnership nominee, CEDE & CO. The deposit of Series 1998-1 Bonds with DTC and their registration in the name of CEDE & CO. effect no change in beneficial ownership. DTC has no knowledge of the actual Book-Entry Interest Owners of the Series 1998-1 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 1998-1 Bonds are credited, which may or may not be the Book-Entry Interest Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Book-Entry Interest Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to CEDE & CO. If less than all of the Series 1998-1 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of interest of each Direct Participant in such issue to be redeemed.

Neither DTC or CEDE & CO. will consent or vote with respect to the Series 1998-1 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Treasurer as

soon as possible after the record date. The Omnibus Proxy assigns CEDE & CO.'s consenting or voting rights to those Direct Participants to whose accounts the Series 1998-1 Bonds are credited on the Regular Record Date (identified in a listing attached to the Omnibus Proxy).

Bond Service Charge payments on the Series 1998-1 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by DTC Participants to Book-Entry Interest Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearing form or registered in "street name," and will be the responsibility of such DTC Participant and not of DTC, the Trustee or the Treasurer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of Bond Service Charges to DTC is the responsibility of the Treasurer or the Trustee, as applicable; disbursement of such payments to the Book-Entry Interest Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as Depository with respect to the Series 1998-1 Bonds at any time by giving reasonable notice to the Treasurer or the Trustee. Under such circumstances, in the event that a successor Depository is not obtained, certificates are required to be printed and delivered. The Treasurer may decide to discontinue use of the Book-Entry Form for the Series 1998-1 Bonds through DTC (or a successor Depository). In that event, bond certificates will be printed and delivered. See "Revision of Book-Entry System; Series 1998-1 Replacement Bonds" below.

The information in this section concerning DTC and the use of the Book-Entry Form through DTC has been obtained from sources that the Treasurer believes to be reliable, but the Treasurer has no responsibility for the accuracy thereof.

Revision of Book-Entry System; Series 1998-1 Replacement Bonds

The Trust Agreement provides for the physical delivery of fully registered Series 1998-1 Bonds ("Series 1998-1 Replacement Bonds") directly to Holders, other than DTC, of Series 1998-1 Bonds only in the event that DTC determines not to continue to act as securities depository for the Series 1998-1 Bonds. Upon the occurrence of such an event with respect to the Series 1998-1 Bonds, the Treasurer may, in its discretion, attempt to have established a securities depository/book-entry relationship with another qualified securities depository for the Series 1998-1 Bonds. If the Treasurer does not, or is unable to, establish such a relationship and after the Trustee has made provisions for notification of the Book-Entry Interest Owners of the affected Series 1998-1 Bonds by appropriate notice to DTC, the Trustee will authenticate and deliver the Series 1998-1 Replacement Bonds in the denomination of \$5,000 or any integral multiple thereof to or at the direction of, and, if the event is not the result of the Treasurer's action or inaction, at the expense (including printing costs) of, DTC's assigns.

Bond Service Charges on the Series 1998-1 Replacement Bonds will be payable when due without deduction for the services of the applicable paying agent. Principal of and premium on any Series 1998-1 Replacement Bonds will be payable to the Holder thereof upon presentation and surrender thereof at the principal corporate trust office of the Trustee. Interest thereon will be payable by the Trustee by check or draft, mailed to the Holder of record on the Bond Register maintained by the Trustee as of the 15th day of the calendar month preceding the Interest Payment Date.

Series 1998-1 Replacement Bonds will be exchangeable for Series 1998-1 Replacement Bonds of authorized denominations, and transferable, at the office of the Trustee without charge (except taxes or other governmental fees). Exchange or transfer of then redeemable Series 1998-1 Replacement Bonds is not required to be made between the 15th day preceding the mailing of notice of Series 1998-1 Replacement Bonds, to be redeemed and the date of that mailing.

Transfer of Book-Entry Interest in Series 1998-1 Bonds

The rights of Book-Entry Interests Owners in the Series 1998-1 Bonds and the manner of transferring or pledging those interests is subject to applicable state law. Book-Entry Interests Owners in the Series 1998-1 Bonds may wish to discuss the manners of transferring or pledging their book-entry interests in such Series 1998-1 Bonds with their legal advisors.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of the proceeds of the Series 1998-1 Bonds:

SOURCES OF FUNDS:

| | |
|------------------|--------------|
| Par Amount | \$70,000,000 |
| Premium | 1,682,580 |
| Accrued Interest | 188,374 |
| TOTAL SOURCES | \$71,870,954 |

USES OF FUNDS:

| | |
|---|--------------|
| Deposit to Major New Project Debt Service Account of the State Infrastructure Bank Revenue Bond Service Fund ⁽¹⁾ | \$188,374 |
| Costs of Issuance ⁽²⁾ | \$863,159 |
| Deposit to the Infrastructure Bank Obligations Fund | \$70,819,421 |
| TOTAL USES | \$71,870,954 |

⁽¹⁾ Represents Accrued Interest received on the sale of the Series 1998-1 Bonds.

⁽²⁾ Includes Underwriters' compensation and expenses, printing costs, legal fees and other costs of issuance.

DEBT SERVICE REQUIREMENTS ON THE SERIES 1998-1 BONDS

The following table sets forth the annual debt service requirements for each year the Series 1998-1 Bonds remain outstanding:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|------------------|-----------------|-----------------|
| 1998 | \$ 6,775,000 | \$ 2,109,784.44 | \$ 8,884,784.44 |
| 1999 | 5,785,000 | 3,102,787.50 | 8,887,787.50 |
| 2000 | 6,030,000 | 2,856,925.00 | 8,886,925.00 |
| 2001 | 6,315,000 | 2,570,500.00 | 8,885,500.00 |
| 2002 | 6,630,000 | 2,254,750.00 | 8,884,750.00 |
| 2003 | 6,960,000 | 1,923,250.00 | 8,883,250.00 |
| 2004 | 7,310,000 | 1,575,250.00 | 8,885,250.00 |
| 2005 | 7,675,000 | 1,209,750.00 | 8,884,750.00 |
| 2006 | 8,060,000 | 826,000.00 | 8,886,000.00 |
| 2007 | 8,460,000 | 423,000.00 | 8,883,000.00 |
| TOTAL: | \$70,000,000 | \$18,851,996.94 | \$88,851,996.94 |

PURPOSE OF THE SERIES 1998-1 BONDS -- THE SERIES 1998-1 PROJECTS

The Series 1998-1 Bonds are being issued to finance the cost of completing the Series 1998-1 Projects. The Series 1998-1 Projects, together with certain other related highway construction projects, constitute the Department's Spring-Sandusky I-670 Corridor Completion Project (the "Spring-Sandusky Project") in Columbus, Ohio. The Series 1998-1 Bonds will finance a stand alone portion of the Spring-Sandusky Project which will be useful without completion of the rest of the Spring-Sandusky Project. Additional Bonds may be issued in the future to finance other highway construction projects that will be part of the Spring-Sandusky Project. See "INTRODUCTION -- Additional Bonds." The Spring-Sandusky Project is currently estimated to cost approximately \$116 million and is expected to be completed in the year 2002. When completed, the Spring-Sandusky Project will, among other things, connect the east and west sides of Interstate 670, connect Interstate 670 to State Route 315, widen and otherwise improve a portion of State Route 315, and construct and improve other roads that feed into Interstate 670 and State Route 315, thereby improving the flow of traffic in and around the downtown Columbus, Ohio area. Included within the estimated \$116 million cost to complete the Spring-Sandusky Project are the cost of highway construction, including the cost of paving, grading, and drainage, the cost of replacing bridges, and the cost of landscaping and removing materials from the construction zone. **None of the Series 1998-1 Projects is pledged or mortgaged as security for the Series 1998-1 Bonds nor will the Trustee have the right to take possession of or operate the Series 1998-1 Projects upon a default under or termination**

of the Department's obligations involving expenditures under the Certificate and Agreement. See "THE CERTIFICATE AND AGREEMENT - Term of the Certificate and Agreement".

The various components comprising the Series 1998-1 Project are set forth in the table below, identified by the Department's project identification number:

| Project Number | Description | Estimated Completion Date | Estimated Cost (millions) |
|----------------|---|---------------------------|---------------------------|
| 14225 | Earthwork for a sludge lagoon in the project construction zone. | 2000 | \$15.0 |
| 4673 | Paving, grading and drainage for the extension of Souder Avenue. | 2000 | \$3.0 |
| 4350 | Construction of new location for State Route 315. | 2000 | \$10.0 |
| 4675 | Paving, grading and drainage for the relocation of U.S. Route 33 through the Spring-Sandusky Interchange. | 2000 | \$10.5 |
| 4670 | New construction of I-670 and State Route 315. | 2001 | \$27.2 |

SECURITY FOR THE SERIES 1998-1 BONDS

General

The Series 1998-1 Bonds are special obligations of the State issued under and pursuant to the Act and the Trust Agreement. The Series 1998-1 Bonds are payable primarily from and, together with Additional Bonds and Parity Obligations, are equally and ratably secured by a pledge of the Pledged Receipts.

"Pledged Receipts" consist of (a) all moneys apportioned as a grant to the State by the United States Secretary of Transportation under Title 23 of the United States Code, or any successor legislation, or any other federal law relating to federal aid for highways, which are lawfully available to pay Bond Service Charges (the "Pledged Federal Highway Receipts") (excepting the portions thereof designated for payment of administrative expenses, project costs or rebates or limited to certain series of Bonds); (b) all amounts standing to the credit of the State Infrastructure Bank Revenue Bond Service Fund created by the Act, other than amounts which are limited to certain series of Bonds and other than any moneys therein raised by taxation by the State of Ohio; (c) any gifts, grants, donations and pledges, and receipts therefrom,

received by the State available for the payment of Bond Service Charges, to the extent not previously pledged and to the extent not prohibited by the terms of such gifts, grants, donations or pledges; and (d) any other moneys accruing to the State from the sources described in the Act, which are subsequently pledged to the payment of Bond Service Charges. Pledged Receipts specifically do not include any money or investment in the Administrative Expense Fund, the Infrastructure Bank Obligations Fund and the Rebate Fund.

The obligations of the Department to cause moneys to be deposited with the Treasurer for the payment of Bond Service Charges and to perform other obligations involving expenditures under the Certificate and Agreement are subject to and dependent upon biennial appropriations being made to the Department by the General Assembly for such purposes. If the General Assembly fails to appropriate moneys to enable the Department to perform its obligations involving expenditures under the Certificate and Agreement, those obligations of the Department under the Certificate and Agreement will terminate. The General Assembly may not, under the provisions of the Ohio Constitution, make appropriations for a period longer than two years. While the Treasurer and the Department expect that the General Assembly will, for each State fiscal biennium, continue to appropriate amounts to the Department sufficient to meet its obligations involving expenditures under the Certificate and Agreement to the Treasurer, consistent with the State budget, the General Assembly is under no legal obligation to make such appropriations. The Series 1998-1 Bonds are special obligations of the State payable solely from the Pledged Receipts under the Trust Agreement. The Series 1998-1 Bonds do not represent or constitute a debt of the Treasurer, the Department, the State, or of any political subdivision thereof, nor a pledge of the faith and credit of the State, or any political subdivision thereof. The Holders and Book-Entry Interest Owners of the Series 1998-1 Bonds will have no right to have excises or taxes levied by the General Assembly for the payment of the Bond Service Charges on the Series 1998-1 Bonds, and those Holders and Book-Entry Interest Owners will have no right to have moneys raised by taxation by the State obligated or pledged for the payment of Bond Service Charges. The Series 1998-1 Projects are not pledged or mortgaged as security for the Series 1998-1 Bonds and the Trustee will not have the right to take possession of or operate the Series 1998-1 Projects upon a default under or termination of the Certificate and Agreement.

Deposits Under the Certificate and Agreement and Related Budget Requirements

The Series 1998-1 Bonds are special obligations of the State payable primarily from annual deposits to be made by the Department with the Treasurer under the Certificate and Agreement. The Certificate and Agreement requires that with respect to any Federal Fiscal Year for which moneys constituting Pledged Federal Highway Receipts are available, the Department will cause to be deposited in the State Infrastructure Bank Revenue Bond Service Fund, for credit to the appropriate account thereof, from such moneys, an amount equal to all Bond Service Charges payable on the Series 1998-1 Bonds and Additional Bonds, and all debt service due on Parity Obligations for such Federal Fiscal Year, prior to any other payment to be made

from such moneys during that Federal Fiscal Year; and, in all events not later than fifteen (15) days after the first day Pledged Federal Highway Receipts are available for that Federal Fiscal Year. In the event the Bond Service Charges are not paid within such fifteen (15) day period, the Director has covenanted and agreed in the Certificate and Agreement to cause to be paid to the Treasurer, upon invoice by the Treasurer, on or before the fifth Business Day immediately preceding an Interest Payment Date an amount equal to the Bond Service Charges due on the Series 1998-1 Bonds on the applicable Interest Payment Date plus (a) such sum or sums as shall be necessary to maintain any required reserve in a bond service reserve account, and (b) such sum or sums, if any, as shall be necessary to purchase any Series 1998-1 Bonds which the Treasurer is obligated to purchase.

The obligations of the Department to cause moneys to be deposited with the Treasurer for the payment of Bond Service Charges and to perform other obligations involving expenditures under the Certificate and Agreement are subject to and dependent upon biennial appropriations being made by the General Assembly to the Department for such purposes. If the General Assembly fails to appropriate moneys to enable the Department to perform its obligations involving expenditures under the Certificate and Agreement, those obligations of the Department under the Certificate and Agreement will terminate. The General Assembly may not, under the provisions of the Ohio Constitution, make appropriations for a period longer than two years. While the Treasurer and the Department expect that the General Assembly will, for each State fiscal biennium, continue to appropriate amounts to the Department sufficient to enable the Department to meet its obligations involving expenditures under the Certificate and Agreement to the Treasurer, the General Assembly is under no obligation to make such appropriations.

The obligations of the Department involving expenditures under the Certificate and Agreement expire no later than the end of each State fiscal biennium (currently June 30 of each odd-numbered year) unless the General Assembly has appropriated moneys for the purpose of enabling the Department to meet those obligations for the next succeeding State fiscal biennium.

The Series 1998-1 Bonds are special obligations of the State issued by the Treasurer payable primarily from and secured solely by the Pledged Receipts under the Trust Agreement. The Series 1998-1 Bonds do not represent or constitute a debt of the Treasurer, the State, the Department, or of any political subdivision thereof, nor a pledge of the faith and credit of the State or any political subdivision thereof. The Holders, and Book-Entry Interest Owners of the Series 1998-1 Bonds will have no right to have excises or taxes levied by the General Assembly for the payment of the Bond Service Charges on the Series 1998-1 Bonds, and those Holders and Book-Entry Interest Owners shall have no right to have moneys raised by taxation by the State obligated or pledged for the payment of Bond Service Charges. The Series 1998-1 Projects are not pledged or mortgaged as security for the Series 1998-1 Bonds and the Trustee will not have the right to take possession of or operate the Series 1998-1 Projects upon a default under or termination of the Certificate and Agreement.

The General Assembly has appropriated moneys to the Department for the purpose of enabling the Department to meet its obligations with respect to the Series 1998-1 Bonds through the 1998-1999 State fiscal biennium.

SOURCES OF FUNDS FOR PAYMENT OF SERIES 1998-1 BONDS

The Certificate and Agreement requires the Department to make annual deposits to the Treasurer sufficient in amount to pay the Bond Service Charges with respect to the Series 1998-1 Bonds. (See "SECURITY FOR THE SERIES 1998-1 BONDS -- Deposits under the Certificate and Agreement and Related Budget Requirements," and "THE CERTIFICATE AND AGREEMENT -- Payments and Pledges"). In the Trust Agreement, the Treasurer has assigned its rights to the moneys paid by the Department under the Certificate and Agreement to the Trustee to secure the payment of the Series 1998-1 Bonds. See "THE TRUST AGREEMENT - Security".

The Series 1998-1 Projects were included by the Department in its Statewide Transportation Improvement Plan (the "STIP") which was submitted to the United States Department of Transportation. The Department also conducted a statewide transportation ranking assessment in which the 1998-1 Projects ranked 37 among 161 projects. As a result of the STIP, the ranking assessment and other actions required by the United States Department of Transportation and the State of Ohio, the United States Department of Transportation, pursuant to the provisions of Title 23 of the United States Code, has apportioned federal moneys to be available to the Department to pay for costs related to the Series 1998-1 Projects through Federal Fiscal Year 1998.

The federal government has in place various programs which provide for annual grants to the states for aid in the construction of highways (the "Title 23 Moneys"). The Title 23 Moneys received by the State are the sole source of the Pledged Federal Highway Receipts. See "SECURITY FOR THE SERIES 1998-1 BONDS". The Department intends to use future Title 23 Moneys received by it as the primary source of moneys to meet its obligation to pay Bond Service Charges.

The following table sets forth the amount of Title 23 Moneys received by the Department during each of the Federal Fiscal Years 1987 through and including 1997:

| <u>Federal Fiscal Year</u> | <u>Title 23 Moneys</u> |
|----------------------------|------------------------|
| 1987 | \$368,700,000 |
| 1988 | \$321,800,000 |
| 1989 | \$333,100,000 |
| 1990 | \$398,300,000 |
| 1991 | \$434,700,000 |
| 1992 | \$493,600,000 |
| 1993 | \$487,600,000 |
| 1994 | \$576,600,000 |
| 1995 | \$576,000,000 |
| 1996 | \$607,300,000 |
| 1997 | \$594,600,000 |

The Department has created a separate line item within its budget which will receive on a priority basis a share of the Title 23 Moneys received by it for payment of Bond Service Charges on the Series 1998-1 Bonds. **The Federal statute which governs the appropriation of Title 23 Moneys to the various states expired at the end of Federal Fiscal Year 1997 and new federal legislation is required to reauthorize and fund the U.S. Department of Transportation and its various highway assistance programs. As of the date of this Official Statement, such federal legislation has not been enacted.** Section 122 of Title 23 of the United States Code provides that any state that shall use proceeds of bonds issued by that state for the construction of eligible highway projects may use any portion of the sums appropriated to it for expenditure on eligible highway projects to aid in the retirement of the principal and interest on such bonds. **Section 122 of Title 23 of the United States Code explicitly provides that "This section shall not be construed as a commitment or obligation on the part of the United States to provide for the payment of the principal or interest of any such bonds".**

In the Certificate and Agreement, the Department has covenanted and agreed that, in each year that any Series 1998-1 Bonds are outstanding, (i) it shall use the Title 23 Moneys received by it first for the payment of the current year's Bond Service Charges on the Series 1998-1 Bonds and any Additional Bonds and for debt service on Parity Obligations prior to use of the Title 23 Moneys for any other purpose, (ii) it shall reserve from Title 23 Moneys available in each Federal Fiscal Year an amount of money sufficient to enable it to pay all Bond Service Charges due on the Series 1998-1 Bonds and any Additional Bonds and all debt service due on Parity Obligations in the immediately following Federal Fiscal Year, and (iii) it shall not permit any Additional Bonds or Parity Obligations to be issued if, upon such issuance, the total amount of Bond Service Charges payable with respect to the Series 1998-1 Bonds and any Additional Bonds in any Fiscal Year plus the total amount due as debt service on all Parity Obligations in that Fiscal Year would exceed the lesser of (i) 25% of the lowest amount of

Pledged Federal Highway Receipts received by the Department in any of the three immediately previous Fiscal Years, or (ii) One Hundred Million Dollars (\$100,000,000). The Department has reserved from the Title 23 Moneys available to it in the Federal Fiscal Year ended September 30, 1997, sufficient moneys to enable it to pay the Bond Service Charges with respect to the Series 1998-1 Bonds due in December, 1998 and June, 1999.

In the event that Title 23 Moneys are ever unavailable, for any reason, for payment of the Bond Service Charges with respect to the Series 1998-1 Bonds, then, in such event, the Department is required by the Certificate and Agreement to (i) notify the Governor of such fact, and (ii) use any and all other moneys lawfully available to it for the payment of Bond Service Charges. In the event that six months prior to any Interest Payment Date the funds available to the Department are ever insufficient to pay the Bond Service Charges with respect to the Series 1998-1 Bonds due on such Interest Payment Date, then, in such event, the Department is required by the Certificate and Agreement to submit to the Governor and to the Director of Budget and Management a written request for one or both of the following:

(a) That the next biennial budget submitted by the Governor to the General Assembly include an amount to be appropriated from lawfully available moneys to the Department for the purpose of and sufficient for the payment in full of Bond Service Charges previously due and for the full replenishment of the reserves;

(b) That the General Assembly be requested to increase appropriations from lawfully available moneys for the Department in the current biennium sufficient for the purpose of and for the payment in full of Bond Service Charges previously due and to come due in the biennium and for the full replenishment of the reserves.

The Ohio General Assembly will have no legal obligation to honor the Department's request for a special appropriation to pay the Bond Service Charges with respect to the Series 1998-1 Bonds.

The obligations of the Department to cause moneys to be deposited with the Treasurer for the payment of Bond Service Charges and to perform other obligations involving expenditures under the Certificate are subject to and dependent upon biennial appropriations being made to the Department by the General Assembly for such purposes. If the General Assembly fails to appropriate moneys to enable the Department to perform its obligations involving expenditures under the Certificate and Agreement, those obligations of the Department under the Certificate and Agreement will terminate. The General Assembly may not, under the provisions of the Ohio Constitution, make appropriations for a period longer than two years. While the Treasurer and the Department expect that the General Assembly will, for each State fiscal biennium, continue to appropriate amounts to

the Department sufficient to meet its obligations involving expenditures under the Certificate to the Treasurer, consistent with the State budget, the General Assembly is under no legal obligation to make such appropriations. The Series 1998-1 Bonds are special obligations of the State payable primarily from and secured solely by the Pledged Receipts under the Trust Agreement. The Series 1998-1 Bonds do not represent or constitute a debt of the Treasurer, the Department, the State, or of any political subdivision thereof, nor a pledge of the faith and credit of the State, or any political subdivision thereof. The Holders and Book-Entry Interest Owners of the Series 1998-1 Bonds will have no right to have excises or taxes levied by the General Assembly for the payment of Bond Service Charges on the Series 1998-1 Bonds, and those Holders and Book-Entry Interest Owners will have no right to have moneys raised by taxation by the State obligated or pledged for the payment of Bond Service Charges. The Series 1998-1 Projects are not pledged or mortgaged as security for the Series 1998-1 Bonds and the Trustee will not have the right to take possession of or operate the Series 1998-1 Projects upon a default under or termination of the Certificate and Agreement.

OHIO DEPARTMENT OF TRANSPORTATION

The Department was established on September 29, 1972 by the Ohio General Assembly through the expansion of the responsibilities of the former Ohio Department of Highways to include all modes of transportation. Over the past two decades, as its modal responsibilities have increased, the Department has added organizational units responsible for administering Federal and State programs relating to aviation, bicycle transportation, public transportation, rail transportation and water transportation. The Department is responsible for planning, designing, constructing, maintaining and rehabilitating the State's highway system, administering federal funds used by local jurisdictions in constructing and maintaining their local roads and bridges, and administering both Federal and State funds which provide grants for aviation, bridge, public transportation, railroad, and waterway facilities and programs throughout the State.

The Department is one of the largest agencies of State government, with approximately 6,600 employees. The Department consists of a central headquarters office, located in Columbus, Ohio and 12 District Offices located throughout the State. The Director of the Department is appointed by the Governor.

The Department is a highly decentralized organization, with most highway related functions performed in 12 geographic districts. More than 80 percent of the Department's employees are located in 12 districts, 88 county and 123 outpost facilities throughout the State. The districts perform planning, design, construction, engineering, material testing, and maintenance functions for the Department. The 12 districts are each headed by a District Deputy Director, who reports to the Assistant Director of Transportation for Highways.

The Department's Central Office contains the offices, division and bureaus which provide technical and administrative support to the districts for both highway and modal programs. The organization of the Central Office consists of the highway program divisions, the modal program divisions, the administrative support division/offices and the Director's administrative support staff. The Central Office highway divisions are headed by Division Deputy Directors who report to the Assistant Directors of Transportation. These divisions and their respective offices develop policies and procedures, provide technical support and monitor the Districts for compliance with established procedures. All construction contracts are advertised and awarded by the Central Office.

The State has the tenth largest highway network in the country, with over 113,000 miles of roadway, of which 19,254 miles are under the Department's jurisdiction. The Department is responsible for and/or is involved in a wide variety of programs and projects relating to aviation, bicycling, highways, public transportation, railroads and waterways. The Department has an annual budget that approaches \$1,800,000,000. Major funding sources for the Department's highway program include state motor fuel taxes and fees and Title 23 Monies received from the United States Department of Transportation. See "SOURCES OF FUNDS FOR PAYMENT OF SERIES 1998-1 BONDS." Major funding sources for the Department's modal programs include State General Revenue funds and Title 23 Moneys. **The Series 1998-1 Bonds do not represent or constitute a debt of the Treasurer, the Department, the State, or of any political subdivision thereof, nor a pledge of the faith and credit of the State, or any political subdivision thereof. The Holders and Book-Entry Interest Owners of the Series 1998-1 Bonds will have no right to have excises or taxes levied by the General Assembly for the payment of Bond Service Charges on the Series 1998-1 Bonds, and those Holders and Book-Entry Interest Owners will have no right to have moneys raised by taxation by the State obligated or pledged for the payment of Bond Service Charges.**

THE CERTIFICATE AND AGREEMENT

General

The Act provides that Bonds shall be issued by the Treasurer upon the certification of the Director of the amount of moneys needed for State Infrastructure Projects. The Certificate and Agreement contains that certification and certain covenants and undertakings of the Director and the Treasurer as conditions for the issuance of the Series 1998-1 Bonds. Under the Ohio Constitution, the term of any obligations involving expenditures contained in any agreement between the Treasurer and the Director shall be for a period not exceeding the then current two-year period for which appropriations for payments to the Treasurer have been made by the General Assembly. Provision may be made for renewals at the end of each term for another term not exceeding two years.

The following summarizes certain provisions of the Certificate and Agreement, to which document reference is made for the detailed provisions thereof.

Term of the Certificate and Agreement

The obligations involving expenditures under the Certificate and Agreement currently expire on June 30, 1999, the end of the current State fiscal biennium. The Director has the right to renew those obligations under the Certificate and Agreement for successive terms of two years each (each, a "Renewal Term"), commencing on the beginning of each State fiscal biennium (currently July 1 of each odd-numbered year), upon the same terms as are contained in the Certificate and Agreement, unless sooner terminated in accordance with the Certificate and Agreement and the Trust Agreement. The Director's right to renew the term of those obligations under the Certificate and Agreement shall be deemed exercised upon the effectiveness, at or prior to the expiration of the then current term of the Certificate and Agreement, of legislation enacted by the General Assembly appropriating funds to the Department at least equal to the Bond Service Charges and other sums payable under the Trust Agreement with respect to the State Infrastructure Projects, and certain other sums payable under the Certificate and Agreement during the next Renewal Term. See "THE CERTIFICATE AND AGREEMENT - Payments and Pledges." The Certificate and Agreement shall terminate upon the payment in full of all Bonds outstanding under the Trust Agreement.

Payments and Pledges

The Certificate and Agreement requires the Department to make deposits with the Treasurer sufficient to pay the Bond Service Charges on outstanding Bonds and certain administrative costs and any additional amounts required to fund any amounts to be paid to the United States of America. The payments (other than those to be deposited in the Administrative Expense Fund, the Rebate Fund and the Infrastructure Bank Obligations Fund and accounts or subaccounts limited to certain series of Bonds) are pledged by the Treasurer pursuant to the Trust Agreement for the payment of Bond Service Charges on the Bonds. All deposits are required to be credited to the State Infrastructure Bank Revenue Bond Service Fund, the Administrative Expense Fund, the Infrastructure Bank Obligations Fund or the Rebate Fund. See "THE TRUST AGREEMENT -- Funds and Accounts."

During each term of the obligations involving expenditures under the Certificate and Agreement, the Department has agreed to deposit with the Treasurer, without notice or demand, on or before each Interest Payment Date, an amount that includes (i) an amount equal to the Bond Service Charges on the Bonds payable on such Interest Payment Date; (ii) such sums, if any, as may be necessary to maintain any applicable required reserve in a bond service reserve account; and (iii) such sums, if any, as may be necessary to purchase any Bonds which the Treasurer is obligated to purchase. During each term of the obligations involving

expenditures under the Certificate and Agreement, the Department has the option to make deposits in the nature of prepayments for the purchase, redemption or defeasance of any Bonds.

During each term of the obligations involving expenditures under the Certificate and Agreement, the Department has also agreed to deposit with the Treasurer, (i) when needed, an amount estimated by the Treasurer to be equal to the administrative fees, expenses and other obligations, other than Bond Service Charges, incurred in connection with the Certificate and Agreement, the Trust Agreement and related agreements and, (ii) when needed amounts to be paid to the United States of America which are not paid from other sources.

Except as set forth below under "THE CERTIFICATE AND AGREEMENT -- Legislative Appropriations," the duty of the Department to make the deposits with the Treasurer during each two-year term of the obligations involving expenditures under the Certificate and Agreement is absolute and unconditional, and is payable without any rights of termination, set-off, recoupment, deduction, defense or counterclaim which the Department might have against the Treasurer, the Trustee or any other person, and without abatement, suspension, deferment, diminution or reduction for any reason or as the result of any occurrence whatsoever, including, without limitation, whether or not the Major New State Infrastructure Projects are ever acquired or constructed or are ever used by the Department, or are available for use by the Department, any actions of the Department, any acts or circumstances constituting eviction or constructive eviction, failure of consideration, failure of title or frustration of purpose, or any damage to or destruction of any of the Major New State Infrastructure Projects or any taking of the title to or the right of temporary use of all or any part of any of the Major New State Infrastructure Projects by condemnation or eminent domain.

Legislative Appropriations

The agreement of the Department to make deposits with the Treasurer pursuant to the Certificate and Agreement, and to perform other obligations involving expenditures thereunder, at times and in the amounts provided for in the Certificate and Agreement, is effective and binding upon the Department only when and to the extent that funds have been appropriated by the General Assembly and are available for that purpose. Under the Ohio Constitution, an appropriation may not be made for more than a two-year period. In addition, the obligations involving expenditures under the Certificate and Agreement may be renewed only for two-year periods. Accordingly, the Department is obligated to make deposits under the Certificate and Agreement only for two-year periods, to the extent funds have been appropriated and are available.

The Certificate and Agreement requires that projected deposits under the Certificate and Agreement be included in the estimated budget of the Department for the State budget estimates prepared by the Director of Budget and Management for inclusion in each State biennial budget submitted to the Governor. The Certificate and Agreement provides that, on or before the commencement of each State fiscal year, currently July 1 of each year, the Treasurer

shall submit to the Department and to the Director of Budget and Management a schedule which shall set forth the estimated amounts and dates of the deposits due under the Certificate and Agreement during that fiscal year and on a timely basis shall supplement or correct such schedule to reflect any changes in such payments. The Department is required to encumber the appropriations made for deposits under the Certificate and Agreement during that fiscal year as set forth in the schedule. On a timely basis prior to the date required for each such deposit, the Department is required to submit an order in the nature of an invoice or voucher for each payment to cause issuance of a warrant payable to the Trustee and redeemable at the Office of the Treasurer in accordance with law, for all such deposits at the times therefore and for payment in accordance with the Trust Agreement. Such deposits are required to be credited to the appropriate fund or account in accordance with the Trust Agreement.

Under the terms of the Certificate and Agreement, a failure by the General Assembly to appropriate moneys sufficient to pay Bond Service Charges, amounts necessary for Administrative Expenses and other sums to be deposited with the Treasurer under the Certificate and Agreement for the next State fiscal biennium would result in the termination of the obligations involving expenditures under the Certificate and Agreement at the end of the two-year term then in effect. The obligations involving expenditures under the Certificate and Agreement will, however, be fully reinstated, as if they had never been terminated, provided the conditions set forth below under "THE CERTIFICATE AND AGREEMENT -- Reinstatement" are met.

The General Assembly may not make appropriations for a period longer than two years. While the Treasurer expects that for each State fiscal biennium, the General Assembly will appropriate amounts to the Department sufficient to meet its obligation to make deposits with the Treasurer under the Certificate and Agreement consistent with the State budget, the General Assembly is not under a legal obligation to make appropriations in accordance with such State budgets for future State fiscal biennia. Holders and Book-Entry Interest Owners of the Bonds will have no right to have excises or taxes levied by the General Assembly for the payment of Bond Service Charges thereon, and moneys raised by taxation by the State shall not be obligated or pledged for the payment of such Bond Service Charges.

Further Covenants

Certain other covenants of the Department contained in the Certificate and Agreement are as follows:

a. In each year that Bonds are outstanding, the Department will not expend and encumber Pledged Federal Highway Receipts for purposes other than payment of Bond Service Charges on the Series 1998-1 Bonds and any Additional Bonds and payment of debt service on Parity Obligations in excess of the amount by which such Pledged Federal Highway Receipts available in that Federal Fiscal Year exceed the amount due and payable, directly or

indirectly, for Bond Service Charges on the Series 1998-1 Bonds and any Additional Bonds and for debt service on Parity Obligations in that year.

b. The Department shall not permit any Additional Bonds or Parity Obligations to be issued if, upon such issuance, the total amount of Bond Service Charges payable with respect to the Series 1998-1 Bonds and any Additional Bonds in any Fiscal Year plus the total amount payable as debt service on all Parity Obligations in that Fiscal Year would exceed the lesser of (i) 25% of the lowest amount of Pledged Federal Highway Receipts received by the Department in any of the three immediately previous Fiscal Years, or (ii) One Hundred Million Dollars (\$100,000,000).

c. The Department shall reserve Pledged Federal Highway Receipts during each Federal Fiscal Year sufficient for the payment of Bond Service Charges on the Series 1998-1 Bonds and any Additional Bonds and for payment of debt service on Parity Obligations due in the next succeeding Federal Fiscal Year.

d. The Department will not enter into any agreement obligating or pledging moneys constituting Pledged Federal Highway Receipts to the payment, directly or indirectly, of debt service on other obligations, including Parity Obligations, without notice to the Treasurer.

e. The Department will include covenants substantially similar to the covenants set forth above in all agreements executed after the dated date of the Series 1998-1 Bonds which obligate or pledge moneys constituting Pledged Federal Highway Receipts to the payment, directly or indirectly, of debt service on other obligations.

Remedies

The Major New State Infrastructure Projects are not pledged or mortgaged as security for the Bonds. Consequently, the Trustee does not have the remedies normally available to secured creditors and may have no practical remedy to insure that funds are available for the payment of Bond Service Charges on the Bonds in the event of termination of the Certificate and Agreement.

Termination

If the Department fails to exercise its right to renew the term of the obligations involving expenditures under the Certificate and Agreement for any Renewal Term, the obligations involving expenditures under the Certificate and Agreement shall terminate at the end of the term then in effect. In the event of such a termination of the obligations involving expenditures under the Certificate and Agreement, the Department's obligation to make payments to provide funds to pay Bond Service Charges on the Bonds would terminate. The

Certificate and Agreement also terminates upon payment in full of all Bonds outstanding. Under the Act and the Trust Agreement, the Trustee may not take possession of, operate or sell the Major New State Infrastructure Projects in the event of a failure to make payments under the Certificate and Agreement or upon any termination of the obligations involving expenditures under the Certificate and Agreement.

Reinstatement

Notwithstanding any termination of the obligations involving expenditures under the Certificate and Agreement, if (a) all payments of Bond Service Charges on the Bonds (other than as a result of acceleration) and all other payments due under the Trust Agreement have been made, (b) any acceleration of the Bonds has been duly rescinded and annulled, (c) all defaults under the Certificate and Agreement have been cured or waived, and (d) the General Assembly has appropriated any necessary funds to enable the Department to pay amounts to become due under the Certificate and Agreement for any Renewal Term of the obligations involving expenditures under the Certificate and Agreement to be reinstated, then without further action by the Trustee or the Treasurer, the obligations involving expenditures under the Certificate and Agreement shall be fully reinstated as if they had never been terminated.

THE TRUST AGREEMENT

General

The following, in addition to information contained above under the headings "THE SERIES 1998-1 BONDS" and "SECURITY FOR THE SERIES 1998-1 BONDS," summarizes certain provisions of the Trust Agreement to which document reference is made for the detailed provisions thereof. The Bond Orders authorizing the Series 1998-1 Bonds are incorporated in their entirety in, and constitute part of, the Trust Agreement and all references herein to the Trust Agreement shall, unless specific section references are made, include the Bond Orders.

So long as the Series 1998-1 Bonds are immobilized in a Book-Entry System with a Depository, that Depository or its nominee is for all purposes of the Trust Agreement considered by the Treasurer and the Trustee to be the Holder of the Series 1998-1 Bonds, and the Book-Entry Interest Owners of Series 1998-1 Bonds will not be considered Holders and have no rights as Holders under the Trust Agreement. See "THE SERIES 1998-1 BONDS - Registration, Payment and Transfer" and "BOOK-ENTRY FORM."

Security

The Trust Agreement provides for a pledge of the Pledged Receipts by the Treasurer to the Trustee for the benefit of the Holders of the Bonds. See "SECURITY FOR THE SERIES 1998-1 BONDS."

Funds and Accounts

The Trust Agreement establishes the following funds and accounts to be held by the Trustee and used for specific purposes thereunder: the Debt Service Account in the State Infrastructure Bank Revenue Bond Service Fund created under Section 5331.10(R) of the Ohio Revised Code, the Administrative Expense Fund, the Infrastructure Bank Obligations Fund and the Rebate Fund (collectively referred to herein as the "Funds"). The Administrative Expense Fund, the Infrastructure Bank Obligations Fund and the Rebate Fund are not pledged for the payment of Bond Service Charges.

Debt Service Account. The Debt Service Account has been established in the State Infrastructure Bank Revenue Bond Service Fund. There will be deposited in the Debt Service Account: (i) amounts from the proceeds of the sale of the Bonds representing accrued interest, if any, on the Bonds from their dated date to the date of delivery; (ii) all Pledged Federal Highway Receipts received by the Treasurer under the Certificate and Agreement (except the portion of such moneys to be credited to other Funds or accounts); (iii) any other available Pledged Receipts; (iv) excess moneys remaining in the Administrative Expense Fund; and (v) all other revenues or receipts derived by the Treasurer from the Major New State Infrastructure Projects unless previously pledged. The Debt Service Account, except moneys transferred to the Rebate Fund, any bond service reserve account or any bond redemption and purchase account will be used solely for the payment of Bond Service Charges on the Bonds as they become due.

Administrative Expense Fund. The Administrative Expense Fund will be used to pay the administrative fees and expenses and other fees, expenses and obligations incurred by the Treasurer and the Department including without limitation, regular and special fees and reasonable expenses of the Trustee, the bond registrar, paying agents, authenticating agents, Rating Agencies, tender agents, transfer agents, marketing agents, remarketing agents, indexing agents, administrative agents, depositories, financial advisors, accounting experts, attorneys, and other consultants and independent contractors, including printing services incurred in connection with the issuance, carrying, securing, paying, redeeming or retirement of Bonds, including costs and expenses relating to letters of credit, lines of credit, insurance, put agreements, stand-by purchase agreements, remarketing and administrative agreements, interest swap or hedging agreements and related costs, and any other credit enhancement, liquidity, remarketing, renewal or refunding arrangements.

Fees and expenses incurred by the Treasurer and payable from the Administrative Expense Fund will also be funded from deposits due under the Certificate and Agreement and paid into the Administrative Expense Fund. Any excess in the Administrative Expense Fund is required to be transferred to the Debt Service Account.

Series 1998-1 Rebate Account. Pursuant to the Trust Agreement, there has been created by the Treasurer and ordered to be maintained in the custody of the Trustee as a separate deposit account, a Rebate Fund, in which the Treasurer may establish separate rebate accounts for each series of the Bonds, including the Series 1998-1 Bonds. The First Supplemental Trust Agreement establishes the Series 1998-1 Rebate Account for the Series 1998-1 Bonds in the Rebate Fund to comply with the provisions of Section 148(f) of the Code. The amounts on deposit in the Rebate Fund are not pledged to the Holders of Bonds as security for the payment of Bond Service Charges on the Bonds, are not Pledged Receipts, and are not subject to the pledge created by the Trust Agreement.

At the times and in the manner required by the Code, (a) the Treasurer will retain a firm of independent certified public accountants or a firm of nationally recognized bond counsel to calculate the applicable rebate amount; (b) if necessary, the Treasurer will provide for any amount to be paid to the United States of America from payment pursuant to the Certificate and Agreement in accordance with the law; (c) the Trustee will pay the applicable amount to the United States of America.

Infrastructure Bank Obligations Fund. There will be deposited in the Infrastructure Bank Obligations Fund (a) the proceeds of any Bonds, other than proceeds required to be deposited in other Funds and accounts and (b) any gift, grant, appropriation or donation delivered to the Trustee with specific instructions for deposit in the Infrastructure Bank Obligations Fund. Moneys in the Infrastructure Bank Obligations Fund shall be used for the payment or reimbursement of costs of Major New State Infrastructure Projects.

Special Accounts and Subaccounts. If and to the extent provided in any Series Bond Order, the Treasurer may, pursuant to that Series Bond Order, create accounts and subaccounts in the State Infrastructure Bank Reserve Bond Service Fund, Administrative Expense Fund, Infrastructure Bank Obligations Fund or the Rebate Fund including without limitation such accounts and subaccounts with reference to the Additional Bonds as authorized by the applicable Series Bond Order, and make special provisions, among others, for any proceeds of those Additional Bonds allocated by the Series Bond Order to capitalized interest or to fund a bond service reserve account for such Additional Bonds, and for any Pledged Receipts (other than payments of the Department under the Certificate and Agreement, and income from the investment of funds and any other Pledged Receipts pledged to all Bonds) pledged exclusively to those Additional Bonds by the applicable Supplemental Trust Agreement, to be credited to such special accounts or subaccounts, and for the holding, investing and disposition of any moneys credited to those accounts or subaccounts in accordance with that Series Bond Order and for the primary or exclusive benefit of the Additional Bonds authorized by or referred to in that Series Bond Order. If moneys credited to such accounts or subaccounts and income from the

investment of those moneys are so restricted, then the amounts credited to such accounts or subaccounts and to be derived from those investments, to the extent so restricted, shall not be deemed to be available for Bond Service Charges on other Bonds in determining the sufficiency of the Debt Service Account or any bond service reserve account applicable to the other Bonds under the provisions of the General Bond Order and the applicable Series Bond Order.

Investment of Certain Funds

Moneys in the Debt Service Account, the Series 1998-1 Bond Service Reserve Account, the Administrative Expense Fund, the Infrastructure Bank Obligations Fund and the Rebate Fund may be invested and reinvested by the Trustee in accordance with instructions of the Treasurer, in any Eligible Investments. Investments of moneys credited to the Debt Service Account, the Series 1998-1 Bond Service Reserve Account, the Administrative Expense Fund, the Infrastructure Bank Obligations Fund and the Rebate Fund will mature or be redeemable at the option of the holder thereof at the times and in the amounts necessary to provide moneys when needed for payments to be made from those Funds, in particular, moneys held in the Debt Service Account will be available to pay Bond Service Charges as they become due. An investment of moneys in any fund, account or subaccount will be deemed at all times a part of that fund, account or subaccount and any profit will be credited and any loss will be charged to that fund, account or subaccount. Investments will be valued at the lesser of face or market value on a quarterly basis, or more frequently as determined by the Treasurer, to evaluate the adequacy of amounts in the Debt Service Account and the Series 1998-1 Bond Service Reserve Account and excess amounts in any other Funds or accounts.

Additional Bonds

One or more series of Additional Bonds may be issued under the Trust Agreement for the purpose of paying additional costs of the Major New State Infrastructure Projects for the use of the Department as authorized by the General Assembly (in an amount, for all such Major New State Infrastructure Projects, not in excess of the project costs as authorized by the General Assembly) and for the purpose of refunding certain obligations issued under the Act. Such Additional Bonds will be on a parity with the Bonds outstanding under the Trust Agreement, except as to bond service reserve accounts or Credit Support Instruments, if any, applicable only to certain series of such outstanding Bonds. The Department has agreed that it shall not permit any Additional Bonds or Parity Obligations to be issued if, upon such issuance, the total amount of Bond Service Charges payable with respect to the Series 1998-1 Bonds and any Additional Bonds in any Fiscal Year plus the total amount payable as debt service on all Parity Obligations in that Fiscal Year would exceed the lesser of (i) 25 % of the lowest amount of Pledged Federal Highway Receipts received by the Department in any of the three immediately previous Fiscal Years, or (ii) One Hundred Million Dollars (\$100,000,000).

The issuance of Additional Bonds under the Trust Agreement is also subject to the following conditions, among others: (i) the State, the Treasurer and State agencies are not in default of any applicable covenants or obligations contained in the Trust Agreement or in the Bonds and the authentication and delivery of the Additional Bonds will not result in any such default; (ii) the principal amount of the Additional Bonds, of the other Bonds then issued or outstanding (other than such Bonds then being funded or refunded) and of Parity Obligations outstanding, will not exceed in the aggregate the principal amount of Bonds and Parity Obligations which may be issued or outstanding under then existing authorizations of the General Assembly, the provisions of the Act and the Certificate and Agreement; (iii) upon the issuance and delivery of the Additional Bonds, the amount in any bond service reserve account shall not be less than the applicable required reserve; (iv) any necessary Certificate and Agreement will have been executed and delivered providing for deposits with the Treasurer sufficient to pay Bond Service Charges and other expenses with respect to such Additional Bonds and appropriations will have been made by the General Assembly during the then current fiscal biennium in an amount estimated to be sufficient to pay the Bond Service Charges and other costs related to such Additional Bonds during such biennium; (v) the certificate of the Director of Budget and Management confirming that amounts sufficient to pay currently estimated deposits under the Certificate and Agreement and debt service on Parity Obligations have been appropriated and that amounts in subsequent biennia have been requested, when appropriate; and (vi) the Trustee has received (a) a copy, certified by the Treasurer or an authorized officer of the Treasurer, of the Series Bond Order authorizing the issuance and delivery of the Additional Bonds to be authenticated and delivered, adopted in conformity with the General Bond Order to be set forth in that Series Bond Order; (b) an original executed counterpart of the Supplemental Trust Agreement entered into in connection with the issuance of those Additional Bonds; (c) an original executed counterpart of any Certificate and Agreement entered into in connection with the issuance of those Additional Bonds; (d) a request and authorization to the Trustee on behalf of the State, signed by the Treasurer or an authorized officer of the Treasurer, to authenticate and deliver the Additional Bonds to, or on the order of, the purchaser thereof who is therein identified, upon payment of the sum specified in that request and authorization; (e) the certificate of the Treasurer or an authorized officer of the Treasurer as to items (i), (ii), (iii), (iv) and (v) above; and (f) the written opinion of legal counsel retained or designated by the Treasurer, or other legal counsel satisfactory to the Trustee, to the effect that documents submitted to the Trustee in connection with the application then being made comply with the requirements of the Trust Agreement, and that in that counsel's opinion all conditions precedent to the issuance of those Additional Bonds as provided in the Trust Agreement have been complied with, and a written opinion of bond counsel retained or designated by the Treasurer who may also be the legal counsel referred to above, that the Additional Bonds the authentication of which is applied for, when duly executed, authenticated and delivered by or on behalf of the Trustee, will be valid and legal special obligations of the State, issued by the Treasurer, in accordance with their terms and will be secured by the Trust Agreement with all Bonds then outstanding.

Parity Obligations

The Trust Agreement contemplates the issuance of Parity Obligations. Parity Obligations means any obligation (other than the Series 1998-1 Bonds and any Additional Bonds)

of any person which, by its terms, is payable from or secured by Pledged Federal Highway Receipts and which obligation is not expressly subordinated to the Series 1998-1 Bonds. The Department has agreed in the Certificate and Agreement that it shall not permit any Additional Bonds or Parity Obligations to be issued if, upon such issuance, the total amount of Bond Service Charges payable with respect to the Series 1998-1 Bonds and any Additional Bonds in any Fiscal Year plus the total amount payable as debt service on all Parity Obligations in that Fiscal Year would exceed the lesser of (i) 25% of the lowest amount of Pledged Federal Highway Receipts received by the Department in any of the three immediately previous Fiscal Years, or (ii) One Hundred Million Dollars (\$100,000,000). See "THE CERTIFICATE AND AGREEMENT--Further Covenants" and "SOURCES OF FUNDS FOR PAYMENT OF SERIES 1998-1 BONDS".

Further Covenants

Certain other covenants of the Treasurer contained in the Trust Agreement are as follows:

Maintenance of Certificate and Agreement. The Treasurer covenants in the Trust Agreement to take all necessary and lawful actions to comply with the Treasurer's agreements, obligations, duties and responsibilities under any applicable Certificate and Agreement or any agreement, the revenues or receipts from which constitute Pledged Receipts, and will take all actions within its authority to maintain any applicable Certificate and Agreement and those agreements in effect and to enforce the rights of the Treasurer thereunder in accordance with the terms thereof, including actions at law and in equity, as may be appropriate.

The Treasurer will provide in the Certificate and Agreement for deposits thereunder in sufficient and appropriate amounts to pay when due (i) all Bond Service Charges on the Bonds from the Debt Service Account, (ii) all administrative expenses from the Administrative Expense Fund, (iii) all amounts necessary to maintain a required reserve, if any, in any applicable bond service reserve account, and (iv) all amounts to be paid to the United States of America which are not otherwise available in one of the Funds or accounts created pursuant to or described in the Trust Agreement. The Treasurer covenants not to amend, modify, alter, change or waive any term or provision of any applicable Certificate and Agreement if such action would have the effect of (a) reducing the amounts to be deposited thereunder to amounts less than described in the preceding sentence or changing the times and manner of deposit thereof so that such amounts would not be available when needed for payments to be made from the funds and accounts established by the Trust Agreement, (b) surrendering or limiting any remedies of the Treasurer under the Trust Agreement, or (c) being adverse to the interest of the Holders.

Creation of Liens. The Treasurer covenants in the Trust Agreement not to make any pledge or assignment of or create or suffer any lien or encumbrance upon the Pledged Receipts, prior to the pledge thereof under the Trust Agreement. The Treasurer also covenants in the Trust Agreement not to make any pledge or assignment of or create or suffer any lien or

encumbrance upon the Pledged Receipts on a parity with the pledge thereof under the Trust Agreement, except Parity Obligations and as otherwise authorized or permitted under the Trust Agreement, and, in the case of the bond service reserve account, under the applicable Series Bond Order. The Major New State Infrastructure Projects may not be pledged by the Treasurer.

Enforcement by Mandamus. The Treasurer has acknowledged that each provision of the Trust Agreement, the Bonds, any applicable Certificate and Agreement, and all other agreements included in the proceedings relating to the Bonds, is binding upon the Treasurer, the Department and any other State agency or other person or body as may from time to time have authority under law to take such actions as may be necessary to perform all or any part of the duty required by such provision and each duty of the Treasurer, the Department or other State agency and their respective officers, members and employees undertaken or required pursuant thereto is established as a duty of the Treasurer and of each such member, officer, and employee having authority to perform such duty specifically enjoined by law resulting from an office, trust or station within the meaning of Section 2731.01 of the Ohio Revised Code providing for enforcement by writ of mandamus.

Certain Reports. The Treasurer will annually submit to the Director of Budget and Management a written report confirmed in part by the Trustee setting forth the estimated amount to become due under the Certificate and Agreement during the current fiscal year and the ensuing two fiscal years. Upon any determination by the Treasurer that a different amount than last reported will be required, the Treasurer will submit a revised written report superseding the next prior report.

On or before the forty-fifth day preceding each Interest Payment Date, the Trustee will submit to the Treasurer, the Director of Budget and Management and the Department a written certificate setting forth (i) the net interest earned and credited to the Debt Service Account and not reflected on any previous similar certificate and any net interest to be earned and credited to the Debt Service Account prior to the next Interest Payment Date and not reflected in any prior certificate; (ii) any moneys credited to the Debt Service Account from a bond service reserve account as a result of excess funds being in such bond service reserve account and not reflected on any prior certificate and any funds to be so credited to the Debt Service Account prior to the next Interest Payment Date; (iii) any moneys credited to the Debt Service Account from the Rebate Fund and not reflected on any previous certificate and any funds to be so credited to the Debt Service Account prior to the next Interest Payment Date; (iv) any moneys remaining in the Administrative Expense Fund on the date of such certificate which moneys are to be credited immediately to the Debt Service Account; and (v) any moneys remaining in the Infrastructure Bank Obligations Fund which are to be credited to the Debt Service Fund. Such amounts shown on such certificate shall be a credit against the next deposit due under the Certificate and Agreement.

Events of Default and Remedies

Events of Default. The following events constitute Events of Default under the Trust Agreement:

- (i) Default by the Treasurer in the payment of any interest on any Bond when due and payable;
- (ii) Default by the Treasurer in the payment of the principal of or any redemption premium on any Bond when due and payable, whether at stated maturity or by mandatory redemption; or
- (iii) Any other default by the Treasurer to perform or observe any other covenants, agreements or conditions on its part contained in the Trust Agreement or the Bonds and continuance of such default for 60 days after written notice thereof, from the Trustee or the Holders of not less than 25 % in aggregate principal amount of the affected Bonds then outstanding.

If an Event of Default occurs, the Trustee will give notice to the Treasurer within five days of receipt of actual knowledge and to the applicable underwriters and to all Holders, paying agents, bond registrars, authenticating agents and other agents within 90 days after having knowledge, unless the Event of Default is cured or, in the case of an Event of Default under clause (iii) above, the Trustee determines that withholding notice is in the best interest of the Holders.

Remedies. If any Event of Default described in clauses (i) or (ii) above occurs and is not remedied, the Trustee shall proceed to protect and enforce its rights and the rights of the Holders of the Bonds, which includes the right to declare the principal of all Bonds and interest accrued thereon to be immediately due and payable. At any time after that declaration, and prior to the entry of judgment in the court for enforcement of the appointment of a receiver under the Trust Agreement, such declaration of acceleration is subject to rescission and annulment by the Trustee if all sums payable under the Trust Agreement (except the principal and interest on Bonds which have not matured by their terms and which are due and payable solely by reason of that declaration of acceleration), plus interest (to the extent permitted by law) on any overdue installments of interest have been paid or provided for, and all existing Events of Default shall have been cured.

If the Event of Default occurs under the Trust Agreement and is not remedied, the Trustee may, as an alternative or in addition to acceleration of the Bonds, enforce the rights of the Holders of the Bonds by mandamus or other suit, action or proceeding at law or in equity, bring suit upon the Bonds, enjoin unlawful activities or activities in violation of the rights of Holders under the Trust Agreement, or in the case of an Event of Default described in clause (i) and (ii) above apply to a court to appoint a receiver of the Pledged Receipts. If an Event of Default described in clause (iii) above occurs under the Trust Agreement and indemnified as

provided in the Trust Agreement as the Trustee, being advised by counsel, shall consider most effective to protect and enforce those rights.

The Trustee is not required to take notice or deemed to have notice or knowledge of any default under the Trust Agreement, except Events of Default described in clauses (i) and (ii) above, unless the Trustee is specifically notified in writing of such default by the Treasurer or by the Holders of at least 10% of the aggregate principal amount of Bonds then outstanding, and in the absence of such notice so delivered, the Trustee may conclusively assume there is not Event of Default except as described above.

As discussed above, the Trust Agreement provides for the appointment of a receiver to recover and administer the Pledged Receipts upon the occurrence of certain Events of Default, but the right to a receiver under Ohio law is discretionary with the court as equitable principles may dictate. The appointment of a receiver may not, accordingly, be available as a remedy for the Trustee or the Holders of the Bonds. Moreover, the Act withholds from any receiver the power to pledge additional revenues or income to the Treasurer to the payment of the Bond Service Charges and excludes the power to take possession of, mortgage, or cause the sale or other disposition of any State Infrastructure Project.

All moneys held or received by the Treasurer, the Trustee or the receiver after an Event of Default occurs, after the payment of the costs and expenses incurred in the collection thereof and the fees, expenses, liabilities and advances of the Trustee or the receiver, shall be applied as follows: (i) unless the principal of all the Bonds has become or been declared due and payable, (a) first, to the payment of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest and, if the amount available is not sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege except as to any difference in the respective rates of interest specified on the Bonds; and (b) next, to the payment of unpaid principal of any of the Bonds which have become due (other than Bonds previously called for redemption for the payment of which moneys are held pursuant to the provisions of the Trust Agreement) whether at stated maturity, by redemption or pursuant to any mandatory sinking fund requirements, in the order of their due dates, with interest, and if the amount is insufficient to pay in full all Bonds, then to the payment ratably according to the amount of principal due on that date to the persons entitled thereto without discrimination or privilege; or (ii) if the principal of all the Bonds has become or been declared due and payable, to the payment of principal and interest then due and unpaid upon the Bonds, without preference or priority of principal over interest or of interest over principal, or any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest to the persons entitled thereto without discrimination or privilege except as to any difference in the respective rates of interest specified in the Bonds; or (iii) if the principal of all Bonds has been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled as provided in the Trust Agreement then, subject to clause (ii) of this paragraph in the event that the principal of all such Bonds shall later become due and payable, the moneys shall be

deposited in the Debt Service Account and applied in accordance with the provisions of the Bond Orders. Whenever moneys are to be applied as described above, those moneys are to be applied at the times the Trustee determines, having due regard to the amount of those moneys available for application and the likelihood of additional moneys becoming available for application in the future.

Whenever the Trustee directs the application of those moneys, it is required to fix the date (which shall be an Interest Payment Date with respect to the Bonds unless the Trustee will deem another date more suitable) upon which the application is to be made and upon that date interest on the amounts of principal to be paid on that date, and for which moneys are available, will cease to accrue. The Trustee is required to give notice as it deems appropriate of the deposit of any such moneys and of the fixing of any such date, all consistent with the requirements of the Bond Orders for the establishment of, and for giving notice of, a special record date for the payment of overdue interest. The Trustee is not required to direct payment of principal or premium to the Holders of any Bond until that Bond is presented to the Trustee for appropriate notation of partial payment or for cancellation if fully paid.

No Holder of any Bond has any right to institute any suit, action or proceeding for the enforcement of any provision of the Trust Agreement or for the execution of any trust thereof or for the appointment of a receiver or any other remedy thereunder unless (i) an Event of Default under the Trust Agreement has occurred and is continuing; (ii) that Holder has previously given to the Trustee written notice of the Event of Default; (iii) the Holders of at least 25% in aggregate principal amount of the Bonds then outstanding have filed a written request with the Trustee and have afforded the Trustee reasonable opportunity either to proceed to exercise its powers or to institute such action, suit or proceeding in its own name; (iv) such Holders have offered the Trustee adequate indemnity as provided in the Trust Agreement; and (v) the Trustee has failed or refused to comply with such request after receipt by it of such notice, request and offer of indemnity. No one or more Holder of any Bonds have any right in any manner whatsoever to affect, disturb or prejudice the pledge created by the Trust Agreement or to enforce any right thereunder except in the manner therein provided, and all actions, suits and proceedings shall be instituted and maintained in the manner therein provided and for equal benefit of the Holders of all outstanding Bonds.

Waiver of Events of Default

Except as may otherwise be provided in any Supplemental Trust Agreement, at any time the Trustee may in its discretion, waive any Event of Default under the Trust Agreement and its consequences and rescind any declaration of maturity of principal, and the Trustee must waive any Event of Default or rescind any declaration of maturity of principal upon the written request of the Holders of at least a majority in aggregate principal amount of all the outstanding Bonds. The Trustee will not however, waive or rescind any Event of Default resulting from a failure to pay Bond Service Charges on the Bonds when due or rescind any declaration of maturity in connection therewith unless at the time of the waiver or rescission

payment of all overdue installments of interest and principal, not including principal and interest due solely by virtue of acceleration, have been made or provided for.

Supplemental Trust Agreements

Without the consent of or notice to the Holders of the Bonds, the Treasurer and the Trustee may enter into Supplemental Trust Agreements for any one or more of the following purposes: (i) to cure any ambiguity, inconsistency or formal defect or omission in the Trust Agreement; (ii) to grant or to confer upon the Trustee for the benefit of the Holders additional rights, remedies, powers or authority that lawfully may be granted to or conferred upon the Holders or the Trustee; (iii) to subject additional revenues or receipts to the pledge of the Trust Agreement; (iv) to add to the covenants and agreements of the State, state agencies or the Treasurer contained in the Trust Agreement other covenants and agreements to be observed for the protection of the Holders or to surrender or limit any right or power of the Treasurer reserved to conferred upon the State, state agencies or the Treasurer in the Trust Agreement; (v) to evidence any succession to the Treasurer or to any state agency and the assumption by that successor of the covenants and agreements of the Treasurer or the state agency, respectively, in the Trust Agreement and the Bonds; (vi) in connection with the issuance of Additional Bonds in accordance with the Trust Agreement; (vii) to permit the exchange of Bonds at the option of the Holder for coupon Bonds in accordance with the Trust Agreement if, in the opinion of nationally recognized counsel selected by the Treasurer, that exchange would not result in the interest on any of the Bonds outstanding becoming subject to federal income taxation; (viii) to permit the use of Book-Entry Form to identify the owner of an interest in a Bonds; (ix) to permit the Trustee to comply with any obligations imposed by law; (x) to specify further the duties and responsibilities of, and to define further the relationship among, the Trustee, and any bond registrar, authenticating agent, paying agent or other agent for the Bonds; (xi) to achieve compliance with any applicable federal securities or tax law; (xii) to permit the appropriate calculation, if any, of any amount due to the United States of America or in lieu or rebate as permitted under the Trust Agreement; (xiii) to permit or provide for Interest Rate Hedges, as defined in Section 9.98(L) of the Ohio Revised Code, as authorized by Section 9.982(B)(3) of the Ohio Revised Code, with respect to obligations issued under the Trust Agreement, provided, however, that prior to any such interest rate hedge becoming effective: (a) any necessary Certificate and Agreement will have been executed and delivered providing for money under the Certificate and Agreement estimated to be sufficient to pay the cost and expenses of providing such Interest Rate Hedge and any other fees, costs and expenses in connection therewith, and the amounts to be paid pursuant to the Certificate will have been appropriated in an amount estimated to be sufficient for the remainder of the then current State fiscal biennium and (b) the Director of Budget and Management will have included, in any then existing budget request for the Department for the next succeeding fiscal biennium, amounts sufficient to pay all rentals estimated to be due under the Certificate and Agreement during such biennium; and (xiv) to permit any other amendment not prejudicial to the Trustee or the Holders of the Bonds.

In addition, with the consent of the Holders of not less than a majority in aggregate principal amount of the Bonds then outstanding (exclusive of Bonds then held or owned by the Treasurer), the Trustee and the Treasurer may enter into other Supplemental Trust Agreements for the purpose of modifying, altering, amending, adding to or rescinding any of the terms or provisions thereof, provided that no Supplemental Trust Agreement may be entered into which provides for (i) an extension of the maturity of the principal of or the interest on any Bond or a reduction in the principal amount of any Bond or the rate of interest or redemption premium on any Bond or reduction in the amount or extension of the time of any payment required by any mandatory sinking fund requirements relating to the Bonds, without the consent of the Holder of each Bond so affected, or (ii) a reduction in the aggregate principal amount of the Bonds required for consent to such Supplemental Trust Agreement without the consent of the Holders of the Bonds then outstanding.

Where the consent of the Holders of the Bonds is required procedures are established in the Trust Agreement for notice to the Holders and for the execution and filing of the requisite consents. Any consent is binding upon the Holders of the Bonds giving such consent and upon any subsequent Holders of the Bonds unless such consent is revoked in writing prior to the execution by the Trustee of the Supplemental Trust Agreement. If the Holders of the required percentage in aggregate principal amount of the Bonds then outstanding have consented to the execution of a Supplemental Trust Agreement as provided in the Trust Agreement, no Holder of any Bond has any right to object to the execution of the Supplemental Trust Agreement or to the terms and provisions contained therein or the operations thereof, to question the propriety of the execution thereof or to enjoin or restrain the Treasurer or the Trustee from executing or taking action pursuant to the same.

Defeasance

When all the outstanding Bonds and all other sums payable under the Trust Agreement have been paid and discharged (or provisions therefor have been made within the meaning of the Trust Agreement), then the Trust Agreement will be null and void and the obligations, covenants and agreements of the Treasurer and the pledge created by the Trust Agreement will be fully discharged and satisfied. Any Bonds will be deemed to have been so paid and discharged if the Trustee holds sufficient moneys or direct obligations of the United States of America which bear such interest as will, without further investment, when added with any moneys also deposited, be sufficient in the aggregate to pay at maturity or upon redemption, the Bond Service Charges on the Bonds; provided that, with respect to the Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption has been duly given or provisions satisfactory to the Trustee have been made for the giving of such notice.

Non-presentment of Bonds

In the event any Bond is not presented for payment when the principal thereof is due or a check or draft for interest is uncashed, and if moneys sufficient to pay the principal or that check or draft have been made available by the Trustee for the benefit of the Holder or payee thereof, all liability of the State or the Treasurer to the Holder or payee for payment thereof will cease and be completely discharged, and it will be the duty of the Trustee to hold such moneys in trust, without liability for interest thereon, for the benefit of the Holder of the Bond or the payee of that check or draft, who thereafter will be restricted exclusively to such moneys for any claim of whatever nature on its part under the Trust Agreement or on or with respect to said Bond or that check or draft. Moneys so held by the Trustee and which remain unclaimed for three years after the due date of the payment will be paid to the Treasurer and thereafter the Holder of that Bond or the payee of that check or draft may look only to the Treasurer for payment and then only in the amounts so received by the Treasurer without any interest thereon, and the Trustee will have no further responsibility with respect to such moneys.

Payments Due On Saturdays, Sundays and Holidays

If any Interest Payment Date, date of maturity of the principal of any Bonds or date fixed for redemption of any Bonds is a Saturday, Sunday or a day on which: (i) the Trustee is required, or authorized or not prohibited, by law (including without limitation executive orders) to close and is closed, then payment of Bond Service Charges need not be made by the Trustee or any paying agent for the Bonds on the applicable date, and the applicable payment may be made on the next succeeding Business Day on which the Trustee and the paying agent are open for business with the same force and effect as if the applicable payment were made on the applicable date, and no interest shall accrue for the period after that date, or (ii) a paying agent for the Bonds is required, or authorized or not prohibited by law (including without limitation executive orders) to close and is closed, then the applicable payment need not be made by that paying agent on the applicable date, and the applicable payment may be made on the next succeeding Business Day on which that paying agent is open for business with the same force and effect as if the applicable payment were made on the applicable date, and no interest shall accrue for the period after that date. If, however, the Trustee is open for business on the applicable date, it shall make any applicable payment required under the Trust Agreement with respect to interest on outstanding Bonds and principal of and premium on Bonds presented to it for payment, regardless of whether any other paying agent for the Bonds shall be open for business or closed on the applicable date.

Trustee

The Trustee is National City Bank of Columbus, a national bank authorized to exercise corporate trust powers in the State. The Trustee has undertaken to perform such duties as are specifically set forth in the Trust Agreement. The Trustee will exercise such of the rights

and powers vested in it by the Trust Agreement and use the same degree of care and skill in its exercise as an ordinarily prudent corporate trustee under a trust agreement securing securities of a public agency, and is not obligated to take any action until it has received a satisfactory indemnity bond for its expenses and to protect it against any liability other than liability resulting from its negligence or willful default. The permissive rights of the Trustee to do things under the Trust Agreement will not be construed as a duty and the Trustee will not be answerable for acts or events other than its negligence or willful default.

LITIGATION

The Treasurer, the Department and the State are parties to various legal proceedings, seeking damages or injunctive or other relief, generally related to their respective operations but unrelated to the Series 1998-1 Bonds or the security for the Series 1998-1 Bonds. Though the ultimate disposition of such proceedings is not presently determinable, the Attorney General of the State will deliver opinions that none of such proceedings involve, or will materially adversely affect, the transactions contemplated in connection with the issuance and sale of the Series 1998-1 Bonds and that none of such proceedings will have a material adverse affect on the Department's performance of its obligations under the Certificate and Agreement, or the Treasurer's performance of its obligations under the Trust Agreement or the Series 1998-1 Bonds.

RATINGS

Moody's Investors Service, Inc. has assigned a rating of "Aa3" to the Series 1998-1 Bonds, Standard & Poor's Rating Services has assigned a rating of "AA-" to the Series 1998-1 Bonds and Fitch Investors Service, L.P. has assigned a rating of "AA-" to the Series 1998-1 Bonds. Such ratings reflect only the respective views of such rating agencies. Any explanation of the significance of the ratings may only be obtained from the respective rating agency. The Department furnished each rating agency with certain information and materials, some of which may not have been included in this Official Statement, relating to the Series 1998-1 Bonds, the State, and the Department. Generally, rating agencies base their ratings on such information and other investigations, studies and assumptions they deem appropriate. There can be no assurance that the ratings will continue for any period of time or that they will not be revised or withdrawn entirely by the respective rating agency, if in its judgment circumstances so warrant. Any revision or withdrawal of a rating may have an effect on the marketability and market price of the Series 1998-1 Bonds.

ELIGIBILITY UNDER OHIO LAW FOR INVESTMENT AND AS SECURITY FOR THE DEPOSIT OF PUBLIC MONEY

To the extent that a particular investor is governed by Ohio law with respect to its investments, and subject to any applicable limitations under other provisions of Ohio law, under the Act, the Series 1998-1 Bonds are lawful investments for banks, societies for savings, savings and loan associations, deposit guarantee associations, trust companies, trustees, fiduciaries, insurance companies (including domestic for life and domestic not for life), trustees or other officers having charge of sinking and bond retirement or other special funds of political subdivisions and taxing districts of the State of Ohio, the commissioners of the sinking fund of the State of Ohio, the administrator of workers' compensation (in accordance with the investment policy established by the workers' compensation oversight commission pursuant to section 4121.12 of the Ohio Revised Code), the state teachers retirement system, the public employees retirement system, the school employees retirement system, and the police and firemen's disability and pension fund, notwithstanding any other provisions of the Ohio Revised Code or rules adopted pursuant to the Ohio Revised Code by any agency of the State of Ohio with respect to investments by them.

The Act provides that the Series 1998-1 Bonds are acceptable under Ohio law as security for the deposit of public moneys.

Each Book-Entry Interest Owner of the Series 1998-1 Bonds should make its own determination as to such matters of legality of investment in, or pledge of book-entry interests in, the Series 1998-1 Bonds.

TAX EXEMPTION

In the opinions of Calfee, Halter & Griswold LLP and Haynes & Haynes, Co-Bond Counsel, under existing law and assuming compliance with certain covenants, interest on the Series 1998-1 Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Code, and is not treated as an item of tax preference under Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals and corporations. The Series 1998-1 Bonds are exempt from the Ohio personal income tax, the Ohio corporation franchise tax (to the extent computed on the net income basis), and income taxes imposed by municipalities and other political subdivisions in Ohio.

Opinions to those effects will be included in the approving legal opinions. Co-Bond Counsel will express no opinion regarding other federal, state, or local tax consequences resulting from the receipt or accrual of interest on the Series 1998-1 Bonds. The opinions on tax matters will be based on and will assume the accuracy of certain representations and certifications and compliance with certain covenants of the Treasurer to be contained in the transcript of proceedings and which are intended to evidence and assure the foregoing. Co-Bond

Counsel will not independently verify the accuracy of the certifications and representations made by the Treasurer.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and remain excluded from gross income for federal income tax purposes, some of which, including provisions for the rebate by the issuer of certain investment earnings to the federal government, require further or continued compliance after issuance of the obligations in order for the interest to be and continue to be so excluded from the date of issuance. Noncompliance with these requirements could cause the interest on the Series 1998-1 Bonds to be included in gross income for federal income tax purposes, in some cases retroactive to their date of issuance. The Treasurer covenants in the Trust Agreement to take such actions which may be required of it for the interest on the Series 1998-1 Bonds to be and remain excluded from gross income for federal income tax purposes, and not to take any actions which would adversely affect that exclusion.

Code provisions applicable to certain corporations (as defined for federal income tax purposes) which impose an alternative minimum tax on a portion of the excess of adjusted current earnings over other alternative minimum taxable income may subject a portion of the interest on the Series 1998-1 Bonds earned by corporations to that corporate alternative minimum tax. In addition, interest on the Series 1998-1 Bonds may be subject to the branch profits tax imposed under Section 884 of the Code on certain foreign corporations doing business in the United States, and to the tax imposed on the excess net passive income of certain S corporations under Section 1375 of the Code.

Under the Code, the receipt of interest excluded from gross income for federal income tax purposes can have certain adverse federal income tax consequences on items of income or deductions for certain taxpayers, including among them financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, and those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations. The applicability and extent of these or other tax consequences will depend upon the particular tax status or other items of income and expense of the owner of the Series 1998-1 Bonds. Co-Bond Counsel express no opinions regarding such consequences.

From time to time, legislative proposals are pending in Congress that would, if enacted, alter or amend one or more of the federal tax matters referred to above in certain respects or would adversely affect the market value of the Series 1998-1 Bonds. Neither the form nor enactment of any such proposals can be predicted, and there can be no assurance that such proposals will not apply to the Series 1998-1 Bonds.

The foregoing is not intended as a detailed or comprehensive description of all possible tax consequences of purchasing or holding the Series 1998-1 Bonds. Persons considering the purchase of the Series 1998-1 Bonds should consult with their tax advisors as to the consequences of buying or holding the Series 1998-1 Bonds in their particular circumstances.

FEDERAL INCOME TAX TREATMENT OF DISCOUNT BONDS

Certain Series 1998-1 Bonds (the "Discount Bonds") may be offered and sold in their initial public offering at an original issue discount ("OID"). OID is the difference between the stated redemption price at maturity (generally, the face amount) and the lower "issue price" of such obligations. The issue price of a Discount Bond is the initial offering price to the public at which a substantial amount of the Discount Bonds are sold pursuant to that offering. OID accrues to the holders of the Discount Bonds over the period of their maturity based on the constant-yield-to-maturity method, compounded semiannually (under which increasing amounts of OID accrue on the Discount Bonds over successive periods). The portion of OID that accrues during the time a holder owns a Discount Bond (i) constitutes interest excludable from the holder's gross income for federal income tax purposes, and (ii) is added to the holder's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond.

Owners of Discount Bonds should consult their own tax advisors as to the determination for federal income tax purposes of the amount of OID accruable each year with respect to the Discount Bonds and as to the other federal tax consequences and any state and local tax aspects of owning Discount Bonds.

CERTAIN LEGAL MATTERS

Legal matters incident to the issuance of the Series 1998-1 Bonds and with regard to the tax-exempt status of the interest thereon are subject to the legal opinions of Calfee, Halter & Griswold LLP and Haynes & Haynes, as Co-Bond Counsel. A signed copy of the Bond Counsel opinions, dated as of, and speaking only as of, the date of original delivery of the Series 1998-1 Bonds, will be delivered to the Underwriters at the time of that original delivery. The proposed text of the legal opinions of Co-Bond Counsel is set forth as Appendix D hereto. The legal opinion to be delivered may vary from that text if necessary to reflect facts and law on the date of delivery. The opinions will speak only as of its date, and subsequent distribution of them by recirculation of the Official Statement or otherwise shall create no implication that Co-Bond Counsel have reviewed or expressed any opinion concerning any of the matters referred to in the opinion subsequent to its date.

Certain legal matters will be passed upon for the Underwriters by Baker & Hostetler L.L.P. and by Bowen & Bowen, Co-Underwriters' Counsel. Certain legal matters will be passed upon for the Treasurer and the Department by their Counsel, the Attorney General of Ohio, Betty D. Montgomery.

INFORMATION CONCERNING THE STATE OF OHIO

Attached hereto as Appendix A is a discussion of certain matters relating to State finances, debt, population, employment, agriculture, resources, tax bases and related subjects. Attached hereto as Appendix B are the general purpose financial statements of the State for the Fiscal Year ended June 30, 1997. These Appendices have been provided by the State from its official records, except for information expressly attributed to other sources. The information is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial or other positions of the State. No representation is made that past experience, as might be shown by such financial and other information, will necessarily continue in the future.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series 1998-1 Bonds from the Treasurer at a price of \$71,194,421.51 (consisting of the principal amount thereof plus a bond premium of \$1,682,580.45 and less Underwriter's compensation and expenses of \$488,158.94) plus accrued interest. The Underwriters are obligated to purchase all of the Series 1998-1 Bonds if any are purchased. The Series 1998-1 Bonds may be offered and sold by the Underwriters to certain dealers at prices lower than the public offering prices, and the public offering prices may be changed from time to time.

FINANCIAL ADVISORS

Municipal Advisory Partners, Inc. has served as financial advisor to the Treasurer in connection with the issuance and sale of the Series 1998-1 Bonds. McDonald & Company Securities, Inc. has served as financial advisor to the Department in connection with the issuance and sale of the Series 1998-1 Bonds.

CONTINUING DISCLOSURE

The Treasurer has agreed, for the benefit of the Holders and Book-Entry Interest Owners of the Series 1998-1 Bonds, in accordance with SEC Rule 15c2-12 (the "Rule") to provide or cause to be provided such financial information and operating data ("Annual Information"), audited financial statements and notices, in such manner as may be required for purposes of paragraph (b)(5)(i) of the Rule (the "Continuing Disclosure Commitment"), including specifically the following:

1. To each SEC-designated nationally recognized municipal securities information repository ("NRMSIR") and to the Ohio state information depository ("SID"):
 - (a) Annual Information for each Fiscal Year (beginning with Fiscal Year 1997) not later than the 90th day following the end of the Fiscal Year (or, if that is not a State business day, the next State business day), consisting of annual financial information and operating data of the type included in Appendix A of this Official Statement under the captions "FISCAL MATTERS," "STATE DEBT" and "TAX BASES." The Director of Budget and Management has agreed to provide the Annual Information. The Annual Information may be provided by reference to other documents, such as the State's Comprehensive Annual Financial Report and subsequent final official statements relating to other bonds issued by the State.
 - (b) When and if available, audited general purpose financial statements of the State for each Fiscal Year. The Treasurer expects such financial statements to be provided by the Director of Budget and Management, that they will be available separately from the Annual Information, and that the accounting principles to be applied in their preparation will be as described under and by reference in "Accounts and Reports; Controls" in Appendix A.
2. To each NRMSIR or to the Municipal Securities Rule Making Board ("MSRB"), and to the SID, in a timely manner, notice of:
 - (a) The occurrence of any of the following events, within the meaning of the Rule, with respect to the Series 1998-1 Bonds, if material: principal and interest payment delinquencies; non-payment related defaults; unscheduled draws on any debt service reserves or credit enhancements reflecting financial difficulties; substitution of credit or liquidity providers, or their failure to perform; adverse tax opinions or events affecting the tax-exempt status of the Series 1998-1 Bonds; modifications to rights of Holders or Book-Entry Interest Owners; bond calls; defeasances; release, substitution, or sale of property securing repayment of the Series 1998-1 Bonds; and rating changes. There are initially no credit enhancements or credit or liquidity providers applicable to the Series 1998-1 Bonds, or any property (except the Pledged Receipts) securing their repayment;
 - (b) The failure to provide the Annual Information within the time specified above; and
 - (c) Any change in the accounting principles applied in the preparation of the annual financial statements, any change in Fiscal Year, any failure of the

General Assembly to appropriate moneys for the purpose of paying costs to be incurred by the State to perform the Continuing Disclosure Commitment for the applicable fiscal period (biennium), and termination of the Continuing Disclosure Commitment.

The Treasurer will reserve the right to amend the Continuing Disclosure Commitment, and to obtain the waiver of noncompliance with any provision of the Continuing Disclosure Commitment, as may be necessary or appropriate to achieve its compliance with any applicable federal securities law or rules, to cure any ambiguity, inconsistency or formal defect or omission, and to address any change in circumstances arising from a change in legal requirements, change in law, or change in the identity, nature, or status of the Treasurer. Any such amendment or waiver will not be effective unless the Continuing Disclosure Commitment (as amended or taking into account such waiver) would have complied with the requirements of the Rule at the time of the primary offering of the Series 1998-1 Bonds, after taking into account any applicable amendments to or official interpretations of the Rule, as well as any change in circumstances, and until the Treasurer shall have received either (i) a written opinion of bond or other qualified independent special counsel selected by the Treasurer that the amendment or waiver would not materially impair the interest of Holders or Book-Entry Interest Owners of the Series 1998-1 Bonds, or (ii) the written consent to the amendment, or waiver, by the Holders or at least a majority of the aggregate outstanding principal amount of the applicable Series 1998-1 Bonds.

The Continuing Disclosure Commitment will be solely for the benefit of the Holders and Book-Entry Interest Owners of the Series 1998-1 Bonds. The right to enforce the provisions of the Continuing Disclosure Commitment is limited to the extent permitted by law, to an action for mandamus or specific performance to compel compliance of the obligations of the Treasurer and the State under the Continuing Disclosure Commitment.

Any non-compliance with the Continuing Disclosure Commitment will not be a default or failure to comply for purposes of the default provisions of the Trust Agreement. The Trustee has no responsibility for monitoring compliance with the Continuing Disclosure Commitment.

The performance by the State, as the only obligated person with respect to the Series 1998-1 Bonds, of the Continuing Disclosure Commitment will be subject to the biennial appropriation by the General Assembly of moneys for that purpose.

The Continuing Disclosure Commitment will remain in effect for the Series 1998-1 Bonds only for such period that the Series 1998-1 Bonds are outstanding in accordance with their terms and the State remains an obligated person with respect to the Series 1998-1 Bonds within the meaning of the Rule.

CONCLUDING STATEMENT

Quotations in this Official Statement from, and summaries and explanations of, the Ohio Constitution, the Ohio Revised Code, the Trust Agreement, the Certificate and Agreement, and the General and Series 1998-1 Bond Orders, do not purport to be complete. Reference is made to the pertinent provisions of the Ohio Constitution and Ohio Revised Code and those documents for complete statements of their provisions. Copies of the Trust Agreement and the Certificate and Agreement are available upon request from the Treasurer, 30 East Broad Street, 34th Floor, Columbus, Ohio 43215 (Telephone 614/466-3512).

To the extent that any statements in this Official Statement involve matters of opinion or estimates, whether or not expressly stated to be such, those statements are made as such and not as representations of fact or certainty, and no representation is made that any of those statements will be realized. Information in this Official Statement has been derived by the State, the Treasurer and the Department from official and other sources and is believed by the State, the Treasurer and the Department to be reliable, but information other than that obtained from official records by the State had not been independently confirmed or verified by the State, the Treasurer and the Department and its accuracy is not guaranteed. This Official Statement is not to be construed as a contract or agreement between the State or the Treasurer or the Department and the Underwriters or subsequent Holders of any of the Series 1998-1 Bonds or owners of any interests therein.

This Official Statement has been prepared, approved and delivered by the Treasurer of State of the State of Ohio, and executed by him in his official capacity.

TREASURER OF STATE OF THE
STATE OF OHIO

By: /s/ J. Kenneth Blackwell
Treasurer of State

GLOSSARY

When used herein the following terms shall have the meanings set forth below. The definitions set forth below are qualified in their entirety by reference to the Trust Agreement, the First Supplemental Trust Agreement, and the Certificate and Agreement, copies of which are available from the Authority. Use of the singular includes plural and use of the plural includes singular, where applicable.

"Act" means Section 5331.10 of the Ohio Revised Code, together with the provisions of any act or resolution of the General Assembly authorizing or limiting the issuance of the Bonds or the uses of the proceeds of the Bonds.

"Additional Bonds" means any Bonds except the Series 1998-1 Bonds.

"Administrative Expenses" means the administrative fees and expenses and other fees, expenses and obligations, other than Bond Service Charges, incurred by the Treasurer and the Department in connection with Bonds, including without limitation, regular and special fees and reasonable expenses of the Trustee, Bond Registrars, Paying Agents, Authenticating Agents, Rating Agencies, tender agents, depositories, financial advisors, accounting experts, attorneys, and other consultants and independent contractors, including printing services incurred in connection with the issuance, carrying, securing, paying, redeeming or retirement of Bonds, including costs and expenses relating to letters of credit, lines of credit, insurance, put agreements, stand-by purchase agreements, remarketing and administrative agreements, interest swap or hedging agreements and related costs, and any other credit enhancement, liquidity, remarketing, renewal or refunding arrangements.

"Administrative Expense Fund" means the Major New State Infrastructure Project Administrative Expense Fund established by the Treasurer in the custody of the Trustee.

"Bond" or "Bonds" means any Obligation, or all of the Obligations or an issue or series of Obligations, of the State, issued by the Treasurer pursuant to the General Bond Order and any Series Bond Order whether designated as bonds, notes or other type of obligation by the applicable Series Bond Order, including without limitation the Series 1998-1 Bonds and any Additional Bonds.

"Bond Service Charges" means the principal, including any mandatory sinking fund requirements for retirement of Bonds and interest, and any redemption premium, if any, required to be paid by the State on Bonds or, as provided in the applicable Bond Proceedings, estimated to be paid by the State on Bonds.

"Book-Entry Interest Owner" means a person who is the owner of a beneficial interest in Bonds, and the right to Bond Service Charges, which are maintained in Book Entry Form.

"Business Day" means any day of the year, other than: (a) a Saturday; (b) a Sunday; (c) a legal holiday; (d) a day on which banking institutions located in the State are required or authorized by law to close; or (e) a day on which the Trustee or any applicable Paying Agent is unable to open or be open for reasons not related to its financial condition.

"Certificate and Agreement" means the Certificate and Agreement, dated as of May 1, 1998, between the Director of the Department and the Treasurer, as amended from time to time.

"Code" means the Internal Revenue Code of 1986, as amended from time to time. References to the Code and Sections of the Code include relevant applicable regulations (including temporary regulations thereunder), and any successor provisions to those Sections or regulations.

"Credit Support Instrument" means an insurance policy, letter of credit, line or credit or other credit enhancement, support or liquidity device provided pursuant to an agreement by any financial institution company to enhance the security or liquidity of any Bonds or series or part of any series of Bonds or to provide, in whole or in part, a required reserve in a bond service reserve account.

"Department" means the Department of Transportation of the State, created by Section 121.01 of the Ohio Revised Code.

"Depository" means any Securities Depository, and, as to the Series 1998-1 Bonds, initially means The Depository Trust Company, New York, New York, a limited purpose trust company, and its nominee, CEDE & CO.

"Director of Budget and Management" means that officer of the State, appointed pursuant to Section 121.03 of the Ohio Revised Code, who administers and is the executive head of the Office of Budget and Management created by Section 121.02 of the Ohio Revised Code or the officer who performs the functions of that office.

"Eligible Investments," unless otherwise provided in the applicable Series Bond Order, with respect to moneys held by the Treasurer, means any investment in which the Treasurer is authorized to invest by State law, and with respect to moneys held by the Trustee, means any of the following securities:

- (i) direct obligations of the United States of America;
- (ii) obligations, whether representing principal and interest or either principal or interest, guaranteed as to payment by the United States of America, or to the payment of which the faith of the United States of America is pledged;
- (iii) obligations issued by any agency or instrumentality of the United States of America which are accepted by Moody's and Standard & Poor for refunding purposes

generally, and that result in the particular refunded obligations being assigned the highest rating of Moody's and Standard & Poor;

(iv) general obligations of the State or any political subdivision of the State that are rated at one of the two highest ratings of Moody's and Standard & Poor;

(v) certificates of deposit, whether negotiable or nonnegotiable, issued by a national bank located in the State or a bank (as defined in Section 1101.01 of the Ohio Revised Code) subject to inspection by the State Superintendent of Banks, which bank has a combined capital and surplus of at least One Hundred Million Dollars (\$100,000,000) in dollars of the United States of America and is rated at least "A" (or its equivalent) by Moody's and Standard & Poor, provided, that such certificates of deposit (a) do not exceed in the aggregate ten percent (10%) of the combined capital, surplus and undivided profits of the issuing bank and (b) shall be in the possession of the Trustee or its agents and shall be either (A) continuously and fully insured by the Federal Deposit Insurance Corporation, or its successors and (B) to the extent not so insured, continuously and fully secured by securities ("Pledged Securities") as are described in clauses (i) through (iii), inclusive, above, which shall have a market value (exclusive of any accrued interest) at all times at least equal to the principal amount of the certificates of deposit; and the bank issuing a certificate of deposit required to be secured as provided in clause (B) above shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such Pledged Securities securing each certificate of deposit will at all times be an amount at least equal to the principal amount of each such certificate of deposit and the Trustee shall be entitled to rely on each such undertaking;

(vi) any repurchase agreement for a period not to exceed thirty (30) days with any eligible institution described in clause (v) above having capital and surplus of at least One Hundred Million Dollars (\$100,000,000) in dollars of the United States of America and rated at least "A" (or its equivalent) by Moody's and Standard & Poor and described in Section 135.03 of the Ohio Revised Code that is fully and continuously collateralized at all times by interest bearing Pledged Securities based upon the market value of such Pledged Securities; and

(vii) any no front end load money market fund that is rated at least "A" (or its equivalent) by Moody's and Standard & Poor invested solely in obligations described in clauses (i), (ii) and (iii) above;

provide that for the purposes of clauses (v) and (vi) the respective Pledged Securities are to be in the possession of the Trustee or the Trustee's agent and are to be free and clear of all liens or rights or any third party, and in which obligations the Trustee is to have a first perfected security interest.

"Event of Default" means:

- (a) Default in the payment of any interest on any Bond when due and payable;
- (b) Default in the payment of the principal of or any redemption premium on any Bond when due and payable, whether at stated maturity or by mandatory redemption;
- (c) Any other default, and the continuance thereof for a period of 60 days after written notice of such default is given to the Treasurer by the Trustee or the Holders of not less than 25 percent in aggregate amount of affected Bonds then outstanding.

"Federal Fiscal Year" means a period of twelve consecutive months commencing on the first day of October of any year and ending on the last day of September of the following year, or such other period of twelve consecutive months as may by law be designated as the Federal Fiscal Year for general federal fiscal purposes.

"First Supplemental Trust Agreement" means the First Supplemental Trust Agreement, dated as of May 1, 1998, between the Treasurer and the Trustee, as amended from time to time.

"Fiscal Year" means a period of twelve consecutive months commencing on the first day of July of any year and ending on the last day of June of the following year, or such other period of twelve consecutive months as may by law be designated as the Fiscal Year for general State fiscal purposes.

"General Assembly" means the body in which the legislative power of the State is vested.

"General Bond Order" means the General Bond Order of the Treasurer, as the same may be amended from time to time in accordance with its provisions or the provisions of the Trust Agreement.

"Holder" or "Holder of Bonds," or any similar term, means any person in whose name a Bond is registered on the Register.

"Infrastructure Bank Obligations Fund" means such fund as defined in Section 5531.09 of the Ohio Revised Code.

"Interest Payment Date" means, as to the Series 1998-1 Bonds, the fifteenth day of June and the fifteenth day of December in each year, commencing December 15, 1998.

"Major New State Infrastructure Project" means a State Infrastructure Project described in a Certificate and Agreement.

"Moody's" means Moody's Investors Service, a Delaware corporation, its successors and assigns.

"Obligations" means Bonds, notes or other evidence of obligation, including coupons pertaining thereto, issued pursuant to the Act to pay costs of State Infrastructure Projects.

"Original Trust Agreement" means the Trust Agreement, dated as of May 1, 1998, by and between the Treasurer and the Trustee.

"Parity Obligations" means any obligation, other than the Bonds, of any person which is payable from, or the security for which is, Pledged Highway Receipts and which obligation is not expressly by its terms subordinated to the Bonds.

"Paying Agent" means the Trustee, and any other bank, trust company or financial institution or the Treasurer, designated as additional paying agents or places of payment of Bond Service Charges or specified Bond Service Charges on Bonds of a series by or pursuant to the Series Bond Order authorizing that series of Bonds, and their successors designated pursuant to the Trust Agreement.

"Pledged Federal Highway Receipts" means all moneys apportioned by the Secretary or Transportation under the provisions of Title 23 of the United States Code, as amended, or any successor legislation, or any other federal law relating to federal aid for highways and to be received as a grant by the State, to the extent that the State is not prohibited by federal or State law from using such moneys to pay Bond Service Charges.

"Pledged Receipts" means (a) all Pledged Federal Highway Receipts, excepting the portions thereof to be deposited in the Administrative Fund, the Construction Fund, the Rebate Fund or an account or subaccount created pursuant to Section 9 of the General Bond Order, as provided in the General Bond Order or in any Series Bond Order; (b) all amounts standing to the credit of the State Infrastructure Bank Revenue Bond Service Fund including without limitation all amounts credited to the Major New Project Debt Service Account and any other accounts and subaccounts in the State Infrastructure Bank Revenue Bond Service Fund, other than amounts in an account or subaccount which are limited to certain series of Bonds and other than any amounts in the State Infrastructure Bank Revenue Bond Service Fund raised by taxation by the State; (c) any gifts, grants, donations and pledges, and receipts therefrom, received by the State available for the payment of Bond Service Charges, to the extent not previously pledged and to the extent not prohibited by the terms of such gifts, grants, donations or pledges; and (d) any other moneys accruing to the State from sources described in Section 5331.10(A)(6) of the Ohio Revised Code, which are hereafter pledged to the payment of Bond Service Charges by a Series Bond Order.

"Rebate Fund" means the Major New State Infrastructure Project Rebate Fund established by the Treasurer in the custody of the Trustee pursuant to Section 11 of the General Bond Order.

"Regular Record Date" means, with respect to any Bond and unless otherwise provided in the Series Bond Order authorizing the particular series of Bonds, the 1st day of the calendar month in which an Interest Payment Date applicable to the Bond occurs.

"Register" means the books kept and maintained by the Bond Registrar for registration and transfer of Bonds pursuant to Section 2.04 of the Original Trust Agreement.

"Registrar" means the Bond Registrar appointed under the Trust Agreement, initially National City Bank.

"Rule" means Securities and Exchange Commission Rule 240.15c2-12, as amended from time to time.

"Securities Depository" means any securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a system to record the beneficial ownership of Bonds or right to Bond Service Charges and to effect transfers of Bonds in Book Entry Form.

"Series 1998-1 Bonds" means the \$70,000,000 State of Ohio, Major New State Infrastructure Project Revenue Bonds, Series 1998-1.

"Series Bond Order" means an order of the Treasurer authorizing the issuance of a series of Bonds in accordance with the General Bond Order, and particularly Section 4 thereof, and includes any order providing for the award, sale, terms or forms of Bonds authorized by a Series Bond Order.

"Special Record Date" means, with respect to any Bond and unless otherwise provided in the applicable Series Bond Order, the date established by the Trustee in connection with the payment of overdue interest on that Bond pursuant to the General Bond Order.

"Standard & Poor's" means Standard & Poor's Ratings Group, its successors and assigns.

"State" means the State of Ohio.

"State Infrastructure Bank Revenue Bond Service Fund" means such fund as defined in Section 5531.10(R) of the Ohio Revised Code.

"Supplemental Trust Agreement" means any trust agreement supplementing the Original Trust Agreement and entered into pursuant to the terms of the Original Trust Agreement as amended from time to time, and includes the applicable Series Bond Order.

"Treasurer" means the Treasurer of the State of the State, elected pursuant to Section 113.01 of the Ohio Revised code, or the officer who by law performs the functions of that office.

"Trust Agreement" means the Original Trust Agreement and all Supplemental Trust Agreements, all as amended from time to time, and includes the General Bond Order and all Series Bond Orders.

"Trustee" means the Trustee at the time serving under the Trust Agreement, initially National City Bank, and any successor Trustee as determined or appointed under or pursuant to Section 6.03 or Section 6.06 of the Original Trust Agreement.

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INFORMATION CONCERNING THE STATE OF OHIO

The following is a discussion of certain matters relating to State finances, debt, population, employment, agriculture, resources, tax bases and related subjects and has been provided by the State from its official records, except for information expressly attributed to other sources. This is provided as general information intended to show recent historical information and current fiscal information and is not intended to indicate future or continuing trends in the financial or other positions of the State. No representation is made that past experience, as might be shown by this financial and other information, will necessarily continue in the future.

Owners of the Series 1998-1 Bonds have no right to have taxes or excises levied by the General Assembly to pay bond service charges.

FISCAL MATTERS

General

Consistent with the constitutional provision that no appropriation may be made for a period longer than two years, the State operates on the basis of a fiscal biennium for its appropriations and expenditures. Under current law that biennium for operating purposes runs from July 1 in an odd-numbered year to June 30 in the next odd-numbered year; for example, the current fiscal biennium began July 1, 1997 and ends June 30, 1999. Within a fiscal biennium, the State operates on the basis of a July 1 to June 30 Fiscal Year. (The biennium for general capital appropriations purposes runs from July 1 in an even-numbered year to June 30 in the next even-numbered year.) References to a particular fiscal year (such as "Fiscal Year 1998") refer to the fiscal year ending on June 30 of that year.

The Constitution imposes a duty on the General Assembly to "provide for raising revenue, sufficient to defray the expenses of the state, for each year, and also a sufficient sum to pay the principal and interest as they become due on the state debt." The State is effectively precluded by law from ending a Fiscal Year or a biennium in a "deficit" position. State borrowing to meet casual deficits or failures in revenues or to meet expenses not otherwise provided for is limited by the Constitution to \$750,000.

Most State operations are financed through the general revenue fund (GRF), with personal income and sales-use taxes being the major GRF sources. The last complete fiscal biennium ended June 30, 1997 with a GRF fund balance of \$834,900,000. The Budget Stabilization Fund (BSF) has a current balance of \$862,700,000.

The Revised Code provides that if the Governor ascertains that the available revenue receipts and balances for the GRF or other funds for the then current Fiscal Year will in all probability be less than the appropriations for that year, he shall issue such orders to State agencies as will prevent their expenditures and incurred obligations from exceeding those revenue receipts and balances. As discussed under **Recent and Current Finances**, the Governor implemented this directive in some prior years.

Authority for appropriating State moneys subject to appropriation rests in the bicameral General Assembly, which consists of a 99-member House of Representatives (elected to two-year terms) and a 33-member Senate (elected to overlapping four-year terms). The Governor has veto power, including the power to make item vetoes in bills making appropriations. Vetoes may be overridden by a three-fifths vote of each house of the General Assembly.

The major categories of the State revenue sources, including taxes and excises, and the amounts received from those categories, are listed in the tables under **Recent Receipts and Disbursements**. There is no present constitutional limit on the rates of those State-levied taxes and excises, except for taxes on intangible property.

At present the State itself does not levy any ad valorem taxes on real or tangible personal property. Those taxes are levied by political subdivisions and local taxing districts. The Constitution has since 1934 limited the amount of the aggregate levy of ad valorem property taxes, without a vote of the electors or municipal charter provision, to 1% of true value in money, and statutes limit the amount of the aggregate levy without a vote or charter provision to 10 mills per \$1 of assessed valuation. This is commonly referred to in the context of Ohio local government finance as the "ten-mill limitation".

The Constitution directs or restricts the use of certain revenues. Highway fees and excises, including gasoline taxes, are limited in use to highway-related purposes. Not less than 50% of the receipts from State income taxes and estate taxes must be returned to the originating political subdivisions and school districts. Since 1987 all State lottery net profits are allocated to elementary, secondary, vocational and special education program purposes.

Constitutional amendments relating to taxation, revenues, expenditures, debt or other subjects may be proposed by action of three-fifths of the members elected to each house of the General Assembly or by initiative petition signed by electors numbering at least 10% of the total number of votes last cast for the office of governor. Adoption of a proposed amendment requires approval by a majority of electors voting on it at a state-wide election.

The House in 1995 adopted a resolution that would have submitted to the electors a constitutional amendment prohibiting the General Assembly from imposing a new tax or increasing an existing tax unless approved by a three-fifths vote of each house or by a majority vote of the electors. The Senate did not act on the resolution. A similar proposal has been introduced in the House in the current General Assembly.

The Ohio Constitution expressly provides that the General Assembly has no power to pass laws impairing the obligation of contracts.

Accounts and Reports; Controls

With each office performing specific functions relating to State expenditures, the Office of Budget and Management and the Treasurer of State account for and report on the State's fiscal affairs.

OBM maintains records of the appropriations made by the General Assembly and certifies the availability of unencumbered appropriations as a condition of contract validity. The OBM Director's certification is required for all expenditure vouchers prior to the Auditor of State's issuance of State warrants. Upon this certification, OBM updates its accounting records to reflect the level of vouchered expenditures. Additional OBM fiscal functions include control over the financial transactions of most State agencies and departments (excluding, among others, higher education institutions).

The Treasurer of State maintains the cash and investments that comprise the State treasury and invests State funds. The Treasurer redeems the warrants issued by the Auditor of State when presented for payment by financial institutions, and monitors the amounts and the timing of payments to determine the State's cash flow position for investment purposes.

Starting with Fiscal Year 1988, State financial reporting practices have been in accordance with generally accepted accounting principles (GAAP). Copies of the State's Comprehensive Annual Financial Reports (CAFR) for recent Fiscal Years are available from OBM upon request. Each CAFR includes the General Purpose Financial Statements (GPFS) for that year as prepared on a GAAP basis and examined by the Auditor of State. The Fiscal Year 1997 GPFS are attached as **Appendix B**.

The CAFR's for the years 1990 through 1996 received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting.

The GPFS are presented in accordance with a fund classification system prescribed by the Governmental Accounting Standards Board. The GAAP basis financial statement presentation is comprehensive in scope and includes organizations and activities defined within Ohio's reporting entity that are not subject to the State's appropriation process. The "General Fund" as reported in the GPFS includes more than just the GRF; it also encompasses the Budget Stabilization Fund and those reimbursement-supported funds that account for activities administered by State agencies and departments and for which special revenue or proprietary fund classifications are considered inappropriate.

OBM has also published *The Ohio Budgetary Financial Report* (prepared on a budgetary basis of accounting) for each of the Fiscal Years 1988 through 1997. Copies of the most recent ones are available upon request to OBM.

In accordance with State law, financial statements and analyses (with supporting schedules) of State agencies' transactions, based on official records maintained by OBM, are incorporated into the Governor's executive budget. That budget along with other information is the subject of extended hearings and reviews in the General Assembly during the biennial appropriation process.

The State has identified and assessed "year 2000 problems" in connection with State agency computers and computer operations. OBM is satisfied that those problems are being and will be timely addressed, and that costs of corrections will be within moneys available and appropriated for the purpose.

Recent Receipts and Disbursements

The following summary statements for recent Fiscal Years, prepared by OBM, include: (i) governmental and proprietary appropriated funds cash receipts and cash disbursements, and (ii) GRF cash basis activity. The historical financial information as shown in these statements has been obtained from OBM's accounting and reporting systems.

Governmental and Proprietary Appropriated Funds—Summary Statement of Cash Receipts and Disbursements

The following presents a summary of all Fiscal Year cash transactions for the governmental and proprietary funds, which encompass the General Fund (which includes the GRF), as well as special revenue, debt service, capital projects, enterprise and internal service fund types, all as defined and included in each GPFS.

SUMMARY STATEMENT GOVERNMENTAL AND PROPRIETARY APPROPRIATED FUNDS (\$ in 000,000)

Cash Receipts

SOURCE OF RECEIPTS

| Taxes: | <u>1993</u> | <u>1994</u> | <u>1995</u> | <u>1996</u> | <u>1997</u> |
|--|--------------|--------------|--------------|--------------|----------------|
| Personal Income..... | \$4,721.7 | \$5,091.2 | \$5,457.7 | \$5,884.7 | \$6,018.5 |
| Sales and Use..... | 3,970.7 | 4,480.0 | 4,752.1 | 4,991.4 | 5,234.2 |
| Corporate Franchise..... | 854.2 | 954.2 | 1,112.0 | 1,181.7 | 1,220.3 |
| Gasoline..... | 1,121.8 | 1,242.5 | 1,251.9 | 1,201.6 | 1,368.2 |
| Public Utilities Excise..... | 647.7 | 640.0 | 707.3 | 653.5 | 672.9 |
| Cigarette..... | 248.6 | 287.0 | 295.7 | 294.4 | 298.4 |
| Foreign Insurance..... | 243.1 | 278.3 | 273.8 | 282.3 | 289.8 |
| Intangibles(a)..... | 13.1 | 13.2 | 13.5 | 17.2 | 17.6 |
| Highway Use/Motor Fuel..... | 52.4 | 55.6 | 56.3 | 52.0 | 57.2 |
| Inheritance..... | 75.4 | 86.5 | 83.4 | 89.9 | 102.0 |
| Alcoholic Beverages..... | 46.8 | 52.0 | 51.9 | 51.4 | 52.6 |
| Liquor Gallonage..... | 22.8 | 27.7 | 27.4 | 27.3 | 27.1 |
| Domestic Insurance Franchise..... | 48.4 | 47.6 | 50.9 | 55.3 | 56.5 |
| Other..... | <u>46.7</u> | <u>89.2</u> | <u>60.7</u> | <u>25.2</u> | <u>28.8</u> |
| Total Taxes..... | 12,113.4 | 13,345.0 | 14,194.6 | 14,807.9 | 15,444.1 |
| Licenses, Permits and Fees..... | 794.6 | 1,095.1 | 959.3 | 981.5 | 1,034.9 |
| Sales, Services and Charges..... | 1,459.6 | 1,369.3 | 1,498.7 | 1,552.8 | 1,584.5 |
| Federal Government..... | 6,592.6 | 7,569.7 | 7,694.7 | 7,894.0 | 8,191.0 |
| Other..... | 1,522.9 | 1,776.2 | 1,805.3 | 1,781.3 | 2,099.8 |
| Proceeds from Sale of Bonds and Notes..... | <u>706.1</u> | <u>974.7</u> | <u>812.4</u> | <u>780.9</u> | <u>1,297.1</u> |
| Total Cash Receipts..... | \$23,189.2 | \$26,130.0 | \$26,965.0 | \$27,798.4 | \$29,651.4 |

(a) Proceeds primarily distributed to local subdivisions. Most elements of this tax have been repealed.

Cash Disbursements

FUND TYPE

| | | | | | |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| General Fund: | | | | | |
| General Revenue Fund..... | \$13,600.2 | \$14,433.2 | \$14,978.6 | \$15,858.1 | \$16,404.0 |
| General Services Fund..... | 258.9 | 280.0 | 295.7 | 433.7 | 433.6 |
| Education Improvement Fund..... | 0.1 | 0.0 | 0.0 | 1.0 | 0.0 |
| Special Revenue Fund(b)..... | 7,178.5 | 8,485.6 | 8,454.8 | 8,192.5 | 9,310.9 |
| Capital Projects Fund(c)..... | 635.5 | 805.7 | 808.9 | 822.2 | 899.2 |
| Debt Service Fund(d)..... | 173.2 | 180.6 | 204.3 | 215.4 | 224.7 |
| Enterprise Fund..... | 900.2 | 923.0 | 1,018.8 | 1,015.2 | 1,052.7 |
| Internal Service Fund..... | <u>234.5</u> | <u>245.5</u> | <u>255.2</u> | <u>252.1</u> | <u>261.5</u> |
| Total Cash Disbursements..... | \$22,981.1 | \$25,353.6 | \$26,016.3 | \$26,790.2 | \$28,586.6 |

(b) Includes local government support disbursements.

(c) Includes amounts disbursed from proceeds of general obligation bonds and of obligations issued by the Ohio Public Facilities Commission and Ohio Building Authority and certain obligations issued by the State Treasurer.

(d) Includes the several bond retirement funds for bonds secured by a pledge of taxes and excises.

General Revenue Fund -- Cash Basis Activity Summary Statement

The following statement portrays all GRF cash activity in the indicated Fiscal Year.

SUMMARY STATEMENT GENERAL REVENUE FUND CASH BASIS ACTIVITY (\$ in 000,000)

| | <u>1993</u> | <u>1994</u> | <u>1995</u> | <u>1996</u> | <u>1997</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| Beginning Cash Balance..... | \$339.9 | \$393.6 | \$841.9 | \$1,312.2 | \$1,138.5 |
| Cash Receipts: | | | | | |
| Taxes: | | | | | |
| Personal Income..... | 4,226.6 | 4,538.9 | 4,880.7 | 5,262.8 | 5,382.3 |
| Sales and Use..... | 3,773.7 | 4,250.9 | 4,511.9 | 4,739.5 | 4,969.0 |
| Public Utilities..... | 615.3 | 608.9 | 673.3 | 621.6 | 639.8 |
| Corporate Franchise..... | 801.4 | 897.3 | 1,043.8 | 1,114.0 | 1,150.8 |
| Cigarette..... | 248.5 | 287.0 | 295.7 | 294.5 | 298.4 |
| Foreign Insurance..... | 236.8 | 272.2 | 267.9 | 276.1 | 283.5 |
| Intangibles..... | 4.9 | 5.0 | 5.1 | 6.5 | 6.6 |
| Other..... | 217.0 | 279.2 | 249.8 | 225.8 | 239.6 |
| Total Taxes..... | 10,124.2 | 11,139.4 | 11,928.2 | 12,540.8 | 12,970.0 |
| Licenses, Permits and Fees..... | 80.4 | 63.3 | 61.3 | 65.1 | 66.2 |
| Sales, Services and Charges..... | 0.4 | 1.4 | 1.7 | 1.9 | 1.9 |
| Federal Government..... | 3,285.2 | 3,476.4 | 3,482.0 | 3,703.5 | 3,531.6 |
| Other..... | 88.1 | 167.3 | 164.4 | 175.7 | 200.0 |
| Total Cash Receipts..... | 13,578.3 | 14,847.8 | 15,637.6 | 16,487.0 | 16,769.7 |
| Cash Disbursements: | | | | | |
| Current | | | | | |
| Primary, Secondary and Other Education(a)..... | 3,183.8 | 3,311.6 | 3,463.8 | 3,727.5 | 3,940.6 |
| Higher Education(b)..... | 1,370.9 | 1,468.3 | 1,562.8 | 1,670.9 | 1,743.0 |
| Public Assistance and Medicaid..... | 5,817.9 | 6,157.8 | 6,164.2 | 6,356.2 | 6,289.4 |
| Health and Human Services..... | 777.3 | 814.4 | 857.9 | 906.0 | 957.7 |
| Justice and Public Protection..... | 762.7 | 873.8 | 1,016.5 | 1,139.8 | 1,290.7 |
| Environmental Protection and Natural Resources..... | 75.1 | 85.9 | 85.4 | 89.4 | 94.1 |
| Transportation..... | 33.5 | 35.6 | 37.7 | 38.5 | 34.5 |
| General Government..... | 219.1 | 228.9 | 228.7 | 246.6 | 266.1 |
| Community and Economic Development..... | 77.0 | 83.5 | 98.6 | 104.4 | 121.1 |
| Tax Relief(c) and Other..... | 741.8 | 782.0 | 814.7 | 888.1 | 942.7 |
| Capital Outlay..... | 5.5 | 5.3 | 4.5 | 3.3 | 7.6 |
| Debt Service(d)..... | 535.6 | 586.1 | 643.8 | 687.4 | 716.6 |
| Total Cash Disbursements..... | 13,600.2 | 14,433.2 | 14,978.6 | 15,858.1 | 16,404.1 |
| Cash Transfers: | | | | | |
| Transfers-in..... | 94.9 | 81.0 | 73.0 | 88.1 | 484.2 |
| Transfers-out(e)..... | (19.3) | (47.3) | (261.7) | (890.7) | (620.6) |
| Total Cash Transfers (Net)..... | 75.6 | 33.7 | (188.7) | (802.6) | (136.4) |
| Ending Cash Balance..... | \$393.6 | \$841.9 | \$1,312.2 | \$1,138.5 | \$1,367.7 |

(a) Mainly subsidies to local school districts.

(b) Mainly subsidies to colleges and universities. Higher education institutions maintain their own discrete funds and accounting systems.

(c) The State currently reimburses taxing subdivisions for the 10% property tax rollback granted to owners of real property (12.5% to homeowners), for partial real property tax exemptions for the elderly and handicapped, and for a portion of revenue reductions resulting from exempted tangible personal property. This program's cost to the State is determined by total property taxes levied on the local level.

(d) Debt service on obligations issued by the Ohio Public Facilities Commission and the Ohio Building Authority, and certain obligations issued by the State Treasurer, and on tax-supported State debt other than highway-related debt. Excludes OBA obligations for Department of Transportation and Department of Public Safety facilities and a Bureau of Workers' Compensation facility, debt service on which is paid from non-GRF sources.

(e) Includes, among other items, transfers to the Budget Stabilization Fund.

Recent and Current Finances

Introductory Information

The summary statements above identify receipts from specific taxes and excises that are sources of significant amounts of revenue to the State, and particularly to the GRF. As noted, there are constitutional limitations on the use of some taxes and excises and mandated allocations of portions of some others. As the statements show, a substantial amount of total State-level revenue is distributed to local governments and school districts under ongoing programs, including local property tax relief.

Economic activity in Ohio, as in many other industrially developed states, tends to be more cyclical than in some other states and in the nation as a whole.

The GRF ending (June 30) biennial fund balance is reduced during less favorable national economic periods and then increases during more favorable economic periods. For example, following the 1974-75 nationwide recession the 1977 GRF ending fund balance was \$21,600,000. The balance (without assistance from any significant tax rate increases) was \$245,700,000 in 1979, and then, paralleling the national economic situation, was at the significantly lower amount of \$200,000 in 1981. Aided by tax increases and other actions, the 1983 GRF ending fund balance was \$43,600,000. Recent biennium GRF ending fund balances were \$475,100,000 in 1989, \$135,365,000 in 1991, \$111,013,000 in 1993, \$928,000,000 in 1995, and \$834,900,000 in 1997.

Actions have been and may be taken by the State during less favorable economic periods to ensure GRF resource/expenditure balances (particularly in the GRF), some of which are described below. None relating to expenditures were applied to appropriations needed for debt service on or lease payments relating to any State obligations.

As discussed below, the appropriations acts for the current biennium included all necessary appropriations for debt service on State obligations, and for lease payments including those relating to lease obligations issued by the Ohio Public Facilities Commission, Ohio Building Authority and Treasurer. OBM is projecting positive June 30, 1999 GRF fund and cash balances.

Receipts and Expenditures

The following is a general discussion of State finances, and particularly the GRF, for recent and the current bienniums. Ending fund or cash balance references are to balances as of June 30 of the second year of the fiscal biennium.

As evidenced by actions discussed below, the State administrations and both houses of the General Assembly have been committed to and have taken actions that provide a balance of GRF resources and expenditures. All cutbacks, whether by Governor's order or General Assembly actions, have expressly excepted debt service appropriations.

All these bienniums ended with positive GRF fund and cash balances. The most recent complete biennium (1996-97) ended with a GRF fund balance of \$834,900,000 and cash balance of \$1.4 billion.

Recent Bienniums

For the **1988-89** biennium, GRF ending fund and cash balances were \$475,100,000 and \$784,268,000, both after the transfer of an additional \$65,100,000 to the BSF (which had an ending balance in excess of \$353,000,000). Among other factors affirmatively affecting biennial finances was a strong State and national economy.

Consistent with national economic conditions, the next two bienniums presented a greater challenge to State finances. Executive and legislative measures ensured biennium-ending positive GRF balances.

In the **1990-91** biennium (and particularly in its second year) Ohio experienced an economic slow-down producing significant changes in certain GRF revenue and expenditure levels. Several executive and legislative measures were taken to address the anticipated shortfall in revenues and increase in expenditures, all to better ensure the eventual biennium-ending positive balances. The Governor twice ordered reductions in selected appropriations spending. Legislation, developed cooperatively by the

General Assembly and the Governor, made certain statutory changes to increase Fiscal Year resources for or to reduce expenditures from the GRF, without adjusting taxes. Included in the reprioritizing were transfers into the GRF of amounts in other funds that were not needed for their purpose in that Fiscal Year, including \$64,000,000 from the BSF and that Fiscal Year's investment income on that Fund. There were positive GRF fund (\$135,365,000) and cash (\$326,576,000) ending balances. The BSF ending balance, after the transfer out, was slightly over \$300,000,000.

State and national fiscal uncertainties during the **1992-93** biennium required several actions to achieve the ultimate GRF positive ending balances. To allow time to complete the resolution of differences, an interim appropriations act was enacted effective July 1, 1991; that act included appropriations for the two years of the biennium for debt service and lease rental payments on obligations of the State payable from the GRF, even though most other GRF appropriations were made for only a month. The general appropriations act for the entire biennium then was passed on July 11 and signed by the Governor on July 26. Included in the resources appropriated was \$200,000,000 transferred from the BSF to the GRF.

As an initial action to address a subsequently projected Fiscal Year 1992 imbalance, the Governor ordered most State agencies to reduce GRF appropriations spending in the final six months of that year by a total of approximately \$184,000,000. Then in June 1992 the entire \$100,400,000 BSF balance and additional amounts from certain other funds were transferred to the GRF. Other revenue and spending actions, legislative and administrative, resolved the remaining GRF imbalance for Fiscal Year 1992.

As a first step toward addressing a then estimated \$520,000,000 GRF shortfall for Fiscal Year 1993, the Governor ordered, effective July 1, 1992, selected GRF spending reductions totalling \$300,000,000. Subsequent executive and legislative actions -- including tax revisions that produced an additional \$194,500,000 in Fiscal Year 1993, and an additional \$50,000,000 in spending reductions -- provided for positive biennium-ending GRF balances (fund balance of \$111,013,000, cash balance of \$393,634,000). As a first step toward BSF replenishment, \$21,000,000 was deposited in the BSF.

Appropriations for debt service (including lease rental appropriations) were expressly excluded from the Governor's cutback orders.

The GRF appropriations act for the **1994-95** biennium provided for total GRF biennial expenditures of approximately \$30.7 billion. Expenditures were below those authorized, primarily as the result of lower than expected Medicaid spending, and tax receipts (primarily auto sales/use) were significantly above estimates. The biennium ending GRF fund balance was \$928,000,000. The significant mid-biennium June 30, 1995 GRF fund balance, after retaining an unreserved and undesignated balance of \$70,000,000, was transferred to a variety of funds, including \$535,200,000 to the BSF, and \$322,800,000 to other funds, including school assistance funds and, in anticipation of possible federal programs changes, a human services stabilization fund.

For the **1996-97** biennium, GRF appropriations approximated \$33.5 billion. From a higher than forecast mid-biennium GRF fund balance, \$100,000,000 was transferred for elementary and secondary school computer network purposes and \$30,000,000 to a new State transportation infrastructure fund. Approximately \$400,800,000 served as a basis for temporary 1996 personal income tax reductions aggregating that amount. The GRF biennium-ending balances were \$1.4 billion (cash) and \$834,900,000 (fund). Of that fund balance, \$250,000,000 goes to school building construction and renovation, \$94,400,000 to the school computer network, \$44,200,000 for school textbooks and instructional materials and a distance learning program, and \$34,400,000 to the BSF (which has a current balance of \$862,700,000), with the \$262,900,000 balance going to a State income tax reduction fund.

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Current Biennium

The GRF appropriations act for the current biennium was passed on June 25, 1997 and promptly signed (after selective vetoes) by the Governor. That act provided for total GRF biennial expenditures of over \$36 billion, with the following examples of GRF major program biennial expenditure increases over those for the prior biennium: higher education, 10.8%; mental health and mental retardation, 4.2%; primary and secondary education, 15.4%; human services, 7.3%; and adult and juvenile corrections, 18.4%. Legislation passed in the spring of 1998 increased the GRF Fiscal Year 1999 appropriation level for elementary and secondary education, with the increase to be funded in part by mandated small (0.5-3%) percentage reductions in State appropriations for various State agencies and institutions; expressly exempt from those deductions are all appropriations for debt service including lease rental payments.

Necessary GRF debt service and lease-rental appropriations for the entire biennium were requested in the Governor's proposed budget and incorporated in the related appropriations bill as introduced, and in the bill's versions as passed by the House and the Senate and in the act as passed and signed. The same is true for the separate appropriations acts for the Department of Transportation, Department of Public Safety and Bureau of Workers' Compensation, which included lease-rental appropriations for certain OBA-financed ODOT, DPS and BWC projects.

Litigation pending in federal district court and in the Ohio Court of Claims contests the Ohio Department of Human Services' (ODHS) prior Medicaid financial eligibility rules for married couples where one spouse is living in a nursing facility and the other spouse resides in the community. ODHS promulgated new eligibility rules effective January 1, 1996. It is appealing an order of the federal court directing it to provide notice to persons potentially affected by the former rules from 1990 through 1995. It is not possible at this time to state whether this appeal will be successful or, should plaintiffs prevail, the period (beyond the current fiscal year) during which necessary additional Medicaid expenditures would have to be made. Plaintiffs have estimated total additional Medicaid expenditures at \$600,000,000 for the retroactive period and, based on current law, it is estimated that the State's share of those additional expenditures is approximately \$240,000,000. The Court of Claims has certified the action as a class action.

Cash Flow

Because GRF cash receipts and disbursements do not precisely coincide, temporary GRF cash flow deficiencies often occur in some months, and particularly the middle months, of a Fiscal Year. Statutory provisions provide for effective management by permitting the adjustment of payment schedules (as was done during some prior Fiscal Years) and the use of the Total Operating Fund (TOF).

The State has not done and does not do external revenue anticipation borrowing.

The TOF includes the total consolidated cash balances, revenues, disbursements and transfers of the GRF and several other specified funds (including the BSF). The TOF cash balances are consolidated only for the purpose of meeting cash flow requirements, and, except for the GRF, a positive cash balance must be maintained for each discrete fund included in the TOF. The GRF is permitted to incur a temporary cash deficiency by drawing upon the available consolidated cash balance in the TOF. The amount of that permitted GRF cash deficiency at any time is limited to 10% of GRF revenues for the then preceding Fiscal Year.

The State has encountered (and planned for) some monthly GRF cash flow deficiencies in all recent Fiscal Years. For example, GRF cash flow deficiencies have ranged from occurring 10 months in Fiscal Year 1992 (\$743,140,000 the highest) to four months in Fiscal Year 1995 (the highest being \$337,964,000). The GRF had cash flow deficiencies in four months in Fiscal Year 1997 (the highest being \$565,741,000).

OBM currently projects GRF cash flow deficiencies in five months in Fiscal Year 1998.

Cash flow deficiencies have been and are expected by OBM to be within the TOF limitations discussed above. Often, the GRF balancing steps described above ameliorated cash flow deficiencies in later months of a Fiscal Year, significantly assisting in producing the positive year-end GRF balances.

STATE DEBT

The incurrence or assumption of debt by the State without a popular vote is, with limited exceptions, prohibited by current provisions of the State Constitution. The State may incur debt to cover casual deficits or failures in revenues or to meet expenses not otherwise provided for, but limited in amount to \$750,000. The Constitution expressly precludes the State from assuming the debts of any county, city, town, or township, or of any corporation. (An exception in both cases is for debts incurred to repel invasion, suppress insurrection, or defend the State in war.) The Constitution provides that "Except the debts above specified . . . no debt whatever shall hereafter be created by, or on behalf of the state."

From 1921 to date Ohio voters approved 15 constitutional amendments authorizing the incurrence of State debt to which taxes or excises were pledged for payment. All related to capital facilities financing, except for three funding veterans' bonuses. The only such tax-supported debt still authorized to be incurred are highway, local infrastructure, coal development and natural resources general obligation bonds as discussed below.

See the discussion, under **Additional Authorizations**, of a proposed constitutional amendment authorizing additional state general obligation debt for school and higher education facilities.

The State and State agencies have issued revenue bonds that are payable from net revenues of or relating to revenue-producing facilities or categories of facilities, such as those issued by the Ohio Turnpike Commission. Under interpretations by Ohio courts, those revenue bonds are not "debt" within the constitutional provisions described above. The Constitution authorizes State bonds (issued by the Ohio Housing Finance Agency) for certain housing purposes; tax moneys may not be obligated or pledged to those bonds. See the discussion of expanded housing finance authority below under **Additional Authorizations**.

In addition, Section 2i of Article VIII of the Constitution authorizes the issuance, for certain purposes, of State obligations the owners or holders of which are not given the right to have excises or taxes levied by the General Assembly to pay principal and interest. Those special obligations include the bonds and notes issued by, among others, the Ohio Public Facilities Commission and the Ohio Building Authority, and certain obligations issued by the Treasurer of State. OPFC issues obligations for facilities for higher education, mental health and parks and recreation purposes. OBA issues obligations for facilities to house branches and agencies of State government and their functions, including: State office buildings and facilities for the Department of Administrative Services (DAS) and others; juvenile detention facilities, including single-county or joint-county facilities, for the Department of Youth Services (DYS) and other governmental entities; Ohio Department of Transportation (ODOT) buildings; Department of Rehabilitation and Correction (DRC) prisons and correctional facilities including certain local and community-based facilities; office facilities for the Bureau of Workers' Compensation (BWC) and Department of Natural Resources (DNR); Ohio Arts and Sports Facilities Commission (ASFC) and Department of Public Safety (DPS) facilities; and school district computer and security facilities. The Treasurer issues obligations for certain elementary and secondary school facilities under leases with the Ohio School Facilities Commission.

State agencies enter into capital lease and lease purchase agreements relating to facilities for or related to general State governmental purposes. Those facilities include equipment and buildings or portions of buildings. OBM estimates total Fiscal Year 1998 rental payments under those agreements to be approximately \$3,151,000 and \$6,000,000, respectively.

In recent years, State agencies have participated in transportation-related projects and in office building projects that may have some local as well as State use and benefit, in connection with which the State enters into lease purchase agreements with terms ranging from 7 to 20 years. Certificates of participation, or special obligation bonds of the State or a local agency, are issued, representing fractionalized interests in or payable from the State's anticipated payments. OBM estimates total Fiscal Year 1998 payments under those agreements to be approximately \$16,449,125. The highest future Fiscal Year amount is \$30,707,478 (of which \$27,172,166 is payable from sources other than the GRF such as federal highway money distributions).

Payments by the State under all those agreements are subject to biennial appropriations, with the lease terms being two years subject to renewal if appropriations are made. The number of, and amount of obligations under, those agreements have varied and will vary from time to time.

The OBM Director's approval is required for entering into those agreements generally. That approval is particularly required if obligations, representing fractionalized interests in or payable from the State's anticipated payments, are to be publicly offered.

A current summary of State tax-supported obligations (general obligation bonds), and special obligations issued by the OPFC and OBA, and certain special obligations issued by the Treasurer, that have been authorized and issued and outstanding, excluding the Series 1998-1 Bonds, is as follows:

| | Authorized by General Assembly | Issued(a) | Outstanding(b) |
|--|---|------------------|-----------------------|
| General Obligation Bonds | | | |
| Highway(c) | \$ 772,500,000 | \$ 175,000,000 | \$ 152,500,000 |
| Highway(d) | 1,854,695,000 | 1,745,000,000 | 357,700,000 |
| Coal Development(e) | 150,000,000 | 95,000,000 | 28,250,000 |
| Infrastructure(f) | 1,320,000,000 | 1,199,986,136 | 945,544,157 |
| Natural Resources(g) | 180,000,000 | 100,000,000 | 88,600,000 |
| Ohio Public Facilities Commission | | | |
| Higher Education Facilities | \$4,929,300,000 | \$4,417,590,000 | \$2,124,600,000 |
| Mental Health Facilities | 1,141,000,000 | 1,077,535,000 | 365,095,000 |
| Parks and Recreation Facilities | 218,800,000 | 194,900,000 | 89,960,000 |
| Ohio Building Authority | | | |
| Prison Facilities | \$1,499,000,000 | \$1,302,100,000 | \$981,248,177 |
| DYS Facilities | 194,000,000 | 113,000,000 | 98,070,000 |
| DAS Facilities(h) | 1,018,000,000 | 898,300,000 | 710,355,231 |
| ASFC Facilities | 197,600,000 | 137,000,000 | 113,985,000 |
| ODOT Facilities(i) | 210,000,000 | 155,800,000 | 114,715,000 |
| DNR Facilities | 12,160,000 | 12,160,000 | 9,215,000 |
| DPS Facilities(i) | 129,000,000 | 103,200,000 | 96,965,000 |
| BWC Facilities(j) | 214,255,000 | 214,255,000 | 200,255,000 |
| Treasurer of State | | | |
| Education Facilities | \$538,640,000 | \$223,640,000 | \$196,310,000 |

(a) Excludes refunding bonds; includes bonds refunded.

(b) Excludes bonds refunded; includes refunding bonds.

(c) Not more than \$220,000,000 may be issued in any year and not more than \$1.2 billion may be outstanding at any time.

(d) Authority to issue expired in 1996.

(e) Not more than \$100,000,000 may be outstanding at any time.

(f) Not more than \$120,000,000 may be issued in any year, and the total issued may not exceed \$2.4 billion.

(g) Not more than \$50,000,000 may be issued in any year and not more than \$200,000,000 may be outstanding at any time.

(h) Primarily for State office buildings in Columbus, Cleveland, Akron and Toledo, and a State computer center in Columbus. Debt service for the Akron and Toledo office buildings is supported in part by payments from local government agencies using portions of those facilities. Includes \$100,000,000 for school district computer technology and security systems.

(i) Debt service paid from appropriations from highway user receipts.

(j) Debt service paid from appropriations from BWC Administrative Cost Fund.

The General Assembly has appropriated sufficient moneys to meet debt service requirements for the current biennium (ending June 30, 1999) on all OPFC, OBA and Treasurer special obligations listed in the accompanying tables. Except for \$58,441,000 of highway user receipts appropriated for obligations issued for ODOT and DPS facilities, and \$30,130,000 for the BWC facility obligations, all appropriations have been from the GRF.

The following table shows Fiscal Year debt service on State bonds secured by a pledge of taxes or excises, and on those special obligation State bonds issued by the OPFC, OBA and the Treasurer of State listed in the above tables.

Annual Debt Service Requirements on Certain Outstanding State Obligations

| FY | General Obligations | | | OPFC | | | OBA* | | | Treasurer | | | Total Debt Service* | | | OBA | |
|------|---------------------|---------------|---------------|--------------|-----------------------|---------------------|----------------------|---------------|-----------------|-----------------|---------------|-----------------|---------------------|--|--|-----|--|
| | Highway(a) | Non-Highway | | | ODOT/DPS Buildings(b) | Other Facilities(c) | Education Facilities | Principal | Interest | Total | Facilities(d) | BWC | | | | | |
| 1998 | \$124,045,643 | \$106,946,860 | \$437,080,369 | \$25,216,169 | \$200,351,054 | \$21,179,260 | \$593,194,730 | \$321,624,626 | \$914,819,356 | \$14,654,613 | | | | | | | |
| 1999 | 95,108,875 | 118,549,346 | 417,617,314 | 26,141,888 | 217,518,595 | 29,717,595 | 588,772,841 | 315,880,773 | 904,653,614 | 15,454,613 | | | | | | | |
| 2000 | 77,432,125 | 118,007,931 | 386,070,296 | 25,682,920 | 217,793,348 | 29,752,796 | 558,274,686 | 296,464,730 | 854,739,416 | 16,208,613 | | | | | | | |
| 2001 | 74,655,375 | 118,310,003 | 353,852,900 | 25,282,951 | 217,830,344 | 29,733,093 | 550,181,850 | 269,482,815 | 819,664,665 | 16,914,613 | | | | | | | |
| 2002 | 71,862,375 | 118,311,788 | 303,654,883 | 24,895,918 | 218,343,128 | 29,722,065 | 532,705,526 | 234,084,630 | 766,790,156 | 17,570,613 | | | | | | | |
| 2003 | 69,033,750 | 118,410,330 | 274,061,033 | 24,497,955 | 218,750,558 | 25,722,590 | 519,562,101 | 210,914,115 | 730,476,216 | 18,174,613 | | | | | | | |
| 2004 | 56,207,500 | 114,501,333 | 256,540,603 | 24,080,820 | 219,585,608 | 19,781,425 | 503,380,409 | 187,316,880 | 690,697,288 | 18,734,613 | | | | | | | |
| 2005 | 30,318,750 | 102,117,611 | 220,196,500 | 23,665,058 | 219,649,689 | 19,784,675 | 442,490,172 | 173,241,111 | 615,731,283 | 19,239,613 | | | | | | | |
| 2006 | 19,000,000 | 100,056,468 | 206,844,488 | 21,182,801 | 203,651,229 | 19,766,650 | 419,655,161 | 152,992,367 | 572,647,528 | 19,687,613 | | | | | | | |
| 2007 | 13,125,000 | 96,385,455 | 202,601,588 | 20,853,910 | 181,508,999 | 19,698,188 | 412,215,470 | 122,286,560 | 534,502,030 | 20,076,613 | | | | | | | |
| 2008 | 0 | 96,392,501 | 178,544,325 | 20,853,910 | 152,104,354 | 10,742,000 | 355,666,280 | 102,970,810 | 458,637,090 | 20,390,613 | | | | | | | |
| 2009 | 0 | 96,456,571 | 137,885,463 | 13,917,395 | 133,084,273 | 0 | 293,898,982 | 87,444,719 | 381,343,701 | 20,640,613 | | | | | | | |
| 2010 | 0 | 96,296,401 | 116,082,588 | 13,708,413 | 123,934,154 | 0 | 278,841,194 | 71,180,360 | 350,021,554 | 19,824,613 | | | | | | | |
| 2011 | 0 | 83,761,968 | 86,038,963 | 10,913,572 | 107,704,694 | 0 | 232,935,913 | 55,483,282 | 288,419,196 | 19,004,613 | | | | | | | |
| 2012 | 0 | 83,563,295 | 55,934,300 | 7,316,484 | 99,222,207 | 0 | 203,287,238 | 42,749,048 | 246,036,286 | 18,244,613 | | | | | | | |
| 2013 | 0 | 68,571,186 | 29,003,600 | 0 | 75,011,665 | 0 | 138,586,475 | 33,999,976 | 172,586,451 | 17,484,613 | | | | | | | |
| 2014 | 0 | 58,255,049 | 0 | 0 | 58,188,881 | 0 | 92,426,268 | 24,017,662 | 116,443,930 | 15,979,613 | | | | | | | |
| 2015 | 0 | 38,888,236 | 0 | 0 | 47,598,635 | 0 | 72,428,397 | 14,058,474 | 86,486,871 | 0 | | | | | | | |
| 2016 | 0 | 28,681,734 | 0 | 0 | 34,822,115 | 0 | 56,153,600 | 7,350,248 | 63,503,849 | 0 | | | | | | | |
| 2017 | 0 | 19,008,930 | 0 | 0 | 27,693,115 | 0 | 43,835,000 | 2,867,045 | 46,702,045 | 0 | | | | | | | |
| 2018 | 0 | 9,292,215 | 0 | 0 | 18,466,613 | 0 | 26,910,000 | 848,828 | 27,758,828 | 0 | | | | | | | |
| 2019 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | | | |
| 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | | | |
| | | | | | | | | | \$6,915,402,295 | \$2,727,259,057 | | \$9,642,661,352 | | | | | |

*Excludes the Series 1998-1 Bonds.

Note: Rows are rounded.

(a) Debt service is paid entirely from highway user receipts which are constitutionally restricted in use to highway-related purposes.
 (b) Lease rentals to date paid from highway user receipts, and are anticipated to be paid from those receipts for the purpose in future bienniums.

(c) Excludes BWC facilities.

(d) Debt service paid exclusively from appropriations from administrative cost assessments of the BWC.

The following table shows the principal amount of those obligations that were or are scheduled to be outstanding as of July 1 of the indicated years:

| | <u>General Obligations</u> | | <u>OPFC</u> | <u>OBA</u> | <u>Treasurer</u> |
|------|----------------------------|--------------------|-----------------|-----------------|------------------|
| | <u>Highway</u> | <u>Non-Highway</u> | | | |
| 1997 | \$525,700,000 | \$1,005,566,568 | \$2,559,040,000 | \$1,993,910,058 | \$116,810,000 |
| 2000 | 291,500,000 | 926,470,018 | 1,940,835,000 | 1,869,220,020 | 147,135,000 |
| 2005 | 30,000,000 | 582,103,786 | 878,300,000 | 1,089,471,194 | 46,965,000 |
| 2010 | -0- | 287,077,892 | 160,900,000 | 418,585,000 | -0- |
| 2015 | -0- | 52,093,600 | -0- | 74,805,000 | -0- |

The following tables show certain historical debt information and comparisons. These tables include only outstanding bonds of the State secured by pledges of taxes and excises, and those issued by the OPFC, OBA and the Treasurer as reflected in the tables above. Highway obligations and obligations issued by the OBA for ODOT, DPS and BWC purposes are not included since they are paid from receipts that do not go into the GRF.

| <u>Fiscal Year</u> | <u>Principal Amount Outstanding (as of July 1)</u> | <u>Principal Amount Per Capita (a)</u> | <u>Principal Amount As % of Annual Personal Income</u> |
|--------------------|--|--|--|
| 1980 | \$1,991,915,000 | \$184.48 | 1.90% |
| 1985 | 2,664,060,000 | 246.73 | 1.88 |
| 1990 | 3,690,154,994 | 340.20 | 1.94 |
| 1993 | 4,286,631,904 | 395.19 | 2.00 |
| 1994 | 4,669,967,748 | 430.53 | 2.01 |
| 1995 | 5,049,962,637 | 465.56 | 2.06 |
| 1996 | 5,203,715,312 | 479.74 | 2.24(b) |
| 1997 | 5,461,641,626 | 489.52 | 2.22(b) |

| <u>Fiscal Year</u> | <u>Debt Service Payable(c)</u> | <u>Total GRF Disbursements</u> | <u>Debt Service as % of GRF Disbursements</u> | <u>Debt Service Per Capita</u> | <u>Debt Service as % of Annual Personal income</u> |
|--------------------|--------------------------------|--------------------------------|---|--------------------------------|--|
| 1980 | \$187,478,382 | \$5,183,999,871 | 3.61% | \$17.43 | 0.18% |
| 1985 | 316,122,379 | 8,480,380,477 | 3.73 | 29.30 | 0.22 |
| 1990 | 488,676,826 | 11,585,673,568 | 4.22 | 45.05 | 0.26 |
| 1993 | 556,512,741 | 13,600,175,302 | 4.09 | 50.18 | 0.25 |
| 1994 | 601,201,857 | 14,433,186,000 | 4.17 | 54.15 | 0.26 |
| 1995 | 648,878,779 | 14,978,608,718 | 4.33 | 58.15 | 0.26 |
| 1996 | 691,007,871 | 15,858,131,400 | 4.36 | 61.84 | 0.26 |
| 1997 | 716,501,188 | 16,404,050,000 | 4.37 | 64.13(a) | 0.27(b) |

(a) Population based on 1996 census figures (estimated).

(b) Based on 1996 personal income data.

A statewide economic development program assists, with loans and loan guarantees, the financing of facilities for industry, commerce, research and distribution. The law authorizes the issuance of State bonds and loan guarantees secured by a pledge of portions of the State profits from liquor sales. The General Assembly has authorized the issuance of these bonds by the State Treasurer, with a general maximum of \$300,000,000 currently authorized to be outstanding at any one time (excluding bonds issued to meet guarantees, but less any amount by which 4% of the unpaid principal amount of guaranteed loan payments exceeds the funded amount applicable to the guarantees). The aggregate amount from the liquor profits to be used in any Fiscal Year in connection with these bonds (except for bonds issued to meet guarantees) may not under present law exceed \$25,000,000. The total of unpaid guaranteed loan amounts and unpaid principal of direct loans may not exceed \$500,000,000. A 1996 issue of \$168,740,000 (\$163,185,000 outstanding) of taxable bonds refunded outstanding bonds and provided additional funds for the program. The highest future Fiscal Year debt service on those bonds, which are payable through 2022, is \$16,166,827.

The State from time to time enters into capital lease and lease purchase agreements relating to facilities for general State governmental purposes. OBM estimates total Fiscal Year 1998 rental payments under those agreements are approximately \$3,150,869 and \$6,000,000 respectively. Payments under those leases are subject to biennial appropriations. The number of and obligations under such leases will vary from time to time.

Additional Authorizations

Only a portion of State capital needs can be met by direct GRF appropriations, and so additional State borrowing for capital purposes has been and will be required. Under present constitutional limitations most of that borrowing has been and will probably primarily be by lease-rental supported obligations such as those issued by the OPFC and the OBA and, in some cases, by the Treasurer.

The general capital appropriations act for the current (1997-98) capital appropriations biennium authorized additional borrowing. It authorized OPFC issuance of additional obligations in the amounts of \$559,000,000 for higher education capital facilities projects (a substantial number of which are renovations and equipment of and improvements to existing facilities), \$68,400,000 for mental health facilities projects (including local projects), and \$22,700,000 for parks and recreation facilities projects. It also authorizes additional OBA obligations in the amounts of \$197,400,000 for prisons and local jails, \$37,800,000 for DYS facilities, \$125,650,000 for DAS facilities including computer technology and security systems for school districts, \$80,700,000 for ASFC facilities (including \$38,000,000 for the newly authorized category of sports facilities), \$75,800,000 for DPS facilities, and \$27,750,000 for ODOT facilities. These additional authorizations and issuances under them are reflected in the above tables.

A capital bill for the 1999-2000 biennium has not yet been introduced.

The Treasurer of State has been authorized to issue bonds to finance approximately \$538,640,000 of capital improvements for elementary and secondary public school facilities (\$223,640,000 issued). Debt service on those lease-rental obligations is payable from State resources.

A 1995 constitutional amendment extended the local infrastructure bond program (authorizing an additional \$1.2 billion of State full faith and credit obligations to be issued over 10 years, not more than \$120,000,000 to be issued in a fiscal year, for the purpose) and authorized additional highway bonds. The latter supersedes the prior highway bonds authorization of not more than \$500,000,000 to be outstanding at any time and not more than \$100,000,000 to be issued annually, and authorizes not more than \$1.2 billion to be outstanding at any time and not more than \$220,000,000 to be issued in a Fiscal Year.

The General Assembly has authorized the following additional general obligation bonds yet to be issued: by the Commissioners of the Sinking Fund; \$55,000,000 coal development, \$597,500,000 highway capital improvements, and \$80,000,000 natural resources; and by the Treasurer \$120,013,864 of infrastructure bonds.

The most recent capital appropriations legislation provides for two new categories of revenue-type financing. OBA is authorized to issue lease revenue obligations to assist in the financing of up to 15% of the estimated cost of certain Ohio sports facilities. In addition, a revolving fund is created to assist in financing local multimodal and intermodal transportation facilities, initially funded with a deposit of \$30,000,000 of GRF moneys.

A 1990 constitutional amendment authorizes greater State and political subdivision participation in the provision of individual and family housing. This supplements the previously constitutionally authorized loans-for-lenders and other housing assistance programs, financed in part with State revenue bonds. The amendment authorizes the General Assembly to provide for State assistance for housing in a variety of manners. The General Assembly could authorize State borrowing for the purpose by the issuance of State obligations secured by a pledge of all or such portion as it authorizes of State revenues or receipts, although the obligations may not be supported by the State's full faith and credit.

A 1994 constitutional amendment pledges the State's full faith and credit and taxing power to meeting certain guarantees under the State's tuition credit program. That program provides for purchase of tuition credits, for the benefit of State residents, guaranteed to cover a specified amount when applied to the cost of higher education tuition. Under the amendment, to secure the tuition guarantees the General Assembly shall appropriate moneys sufficient to offset any deficiency that may occur from time to time in the trust fund that provides for the guarantees and at any time necessary to make payment of the full amount of any tuition payment or refund required by a tuition payment contract. (A 1965 constitutional provision that authorized, but did not require, State student loan guarantees payable from available State moneys has never been implemented, apart from a "guarantee fund" approach funded essentially from program revenues.)

The voters did not approve at the May 1998 primary election a General Assembly proposed constitutional amendment authorizing State general obligation debt to pay costs of facilities for a system of common schools

throughout the State and for state supported and assisted institutions of higher education. That and other debt represented by direct obligations of the State (such as that authorized by the OPFC and OBA) could not be issued if future Fiscal Year total debt service on those obligations to be paid from the GRF or net lottery proceeds exceeds 5% of total State expenditures from the GRF and net lottery proceeds during the then preceding Fiscal Year.

POPULATION

Ohio's 1990 decennial census population of over 10,840,000 indicated a 0.5% population growth since 1980 and Ohio as ranking seventh among the states in population. In 1980 it had ranked sixth.

The following tables show selected Census figures.

Ohio Population — Total and by Age Group (figures rounded)

| Year | Total | Rank Among States | Decennial Growth Rate | 1-17(a) Years | 18-64(a) Years | 65 and Over |
|---------|------------|-------------------------|-----------------------------|------------------|-------------------|----------------|
| 1970 | 10,652,000 | 6 | 9.7% | 3,738,000 | 5,916,000 | 998,000 |
| 1980 | 10,797,600 | 6 | 1.4 | 3,502,900 | 6,125,200 | 1,169,500 |
| 1990 | 10,847,000 | 7 | 0.5 | 2,818,000 | 6,691,000 | 1,399,000 |
| 1996(b) | 11,173,000 | 7 | 3.0(c) | 2,848,000 | 6,828,000 | 1,497,000 |

(a) For 1970, 1990 and 1996. For 1980, census categories were 1-19 and 20-64 years.

(b) Estimated.

(c) Growth rate 1990 to 1996.

Sources: *Statistical Abstracts of the United States* (U.S. Bureau of Census).

Population of Ohio Metropolitan Areas(a)

| | 1970 | 1980 | 1990 | 1996* |
|---------------------------|-----------|-----------|--------------|--------------|
| Cleveland | 2,063,729 | 1,898,825 | 1,831,122 | 2,233,000(f) |
| Cincinnati | 1,106,821 | 1,100,983 | 1,452,645(b) | 1,597,000(g) |
| Columbus | 1,017,847 | 1,093,316 | 1,377,415(c) | 1,448,000(h) |
| Dayton | 852,531 | 830,070 | 951,270(d) | 951,000 |
| Akron | 679,239 | 660,328 | 657,575 | 680,000 |
| Toledo | 643,443 | 656,940 | 614,128 | 611,000 |
| Youngstown-Warren | 537,124 | 531,350 | 492,619 | 599,000(i) |
| Canton | 393,789 | 404,421 | 394,106 | 403,000 |
| Lorain-Elyria | 256,843 | 274,909 | 271,176 | (f) |
| Hamilton-Middletown | 226,207 | 258,787 | 291,479 | 324,000 |
| Lima | 210,074 | 218,244 | 154,340 | 155,000 |
| Mansfield | 129,997 | 131,205 | 126,137 | 175,000(i) |
| Steubenville | 96,193 | 91,564 | 142,523(e) | 138,000 |

* Estimated. To nearest thousand.

(a) SMSAs in 1970 and 1980, MSAs in 1990 and 1996, except PMSA's for Cleveland, Cincinnati, Akron, Lima and Hamilton.

(b) Includes parts in Indiana and Kentucky.

(c) Newark added.

(d) Springfield added.

(e) Weirton added; includes parts in West Virginia.

(f) Lorain-Elyria included with Cleveland.

(g) Four counties added.

(h) One county dropped.

(i) One county added.

Sources: 1990 Census of Population (U.S. Bureau of Census), and *Statistical Abstracts of the United States*

EMPLOYMENT

Although manufacturing (including auto-related manufacturing) in Ohio remains an important part of the State's economy, the greatest growth in employment in Ohio in recent years, consistent with national trend, has been in the non-manufacturing area. Ohio ranked fourth in the nation in 1991 gross state product derived from manufacturing. Manufacturing was 26.3% of Ohio's gross state product, compared to 17.1% of that total being from "services". In addition, agriculture and "agribusiness", discussed under **Agricultural and Resources Bases**, continue as important elements of the Ohio economy.

Ohio continues as a major "headquarters" state. Of the top 500 corporations (industrial and service) based on 1997 revenues reported in 1998 by *Fortune*, 30 had headquarters in Ohio, placing Ohio fifth as a corporate "headquarters" state.

Payroll employment in Ohio, in the diversifying employment base, showed a steady upward trend until 1979, then decreased until 1982. It increased through the summer of 1993 after a slight decrease early in 1992, then decreased slightly, and reached a new high in 1997. Growth in recent years has been concentrated among non-manufacturing industries, with manufacturing employment tapering off since its 1969 peak. The "non-manufacturing" sector employs approximately 79% of all non-agricultural payroll workers in Ohio.

The growth in employment and changing mix of employment sectors nationally and in Ohio are shown in the following tables.

| Employees (in 000) | | | | |
|-------------------------------|--------------|--------------|--------------|--------------|
| | <u>1970</u> | <u>1980</u> | <u>1990</u> | <u>1996</u> |
| U.S.A..... | 70,880 | 90,406 | 109,971 | 119,554 |
| California..... | 6,948 | 9,852 | 12,830 | 12,775 |
| New York..... | 7,156 | 7,207 | 8,213 | 7,915 |
| Florida..... | N/A | 3,576 | 5,387 | 6,183 |
| Illinois..... | 4,346 | 4,867 | 5,288 | 5,676 |
| Pennsylvania..... | 4,352 | 4,753 | 5,170 | 5,308 |
| Ohio..... | 3,881 | 4,367 | 4,882 | 5,296 |
| Michigan..... | 3,005 | 3,443 | 3,970 | 4,345 |
| New Jersey..... | 2,606 | 3,058 | 3,642 | 3,640 |
| Indiana..... | 1,849 | 2,137 | 2,522 | 2,813 |

Sources: *Statistical Abstracts of the United States* (U.S. Bureau of Census.)

Non-Agricultural Employment by Type

| | <u>1970</u> | | <u>1980</u> | | <u>1991</u> | | <u>1996</u> | |
|--|--------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|
| | <u>Ohio</u> | <u>U.S.</u> | <u>Ohio</u> | <u>U.S.</u> | <u>Ohio</u> | <u>U.S.</u> | <u>Ohio</u> | <u>U.S.</u> |
| Manufacturing..... | 36.1% | 27.4% | 28.8% | 22.4% | 21.2% | 16.9% | 20.7% | 15.3% |
| Wholesale, Retail Trade..... | 20.0 | 21.2 | 21.1 | 22.5 | 24.0 | 23.3 | 24.5 | 23.6 |
| Government..... | 14.6 | 17.8 | 15.7 | 17.9 | 15.1 | 16.9 | 14.2 | 16.3 |
| Services..... | 14.7 | 16.4 | 18.9 | 19.8 | 25.0 | 26.4 | 26.7 | 28.7 |
| Transportation and Public Utilities..... | 5.8 | 6.4 | 5.1 | 5.7 | 4.4 | 5.4 | 4.4 | 5.3 |
| Finance, Insurance, Real Estate..... | 4.1 | 5.2 | 4.7 | 5.7 | 5.3 | 6.2 | 5.2 | 5.8 |
| Contract Construction..... | 4.2 | 4.7 | 4.1 | 4.9 | 3.7 | 4.3 | 4.0 | 4.5 |
| Other Types (includes Mining)..... | 0.5 | 0.9 | 0.6 | 1.1 | 0.3 | 0.6 | 0.3 | 0.5 |

Sources: *Statistical Abstracts of the United States* (U.S. Bureau of Census.)

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Ohio and U.S. unemployment rates are shown in the following table:

Average Monthly Unemployment Rates

| <u>Year</u> | <u>Ohio</u> | <u>U.S.</u> |
|----------------------|-------------|-------------|
| 1980..... | 8.4% | 7.1% |
| 1985..... | 8.9 | 7.2 |
| 1990..... | 5.7 | 5.5 |
| 1991..... | 6.4 | 6.7 |
| 1992..... | 7.2 | 7.4 |
| 1993..... | 6.5 | 6.8 |
| 1994..... | 5.5 | 6.1 |
| 1995..... | 4.8 | 5.6 |
| 1996..... | 4.9 | 5.4 |
| 1997..... | 4.6 | 4.9 |
| 1998(a) January..... | 4.9 | 5.2 |
| February..... | 4.8 | 5.0 |
| March..... | 4.7 | 5.0 |

(a) Not seasonally adjusted.
Source: Ohio Bureau of Employment Services.

The following are the private sector employers that had the largest estimated numbers of full-time equivalent (FTE) employees in Ohio in 1995, based on the Ohio Department of Development information and resources:

OHIO'S TOP 25 PRIVATE-SECTOR EMPLOYERS, 1995

| <u>Company</u> | <u>Estimated FTE Employees in Ohio</u> | <u>Sector</u> |
|---|--|--------------------------------|
| General Motors Corporation | 63,200 | Motor Vehicles |
| Ford Motor Company | 24,000 | Motor Vehicles |
| Kroger Company | 21,700 | Food Stores |
| General Electric Company | 18,500 | Aerospace/Electrical Equipment |
| Kmart Corporation | 17,300 | General Merchandiser |
| Wal-Mart Stores, Inc. | 15,100 | General Merchandiser |
| AT&T Corporation | 14,600 | Telecommunications |
| Banc One Corporation | 14,200 | Commerical Bank |
| Proctor & Gamble Company | 14,000 | Soaps/Cosmetics |
| United Parcel Service of America, Inc. | 13,400 | Package/Freight Delivery |
| Chrysler Corporation | 11,500 | Motor Vehicles |
| KeyCorp | 11,400 | Commerical Bank |
| Meijer, Inc. | 11,300 | Food Stores |
| Limited | 10,700 | Specialist Retailer |
| Honda Motor Co., LTD. | 10,600 | Motor Vehicles |
| Ameritech Corporation | 10,600 | Telecommunications |
| National City Corp. | 10,100 | Commerical Bank |
| Cleveland Clinic Foundation | 10,000 | Health |
| University Hospitals Health System | 9,200 | Health |
| Pepisco, Inc. | 9,000 | Food Services |
| J.C. Penny Company, Inc. | 8,900 | General Merchandiser |
| Federated Dept. Stores (Lazurus) | 8,600 | General Merchandiser |
| Sears, Roebuck and Co. | 8,400 | General Merchandiser |
| Goodyear Tire & Rubber Company | 8,400 | Rubber/Plastic Products |
| Timken Company | 8,200 | Industrial Equipment |

Note: Boldface indicates headquartered in Ohio.

Source: *Major Ohio Employers (May 1996)*, Ohio Department of Development (Office of Strategic Research).

AGRICULTURAL AND RESOURCES BASES

With 15.1 million acres (of a total land area of 26.4 million acres) in farm land and an estimated 75,000 individual farms, agriculture and related agricultural sectors combined is an important segment of Ohio's economy. It is by many measures Ohio's leading industry, contributing over \$56 billion in 1992 to the State's economy. This represents almost 13% of the total output, 15.9% of the total employment (approximately 935,000 jobs), and nearly 11% of the value added products produced in the State in that year. Gross farm income alone amounted in 1996 to just under \$5.7 billion. In 1996, Ohio exported approximately \$1.6 billion in farm products (primarily soybeans and related soy products, and feed grains). The State has instituted several programs to provide financial assistance to farmers.

The availability of natural resources, such as water and energy, is of vital nationwide concern. Ohio has large quantities of these important natural resources. With Lake Erie and the Ohio River on its borders, and many lakes and streams throughout the State, water is readily available for all uses.

Ohio has large coal reserves, and in 1996 ranked eleventh in the nation in coal production, fourth in the production of electric power (90% generated by the use of coal) and fourth in electric energy sales. As noted under **State Debt**, State bonds have been and may be issued for purposes of coal research and development.

STATE EMPLOYEES AND RETIREMENT SYSTEMS

The following table shows the number of regular State employees, computed on an average monthly/Fiscal Year basis from OBM records. The figures exclude employees who are not paid by State warrant, such as employees of state universities. For comparative national figures, see "Government Payrolls" in the table of "Comparative Government Statistics" below. The figures indicate Ohio as having the 5th lowest cost per capita for state personnel services of all states.

Number of Regular State Employees (Average Monthly)

| <u>Fiscal Year</u> | <u>Fiscal Year</u> |
|--------------------|-----------------------------|
| 1975..... 55,997 | 1993..... 60,942 |
| 1980..... 60,167 | 1994..... 61,739 |
| 1985..... 55,326 | 1995..... 63,431 |
| 1990..... 59,995 | 1996..... 63,178 |
| 1991..... 60,911 | 1997..... 62,803 |
| 1992..... 60,909 | 1998 (Nine months) ..62,564 |

The State engages in employee collective bargaining and currently operates under two year agreements with all of its 21 bargaining units. These agreements expire at various times in 1999.

The State has established five public retirement systems to provide retirement, disability retirement, and survivor benefits. The Public Employees Retirement System (PERS), the largest of the five, covers both State and local public employees. The State Teachers Retirement System (STRS) and School Employees Retirement System (SERS) primarily cover school district and public higher education employees. The Highway Patrol Retirement System (HPRS) covers State troopers, and the Police and Firemen's Disability and Pension Fund (PFDPS) covers local safety forces.

These retirement systems were created by and operate pursuant to State law. The General Assembly could amend the format and benefit levels of any or all of them, impose or revise contribution rates or amounts to be paid into them, and make other changes. The systems are not currently subject to the funding and vesting requirements of the federal Employee Retirement Income Security Act of 1974 (ERISA). Current federal law requires new hires to participate in the federal Medicare program, requiring matching employer and employee contributions, each now 1.45% of the wage base. Otherwise, State employees covered by a State retirement system are not currently covered under the federal Social Security Act. Congress has from time to time considered legislation applying to retirement funds of public bodies and to other aspects of public employee retirement.

State appropriations include amounts to pay the employer contributions to the retirement systems for most State employees, being approximately \$645,600,000 in the last biennium and estimated at \$688,600,000 in the current biennium. The State has also appropriated subsidies (most allocated to specific groups of retirants) to the systems to pay for new or additional benefits mandated by law and not otherwise funded. The aggregate subsidies were \$58,008,000 in the last biennium and in the current biennium are \$54,786,944.

The systems all use a "unisex" mortality tables to calculate retirement benefits; in the opinion of the systems' managers, no changes have been or are needed to comply with the prohibition of the use of gender-based mortality rates in determining retirement annuity benefits.

State law requires that each system limit the value of its investments in common and preferred stocks (or equivalents) to not more than 50% of the total value of all funds, and in foreign debt or equity interests to 10%.

The following table presents summary State and local membership and financial data for each of the retirement systems for the most recent year reported by the particular system:

| | <u>PERS</u> | <u>STRS</u> | <u>SERS</u> | <u>PPFDS</u> | <u>HPRS</u> |
|--|--------------|-------------|-------------|--------------|-------------|
| As Of: | 12/31/96 | 6/30/96 | 6/30/96 | 12/31/96 | 12/31/96 |
| Active Members | 369,467 | 166,927 | 101,777 | 25,286 | 1,540 |
| Retirants and Beneficiaries..... | 119,796 | 86,132 | 60,206 | 19,844 | 919 |
| Employer/Employee Contribution Rates | | | | | |
| as % of Earnable Salary (a) | 13.31/8.5(b) | 14/9.30 | 14/9 | (c) | 24.53/10.5 |
| Contributions and Investment Income..... | \$4,769.4 | \$5,312.3 | \$960.6 | \$829.4 | \$84.9 |
| Benefits and Refunds..... | \$1,676.6 | \$1,681.6 | \$413.1 | \$426.3 | \$18.0 |
| Value of Assets | \$39,758.1 | \$33,180.6 | \$4,998.9 | \$5,557.1 | \$512.1 |
| Active Member Payroll..... | 7,963.0 | 6,553.6 | 1,475.9 | 1,042.6 | 59.2 |
| Unfunded Accrued Liability (UAL)..... | \$4,276.7 | \$7,167.9 | \$1,075.8 | \$1,252.5 | \$43.2 |
| UAL Amortization Period (In Years)(d)..... | 19(e) | 28.4 | 34 | 67 | 16 |

Note: All dollar figures in millions.

- (a) The maximum employee and employer contribution rates currently authorized by law, as percentages of earned compensation, for PERS, STRS, and SERS are 10% and 14% respectively.
- (b) State employee rates. PERS local is 13.55/8.5% and local law enforcement is 16.70/9%.
- (c) Police 19.5/10%, fire 24/10%.
- (d) These figures represent amortization for pension benefits only, not including health care benefits.
- (e) For State employees only. The period for local government employees was generally 24, and for local law enforcement employees was 16 years.

Sources: Retirement systems' annual financial reports.

TAX BASES

The variety of taxes and excises levied by the State is indicated in several tables in this Official Statement.

Census figures for 1996 showed that Ohio then ranked 35th in state taxes per capita and for 1994 26th in state and local taxes per capita. Since those figures were developed many states, including Ohio, have enacted tax revisions.

As examples of rates of major taxes, the State sales tax is currently levied at the rate of 5%. The highest potential aggregate of State and permissive local sales taxes is currently 8%, and the highest currently levied in any county is 7%. The State gasoline tax is currently 22¢ per gallon, one cent of which is specifically directed to local highway-related infrastructure projects.

Two major tax bases in the State, personal income (taxed by the State and municipalities, and, with voter approval, by school districts) and real and tangible personal property (taxed by local governments), are described below.

Personal Income

Current State personal income tax rates, applying generally to federal adjusted gross income, range from 0.743% on \$5,000 or less with increasing bracketed base rates and percentages up to a maximum on incomes over \$200,000 of \$11,506 plus 7.5% on the amount over \$200,000. The total of those taxes for the 1996 and 1997 tax years were reduced by approximately 6.609% in 1996 and by 3.987% in 1997 to reflect the amount from the Fiscal Year ending GRF balances deposited into the new income tax reduction fund.

The Constitution requires 50% of State income tax receipts to be returned to the political subdivisions or school districts in which the receipts originate. There is no present constitutional limit placed on income tax rates.

Municipalities and school districts may also levy certain income taxes. Any municipal rate (applying generally to wages and salaries, and net business income) over 1%, and any school district income tax (applying generally to the State income tax base for individuals and estates), requires voter approval. The highest current municipal rate is 2.85%. Most cities and villages levy a municipal income tax. A school district income tax has been approved in 119 districts.

Since 1960 the ratio of Ohio to U.S. aggregate personal income has declined, with Ohio moving from fifth among the states in 1960 and 1970 to eighth in 1990 and increased to seventh in 1994 and thereafter. This movement, portrayed below, in significant measure reflects "catching up" by several other states and a trend in Ohio toward service sector employment.

| | Personal Income ("Total" in Billions) | | Ohio as Percentage of U.S. | Ohio Rank Among States |
|------------------|--|----------|----------------------------------|------------------------------|
| | U.S. | Ohio | | |
| 1970 Total | \$ 825.5 | \$ 43.0 | 5.21% | 5 |
| per capita | 4,051.0 | 4,033.0 | 99.56 | 16 |
| 1980 Total | 2,234.1 | 105.0 | 4.66 | 6 |
| per capita | 9,919.0 | 9,723.0 | 98.02 | 25 |
| 1990 Total | 4,662.7 | 190.7 | 4.09 | 8 |
| per capita | 18,691.0 | 17,564.0 | 93.97 | 22 |
| 1996 Total | 6,428.1 | 263.0 | 4.09 | 7 |
| per capita | 24,231.0 | 23,537.0 | 97.14 | 21 |

Source: Ohio Department of Taxation, compiled in part from *Survey of Current Business*, U.S. Department of Commerce/Bureau of Economic Analysis. (District of Columbia included in U.S. Totals and Per Capita, excluded in ranking.)

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Property

The following table lists, for informational purposes only, the non-exempt real and tangible personal property tax base in the State and taxes levied on that base, all on a calendar year basis. Reported figures for 1996 show that these property taxes represented 3.52% of Ohio personal income. Only local taxing subdivisions tax the real and tangible personal property included in this table.

| | | <u>Assessed Value (a)</u> | <u>Per Cent of True Value (b)</u> | <u>Taxes Charged</u> |
|------|----------------------------|-------------------------------|---------------------------------------|--------------------------|
| 1970 | Real(c) | \$24,817,430,805 | 31.25% | \$1,175,288,092 |
| | Tangible(d) | 10,393,488,318 | 54.14 | 58,830,992 |
| | Public Utility(c) | 5,140,995,900 | 81.97 | 223,864,399 |
| 1980 | Real(c) | 56,457,842,607 | 27.06 | 2,343,384,488(e) |
| | Tangible(d) | 15,649,200,844 | 39.19 | 765,047,826 |
| | Public Utility(c) | 8,670,052,613 | 83.35 | 411,321,235 |
| 1990 | Real | 93,857,482,000 | 35.0 | 4,593,147,000(e) |
| | Tangible(d) | 18,473,055,000(f) | 28.0 | 1,149,643,000(f) |
| | Public Utility(c)(g) | 12,934,191,000 | 88.6 | 799,396,000 |
| 1996 | Real | 129,930,560,000 | 35.0 | 6,838,471,000(e) |
| | Tangible(d) | 20,047,309,000(f) | 25.0 | 1,422,137,000(f) |
| | Public Utility(c)(g) | 14,401,665,000 | 78.8 | 991,221,000 |

- (a) Increases in assessed value of "Real" are in part products of reappraisals.
 (b) Regular annual reductions for "Tangible" (except for most public utility tangible) were scheduled until 25% was reached in 1993. The Constitution permits separate classes of land and improvements (one class being residential and agricultural, the second being all other uses) for certain taxation purposes.
 (c) Excludes public utility real property.
 (d) Includes machinery, inventories, fixtures; excludes public utility.
 (e) Includes the statutory 10% rollback (12.5% for owner-occupied residences since 1984) and elderly/handicapped partial exemption amounts, paid by the State to local taxing entities to compensate for statutory reductions in local tax collections.
 (f) A new exemption took effect in 1984. The State reimbursement of resulting local revenue losses is not included in "Taxes Charged".
 (g) Beginning in 1990, the true value of most public utility property is based on annual composite allowances that vary according to the type and age of property.

Source: Ohio Department of Taxation.

Property tax relief payments by the State to local subdivisions in Fiscal Years 1996 and 1997 were \$856,672,325 and \$915,129,336. The aggregate for the 1998-99 biennium is estimated to be \$1.974 billion.

SCHOOLS AND MUNICIPALITIES

Schools

Litigation, similar to that in other states, has been pending questioning the constitutionality of Ohio's system of school funding. The Ohio Supreme Court concluded in a decision released in March 1997 that major aspects of the system (including basic operating assistance and the loan program described below) are unconstitutional. It ordered the State to provide for and fund sufficiently a system complying with the Ohio Constitution, staying its order for a year to permit time for responsive corrective actions by the General Assembly. The Court has indicated that property taxes may still play a role in, but "can no longer be the primary means" of, school funding. The Court also confirmed that contractual repayment provisions of certain debt obligations issued for school funding will remain valid after the stay terminates.

As part of its response, the General Assembly has increased State funding for public schools, as discussed below. In addition, the General Assembly placed two issues on the May 1998 primary ballot. Both were defeated by the voters. One was a constitutional amendment authorizing additional State debt issuing capacity and the other an increase in the State sales tax. The constitutional amendment would have authorized State general obligation debt to pay costs of school facilities throughout the State and of facilities of state supported and assisted institutions of higher education. See the further discussion above under **State Debt - Additional Authorizations**. The sales tax proposal would have increased the State sales and use tax from 5% to 6%, estimated to generate over \$1 billion; one-half of increased revenues would have been applied to pay costs of school operations and facilities, and the other half to additional homestead property tax relief.

Under current financial structure, Ohio's 612 public school districts and 49 joint vocational school districts receive a major portion (state-wide aggregate approximately 44% in recent years) of their operating moneys from State subsidy appropriations (the primary portion known as the Foundation Program) distributed in accordance

with statutory formulas that take into account both local needs and local taxing capacity. The Foundation Program amounts have steadily increased in recent years, including small aggregate increases even in those Fiscal Years in which appropriations cutbacks were imposed.

School districts also rely heavily upon receipts from locally voted taxes. In part because of provisions of some State laws, such as that partially limiting the increase in voted property tax collections that would otherwise result from increased assessed valuations (without further vote of the local electorate), some school districts have experienced varying degrees of difficulty in meeting mandated and discretionary increased costs. Local electorates have largely determined the total moneys available for their schools. Locally elected boards of education and their school administrators are responsible for managing school programs and budgets within statutory requirements. The State's present school subsidy formulas are structured to encourage both program quality and local taxing effort. Until the late 1970's, although there were some temporary school closings, most local financial difficulties that arose were successfully resolved by the local districts themselves by some combination of voter approval of additional property tax levies, adjustments in program offerings, or other measures.

To broaden the potential local tax revenue base, local school districts also may submit for voter approval income taxes on the district income of individuals and estates. Many districts have submitted the question, and income taxes have been approved in 119 districts.

Current requirements of law and levels of State funding are intended to prevent and to date have prevented school closings for financial reasons. School districts facing year-end deficits must apply to the State for consent to borrow to cover any deficits. Current law prohibits school closings for financial reasons.

Original State basic aid appropriations for the 1992-93 biennium of \$9.5 billion provided for 1.5% and 4.8% increases in the two Fiscal Years of the biennium over appropriations in the preceding biennium. The reduction in appropriations spending for Fiscal Year 1992 (discussed under **Fiscal Matters -- Recent Bienniums**) included a 2.5% overall reduction in annual Foundation Program appropriations, and a 6% reduction in other primary and secondary education programs. The reductions were in varying amounts, and had varying effects, with respect to individual districts; there were no reductions for the 172 districts with the lowest per pupil tax valuations. Foundation payments were excluded from the Governor's Fiscal Year 1993 cutback order.

Appropriations for the 1994-95 biennium provided for an increase in State school funding over the preceding biennium. The \$8.9 billion appropriated for primary and secondary education (not including federal and other special revenue funds) provided for 2.4% and 4.6% increases in State aid in the biennium's two Fiscal Years.

State appropriations for primary and secondary education for the 1996-97 biennium, including GRF and lottery appropriations, were higher than those in the preceding biennium. The total of \$10.1 billion was 13.6% over the preceding biennium total, and represented increases of 9.2% in Fiscal Year 1996 over 1995 and 6.6% in Fiscal Year 1997 over 1996.

State appropriations for the current 1998-99 biennium are \$11.6 billion or 18.3% over the previous biennium and represent an increase of 10.1% in Fiscal Year 1998 over 1997 and 6.3% in Fiscal Year 1999 over 1998. Among other school amendments, recent legislation increases the GRF appropriation level for Fiscal Year 1999 to \$4,641,995,675, with the increase to be funded in part by mandated small percentage reductions in State appropriations for various State agencies and institutions. Expressly exempt from those reductions are all appropriations for debt service, including lease rental payments.

Those total appropriations include the net State lottery profits. A constitutional provision requires that net lottery profits be paid into a State fund to be used solely for the support of elementary, secondary, vocational and special education programs.

In years prior to Fiscal Year 1990, districts facing year-end deficits had to apply for advances from the state-funded Emergency School Advancement Fund (ESAF). The ESAF met the needs of all school districts with potential deficits in Fiscal Years 1979 through 1989, with a total of 143 loans during that period aggregating \$137,391,489. Repayments were generally over a two-year period.

The ESAF program was replaced with enhanced provisions for individual district local borrowing, including direct application of Foundation Program distributions to repayment if needed. Experience demonstrates that not all applying for loan approval actually borrow the amounts authorized. In Fiscal Year 1998 ten districts

received approval for loans of \$23,426,000. Loan repayments are required generally to be made over a two-year period, although repayments may be made for a period up to 10 years in the case of certain school districts, including 11 with deficits in excess of either \$25,000,000 or 15% of their general fund expenditures (all 11 have utilized this extended repayment provision).

Loans under this program have been:

| <u>Fiscal Year</u> | <u>Aggregate Number</u> | <u>Amount</u> |
|--------------------|-------------------------|----------------|
| 1990 | 29 | \$11,858,900 |
| 1991 | 26 | 41,817,000(a) |
| 1992 | 44 | 68,559,126(b) |
| 1993 | 27 | 94,525,036(c) |
| 1994 | 28 | 41,107,000 |
| 1995 | 29 | 71,107,400(d) |
| 1996 | 20 | 87,167,016(e) |
| 1997 | 12 | 113,164,000(f) |

(a) Including \$27,150,000 by Cincinnati.

(b) Including \$46,600,000 by Cincinnati.

(c) Including \$75,000,000 by Cleveland.

(d) Including \$29,500,000 by Cleveland.

(e) Including \$42,100,000 by Cleveland.

(f) Including \$90,000,000 by Cleveland (restructuring prior loans).

New legislation addresses larger school districts in financial straits. It is similar to that for municipal "fiscal emergencies" discussed below under **Municipalities**, but is particularly tailored to certain school districts and their present and potential fiscal problems. It has been applied to five districts, and 11 districts are currently on preliminary "fiscal watch" status.

Federal courts have ruled that the State shared joint liability with the local school districts for segregation in the Cincinnati, Cleveland, Columbus, Dayton and Lorain public schools. Subsequent trial court orders directed that remedial costs be shared equally by the State and the respective local districts. For that purpose \$75,752,659 was expended in the 1992-93 biennium, \$119,382,294 in the 1994-95 biennium, and \$144,759,340 in the 1996-97 biennium, and \$50,400,000 appropriated for Fiscal Year 1998 and \$50,400,000 for Fiscal Year 1999. A recent settlement agreement in one desegregation case is reducing annual State payments to one district.

Municipalities

Ohio has a mixture of urban and rural population, with approximately three-quarters urban. There are 943 incorporated cities and villages (municipalities with populations under 5000) in the State. Six cities have populations of over 100,000 and 19 over 50,000.

A 1979 act established procedures for identifying and assisting those few cities and villages experiencing defined "fiscal emergencies". A commission composed of State and local officials, and private sector members experienced in business and finance appointed by the Governor, is to monitor the fiscal affairs of a municipality facing substantial financial problems. That act requires the municipality to develop, subject to approval and monitoring by its commission, a financial plan to eliminate deficits and cure any defaults and otherwise remedy fiscal emergency conditions, and to take other actions required under its financial plan. It also provides enhanced protection for the municipality's bonds and notes and, subject to the act's stated standards and controls, permits the State to purchase limited amounts of the municipality's short-term obligations (used only once, in 1980).

In the 18 years the act has been in effect, its "fiscal emergency" provisions have been applied to 11 cities and 13 villages. The situations in nine cities and nine villages have been resolved and their commissions terminated. Only the cities of East Cleveland and Nelsonville and four villages remain under the procedure. A new preliminary "fiscal watch" status has recently been added, with two cities and one village currently in this status.

The fiscal emergency legislation was recently amended to extend its potential application to counties (88 in the State) and townships. This extension is on an "if and as needed" basis, and not aimed at particular existing fiscal problems of those subdivisions.

COMPARATIVE GOVERNMENT STATISTICS

The following table, prepared by OBM, sets forth selected comparative Ohio and U.S. statistics (from U.S. sources, not verified by the State) for 1996 except as noted.

Selected State and Local Government Statistics Comparative Ohio and U.S.

| Government Revenues: | United States | Ohio | Ohio Rank Among States |
|---|--------------------------|-------------|-----------------------------------|
| State General Revenues (millions)..... | \$772,147.7 | \$29,466.7 | 8 |
| per capita..... | 2,916.6 | 2,637.3 | 35 |
| State Taxes (millions)..... | 418,970.8 | 15,649.5 | 8 |
| per capita..... | 1,582.6 | 1,400.7 | 35 |
| Per Capita: | | | |
| Sales taxes..... | 526.1 | 446.7 | 31 |
| Personal income taxes..... | 504.4 | 528.3 | 25 |
| Corporate income taxes..... | 110.7 | 72.3 | 35 |
| Local Government General Revenue (millions)*..... | 676,360.8 | 26,175.2 | 7 |
| per capita*..... | 2,574.1 | 2,347.3 | 19 |
| Local Taxes (millions)*..... | 261,429.8 | 11,635.6 | 8 |
| per capita*..... | 995.0 | 1,043.5 | 13 |
| Property Taxes (millions)*..... | 193,932.9 | 7,710.6 | 8 |
| Per Capita State and Local Taxes*..... | 2,514.0 | 2,405.3 | 21 |
| Government Expenditures: | | | |
| State Total (millions)..... | \$859,958.6 | \$35,517.3 | 6 |
| per capita..... | 3,248.3 | 3,178.9 | 25 |
| State payments to other government units (millions)..... | 252,102.5 | 10,053.6 | 6 |
| per capita..... | 952.3 | 899.8 | 17 |
| Government Payrolls: | | | |
| State Personal Service (millions)..... | \$ 129,577.2 | \$4,323.3 | 8 |
| per capita..... | 489.4 | 386.9 | 48 |
| Debt: | | | |
| State Debt at Year End (millions)..... | \$447,337.6 | \$12,622.7 | 11 |
| per capita..... | 1,689.7 | 1,130.2 | 35 |
| Local Government Debt at Year End (millions)*..... | 688,131.2 | 16,050.5 | 13 |
| per capita*..... | 2,618.9 | 1,439.4 | 38 |
| State and Local Debt (millions)*..... | 1,115,370.3 | 28,345.8 | 11 |
| per capita*..... | 4,244.9 | 2,542.0 | 45 |
| State Government Assets: | | | |
| Cash and Securities, All Funds (millions)..... | \$1,558,248.7 | \$105,128.2 | 3 |
| per capita..... | 5,885.9 | 9,409.1 | 5 |
| Public Employees Retirement Systems (millions)*..... | 889,418.5 | 76,041.2 | 3 |
| per capita*..... | 3,385.0 | 6,819.2 | 2 |
| Unemployment Compensation Funds (millions)*..... | 35,500.8 | 1,417.4 | 10 |
| per capita*..... | 135.1 | 127.1 | 29 |
| State Contributions to Employee Retirement Systems (millions)*..... | 47,951.0 | 3,750.3 | 3 |
| per capita*..... | 182.5 | 336.3 | 2 |

* 1995 Data

Sources: *State & Local Government Finances: in 1994-95*, and *State Government Finances in 1996* (each U. S. Bureau of the Census as published on the Internet).

EXHIBIT B

GENERAL PURPOSE FINANCIAL STATEMENTS

STATE OF OHIO

FOR THE FISCAL YEAR ENDED JUNE 30, 1997

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Notes to the Financial Statements



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

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The Honorable George V. Voinovich, Governor

Independent Accountants' Report

The Honorable George V. Voinovich, Governor
State of Ohio
Columbus, Ohio

We have audited the accompanying general-purpose financial statements of the State of Ohio, as of and for the year ended June 30, 1997, as listed in the table of contents. These general-purpose financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. We did not audit the financial statements of the following organizations which are a part of the primary government:

- Ohio Housing Finance Agency
- Capitol Square Review and Advisory Board
- Office of the Auditor of State
- Office of Financial Incentives
- Ohio Bureau of Workers' Compensation
- and Industrial Commission of Ohio

Also, we did not audit the following component units:

- Blended
- Ohio Building Authority
- Ohio Public Facilities Commission
- State Highway Patrol Retirement System
- Discretely Presented
- Ohio Water Development Authority
- Bowling Green State University
- Cleveland State University
- Youngstown State University
- Medical College of Ohio at Toledo
- University of Akron
- Miami University
- Kent State University
- Wright State University
- Ohio State University
- Ohio University
- University of Cincinnati
- University of Toledo

In addition, we did not audit the financial statements of the Public Employees Retirement System and the Police and Firemen's Disability and Pension Fund System, whose assets are held by the Treasurer of State and are included as part of the State's agency fund type. These financial statements reflect the following percent of total assets or liabilities and revenues or additions of the indicated fund types, account groups, and discretely presented component units:


| | Percent of Total Assets/(Liabilities) | Percent of Total Revenues/Additions |
|---|--|--|
| Special Revenue Fund Type | 11% | 0% |
| Debt Service Fund Type | 50% | 12% |
| Capital Projects Fund Type | 1% | 3% |
| Enterprise Fund Type | 89% | 61% |
| Internal Service Fund Type | 33% | 9% |
| Trust and Agency Fund Type | 46% | 8% |
| General Fixed Assets Account Group | 10% | — |
| General Long-Term Obligations Account Group | (68%) | — |
| Discretely Presented Component Units | 96% | 96% |

The financial statements of these independently audited organizations and the assets of these retirement systems were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the financial statements of these independently audited organizations and the amounts of the retirement systems audited by other auditors included in the fund types and account groups comprising the general-purpose financial statements is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and reports of other auditors, the general-purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the State of Ohio at June 30, 1997, and the results of its operations and the cash flows of its proprietary fund types, with generally accepted accounting principles.

As discussed in Note 4 to the general-purpose financial statements, the State of Ohio has implemented Statement 28 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Securities Lending Transactions* for the fiscal year ended June 30, 1997; and in Note 2 the Bureau of Workers' Compensation has early implemented Statement 31 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* for the fiscal year ended June 30, 1997.


JIM PETRO
Auditor of State

November 14, 1997

STATE OF OHIO

COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS

JUNE 30, 1997

(amounts expressed in thousands)

GOVERNMENTAL FUND TYPES

ASSETS AND OTHER DEBITS

| | GENERAL | SPECIAL REVENUE | DEBT SERVICE | CAPITAL PROJECTS |
|---|---------------------|---------------------|-------------------|---------------------|
| Cash Equity with Treasurer | \$ 2,566,298 | \$ 2,232,467 | \$ 108,464 | \$ 746,458 |
| Cash and Cash Equivalents | 11,889 | 15,491 | 1,920 | — |
| Investments | — | 83,887 | 176,180 | 7,337 |
| Collateral on Lent Securities | 1,519,883 | 1,317,125 | 63,990 | 440,382 |
| Deposit with Federal Government | — | — | — | — |
| Receivables: | 787,434 | 190,463 | — | — |
| Taxes | 433,449 | 350,926 | — | — |
| Intergovernmental | — | — | — | — |
| Premiums and Assessments | 9,939 | 398,384 | 6,224 | 109,664 |
| Loans, Net | 21,690 | 35,200 | 1,037 | 2,543 |
| Other | 13,359 | 27,737 | 1,242 | 1,770 |
| Due from Other Funds | 2,807 | 33,873 | — | — |
| Inventories | — | 257,644 | — | — |
| Food Stamps | — | — | — | — |
| Deposit with Deferred Compensation Plan | — | — | — | — |
| Advances to Other Funds | — | — | — | — |
| Restricted Assets: | — | — | — | — |
| Cash Equity with Treasurer | — | — | — | — |
| Cash and Cash Equivalents | — | — | — | — |
| Investments | — | — | — | — |
| Dedicated Investments | — | — | — | — |
| Collateral on Lent Securities | — | — | — | — |
| Other Receivables | — | — | — | — |
| Fixed Assets (net of accumulated depreciation) | 836 | 9,607 | — | — |
| Other Assets | — | — | — | — |
| Sureties | — | — | — | — |
| Amount Available in Debt Service Fund | — | — | — | — |
| Amount to be Provided for General Long-Term Obligations | — | — | — | — |
| TOTAL ASSETS AND OTHER DEBITS | \$ 5,367,584 | \$ 4,952,804 | \$ 359,057 | \$ 1,308,154 |

LIABILITIES, FUND EQUITY AND OTHER CREDITS

| | | | | |
|---|---------------------|---------------------|-------------------|---------------------|
| Liabilities: | \$ 74,144 | \$ 262,073 | \$ — | \$ 77,830 |
| Accounts Payable | 475,780 | — | — | — |
| Medicaid Claims Payable | 104,594 | 59,797 | 940 | 39 |
| Accrued Liabilities | 1,519,883 | 1,317,125 | 63,990 | 440,382 |
| Obligations Under Securities Lending | 231,824 | 371,239 | — | — |
| Intergovernmental Payable | 35,913 | 11,120 | — | 1,143 |
| Due to Other Funds | 64,590 | 317,288 | 1,500 | — |
| Deferred Revenues | — | — | — | — |
| Workers' Compensation Benefits Payable | 540,589 | 71,772 | 1,632 | — |
| Refund and Other Liabilities | — | — | — | — |
| Liability for Escheat Property | — | — | — | — |
| Liability for Deferred Compensation | — | — | — | — |
| Liabilities Payable from Restricted Assets | — | 85,076 | — | — |
| Advances from Other Funds | — | — | — | — |
| General Obligation Bonds | — | — | — | — |
| Revenue Bonds and Notes | — | — | — | — |
| Special Obligation Bonds | — | — | — | — |
| Certificates of Participation | — | — | — | — |
| Other General Long-Term Obligations | — | — | — | — |
| Total Liabilities | 3,047,317 | 2,495,490 | 68,062 | 519,394 |
| Fund Equity and Other Credits: | — | — | — | — |
| Investment in General Fixed Assets | — | — | — | — |
| Contributed Capital | — | — | — | — |
| Retained Earnings: | — | — | — | — |
| Reserved | — | — | — | — |
| Unreserved | — | — | — | — |
| Fund Balances: | — | — | 284,153 | — |
| Reserved for: | — | — | — | — |
| Debt Service | 454,423 | 2,051,215 | — | 769,505 |
| Encumbrances | 828,307 | — | — | — |
| Budget Stabilization | 9,793 | 303,124 | 6,224 | 108,554 |
| Noncurrent Portion of Loans Receivable | — | — | — | — |
| Pension and Other Postemployment Benefits | — | — | — | — |
| Unemployment Benefits | — | — | — | — |
| Restricted Fund Balances | 146,394 | 173,383 | — | 40,243 |
| Other | 685,900 | — | — | — |
| Unreserved/Designated | 195,450 | (70,408) | 618 | (129,542) |
| Unreserved/Undesignated (Deficits) | 2,320,267 | 2,457,314 | 290,995 | 788,760 |
| Total Fund Equity and Other Credits | \$ 5,367,584 | \$ 4,952,804 | \$ 359,057 | \$ 1,308,154 |
| TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS | \$ 5,367,584 | \$ 4,952,804 | \$ 359,057 | \$ 1,308,154 |

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

| PROPRIETARY FUND TYPES | | FIDUCIARY FUND TYPES | | ACCOUNT GROUPS | | TOTAL PRIMARY GOVERNMENT (memorandum only) | COMPONENT UNITS | TOTAL REPORTING ENTITY (memorandum only) |
|------------------------|-------------------|----------------------|----------------------|-------------------------------|-----------------------|--|-----------------------|--|
| ENTERPRISE | INTERNAL SERVICE | TRUST AND AGENCY | GENERAL FIXED ASSETS | GENERAL LONG-TERM OBLIGATIONS | | | | |
| \$ 154,621 | \$ 50,249 | \$ 208,789 | \$ — | \$ — | \$ 6,067,346 | \$ 107 | \$ 6,067,453 | |
| 1,153,643 | 322 | 185,197 | — | — | 1,368,462 | 117,722 | 1,486,184 | |
| 16,633,909 | 1,597 | 88,203,669 | — | — | 105,106,579 | 2,702,602 | 107,809,181 | |
| 4,024,254 | 29,646 | 1,054,786 | — | — | 8,450,066 | — | 8,450,066 | |
| — | — | 1,818,503 | — | — | 1,818,503 | — | 1,818,503 | |
| — | — | 160,046 | — | — | 1,137,943 | — | 1,137,943 | |
| 5,401 | 1,376 | 40 | — | — | 791,192 | 33,903 | 825,095 | |
| 1,946,318 | — | — | — | — | 1,946,318 | — | 1,946,318 | |
| — | — | — | — | — | 524,211 | 1,785,686 | 2,309,897 | |
| 359,041 | 45,745 | 24,633 | — | — | 489,889 | 386,433 | 876,322 | |
| 1,678 | 38,219 | 5,208 | — | — | 89,213 | 343,486 | 432,699 | |
| 22,948 | 22,155 | — | — | — | 81,783 | 42,729 | 124,512 | |
| — | — | — | — | — | 257,644 | — | 257,644 | |
| — | — | 852,788 | — | — | 852,788 | 7,181 | 859,969 | |
| — | — | 85,076 | — | — | 85,076 | — | 85,076 | |
| 18,552 | — | — | — | — | 18,552 | — | 18,552 | |
| 36 | 67 | — | — | — | 103 | 41,075 | 41,178 | |
| — | 42,154 | — | — | — | 42,154 | 486,248 | 528,402 | |
| 1,564,216 | — | — | — | — | 1,564,216 | — | 1,564,216 | |
| 1,001,443 | — | — | — | — | 1,001,443 | — | 1,001,443 | |
| 19,171 | — | — | — | — | 19,171 | — | 19,171 | |
| 286,180 | 30,575 | 2,986 | 3,394,541 | — | 3,714,282 | 7,622,606 | 11,336,888 | |
| 169,627 | 395 | 32 | — | — | 180,497 | 604,578 | 785,075 | |
| — | — | 391,402 | — | — | 391,402 | — | 391,402 | |
| — | — | — | — | 284,153 | 284,153 | — | 284,153 | |
| — | — | — | — | 7,187,772 | 7,187,772 | — | 7,187,772 | |
| <u>\$ 27,361,038</u> | <u>\$ 262,500</u> | <u>\$ 92,993,155</u> | <u>\$ 3,394,541</u> | <u>\$ 7,471,925</u> | <u>\$ 143,470,758</u> | <u>\$ 14,174,356</u> | <u>\$ 157,645,114</u> | |
| \$ 183,074 | \$ 22,081 | \$ 428 | \$ — | \$ — | \$ 619,630 | \$ 183,886 | \$ 803,516 | |
| 46,232 | 10,855 | 290 | — | — | 475,780 | — | 475,780 | |
| 4,024,254 | 29,646 | 1,054,786 | — | — | 222,747 | 549,474 | 772,221 | |
| 350 | — | 3,701,875 | — | — | 8,450,066 | — | 8,450,066 | |
| 16 | 2,038 | 39,025 | — | — | 4,305,288 | 309 | 4,305,597 | |
| 445,593 | 845 | — | — | — | 89,255 | 343,486 | 432,741 | |
| 12,857,040 | — | — | — | — | 829,816 | 156,709 | 986,525 | |
| 1,861,968 | — | 84,487,829 | — | — | 12,857,040 | — | 12,857,040 | |
| — | — | 71,044 | — | — | 86,963,790 | 135,971 | 87,099,761 | |
| — | — | 856,020 | — | — | 71,044 | — | 71,044 | |
| 2,554,970 | — | — | — | — | 856,020 | 7,181 | 863,201 | |
| — | — | — | — | — | 2,554,970 | — | 2,554,970 | |
| — | — | — | — | 1,598,596 | 85,076 | — | 85,076 | |
| 202,109 | 40,169 | — | — | — | 1,598,596 | — | 1,598,596 | |
| — | — | — | — | — | 171,595 | 2,015,353 | 2,429,226 | |
| — | — | — | — | — | 4,664,837 | — | 4,664,837 | |
| — | — | — | — | — | 26,630 | 86,825 | 113,455 | |
| — | — | — | — | — | 1,010,267 | — | 1,010,267 | |
| <u>22,175,606</u> | <u>105,634</u> | <u>90,211,297</u> | <u>3,394,541</u> | <u>7,471,925</u> | <u>126,094,725</u> | <u>3,479,194</u> | <u>129,573,919</u> | |
| — | — | — | — | — | 3,394,541 | 6,925,976 | 10,320,517 | |
| — | 40,967 | — | — | — | 40,967 | — | 40,967 | |
| 131,891 | 319 | — | — | — | 132,210 | — | 132,210 | |
| 5,053,541 | 115,580 | — | — | — | 5,169,121 | 1,055,760 | 6,224,881 | |
| — | — | — | — | — | 284,153 | — | 284,153 | |
| — | — | — | — | — | 3,275,143 | — | 3,275,143 | |
| — | — | — | — | — | 828,307 | — | 828,307 | |
| — | — | 512,072 | — | — | 427,695 | — | 427,695 | |
| — | — | 2,093,811 | — | — | 512,072 | — | 512,072 | |
| — | — | — | — | — | 2,093,811 | — | 2,093,811 | |
| — | — | 85,076 | — | — | — | 1,946,346 | 1,946,346 | |
| — | — | — | — | — | 445,096 | — | 445,096 | |
| — | — | 90,899 | — | — | 685,900 | 284,108 | 970,008 | |
| 5,185,432 | 156,866 | 2,781,858 | 3,394,541 | — | 87,017 | 482,972 | 569,989 | |
| <u>\$ 27,361,038</u> | <u>\$ 262,500</u> | <u>\$ 92,993,155</u> | <u>\$ 3,394,541</u> | <u>\$ 7,471,925</u> | <u>\$ 143,470,758</u> | <u>\$ 14,174,356</u> | <u>\$ 157,645,114</u> | |

STATE OF OHIO

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 1997

(amounts expressed in thousands)

| | GOVERNMENTAL FUND TYPES | | |
|---|-------------------------|---------------------|-------------------|
| | GENERAL | SPECIAL REVENUE | DEBT SERVICE |
| REVENUES: | | | |
| Income Taxes | \$ 5,257,395 | \$ 621,621 | \$ — |
| Sales Taxes | 4,995,691 | 266,769 | — |
| Corporate and Public Utility Taxes | 1,794,592 | 102,847 | — |
| Motor Vehicle Fuel Taxes | — | 1,290,215 | 61,261 |
| Unemployment Taxes | — | — | — |
| Other Taxes | 828,290 | 44,579 | — |
| Licenses, Permits and Fees | 87,511 | 718,232 | 43,536 |
| Sales, Services and Charges | 42,031 | 37,020 | — |
| Federal Government | 3,563,004 | 4,890,942 | 50 |
| Investment Income | 277,337 | 94,744 | 20,536 |
| Other | 168,587 | 487,342 | 1,749 |
| TOTAL REVENUES | 17,014,438 | 8,554,311 | 127,132 |
| EXPENDITURES: | | | |
| CURRENT: | | | |
| Primary, Secondary and Other Education | 3,969,447 | 1,479,639 | — |
| Higher Education Support | 334,010 | 88,472 | — |
| Public Assistance and Medicaid | 6,399,538 | 1,967,483 | — |
| Health and Human Services | 949,438 | 1,379,324 | — |
| Justice and Public Protection | 1,351,446 | 410,075 | — |
| Environmental Protection and Natural Resources | 102,187 | 197,420 | — |
| Transportation | 32,516 | 1,432,742 | — |
| General Government | 426,716 | 101,876 | — |
| Community and Economic Development | 113,176 | 230,962 | — |
| INTERGOVERNMENTAL | 942,690 | 1,627,811 | — |
| CAPITAL OUTLAY | 123,217 | 137,561 | — |
| DEBT SERVICE | 528 | — | 1,033,420 |
| TOTAL EXPENDITURES | 14,744,909 | 9,053,365 | 1,033,420 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 2,269,529 | (499,054) | (906,288) |
| OTHER FINANCING SOURCES (USES): | | | |
| Bond Proceeds | — | 170,219 | — |
| Refunding Bond Proceeds | — | — | 342,661 |
| Payment to Refunded Bond Escrow Agents | — | — | (341,716) |
| Capital Leases | 1,107 | 2,863 | — |
| Operating Transfers-in | 142,605 | 1,710,704 | 807,992 |
| Operating Transfers-out | (847,794) | (951,022) | (33,942) |
| Operating Transfers to Component Units | (1,410,667) | — | — |
| TOTAL OTHER FINANCING SOURCES (USES) | (2,114,749) | 932,764 | 774,995 |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES | 154,780 | 433,710 | (131,293) |
| FUND BALANCES, JULY 1 (as restated) | 2,167,739 | 2,020,366 | 422,288 |
| Increase (Decrease) for Changes in Inventories | (2,252) | 3,238 | — |
| Residual Equity Transfers-out | — | — | — |
| FUND BALANCES, JUNE 30 | \$ 2,320,267 | \$ 2,457,314 | \$ 290,995 |

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

| | FIDUCIARY FUND TYPE | | |
|---------------------|------------------------|-------------------------------|--|
| CAPITAL PROJECTS | EXPENDABLE TRUST | TOTAL (memorandum only) | |
| \$ — | \$ — | \$ 5,879,016 | |
| — | — | 5,262,460 | |
| — | — | 1,897,439 | |
| — | — | 1,351,476 | |
| — | 777,675 | 777,675 | |
| — | — | 872,869 | |
| — | — | 849,279 | |
| — | — | 79,051 | |
| 835 | 13,155 | 8,467,986 | |
| 26,182 | 130,325 | 549,124 | |
| 3,104 | 49,735 | 710,517 | |
| <u>30,121</u> | <u>970,890</u> | <u>26,696,892</u> | |
| — | — | 5,449,086 | |
| — | — | 422,482 | |
| — | — | 8,367,021 | |
| — | 760,691 | 3,089,453 | |
| — | — | 1,761,521 | |
| — | — | 299,607 | |
| — | — | 1,465,258 | |
| — | 40,787 | 569,379 | |
| 812 | — | 344,950 | |
| — | — | 2,570,501 | |
| 877,508 | — | 1,138,286 | |
| — | — | 1,033,948 | |
| <u>878,320</u> | <u>801,478</u> | <u>26,511,492</u> | |
| <u>(848,199)</u> | <u>169,412</u> | <u>185,400</u> | |
| 1,126,036 | — | 1,296,255 | |
| — | — | 342,661 | |
| — | — | (341,716) | |
| — | — | 3,970 | |
| 347,148 | — | 3,008,449 | |
| (369,371) | — | (2,202,129) | |
| — | — | (1,410,667) | |
| <u>1,103,813</u> | <u>—</u> | <u>696,823</u> | |
| 255,614 | 169,412 | 882,223 | |
| 538,883 | 2,100,374 | 7,249,650 | |
| — | — | 986 | |
| (5,737) | — | (5,737) | |
| <u>\$ 788,760</u> | <u>\$ 2,269,786</u> | <u>\$ 8,127,122</u> | |

STATE OF OHIO

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) GENERAL, SPECIAL REVENUE AND DEBT SERVICE FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 1997

(amounts expressed in thousands)

| | GENERAL FUND | | |
|---|---------------------|---------------------|---|
| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE FAVORABLE (UNFAVORABLE)</u> |
| REVENUES: | | | |
| Income Taxes | \$ 5,102,300 | \$ 5,382,261 | \$ 279,961 |
| Sales Taxes | 4,940,302 | 4,968,994 | 28,692 |
| Corporate and Public Utility Taxes | 1,782,000 | 1,790,519 | 8,519 |
| Motor Vehicle Fuel Taxes | — | — | — |
| Other Taxes | 811,204 | 828,290 | 17,086 |
| Licenses, Permits and Fees | 93,371 | 94,576 | 1,205 |
| Sales, Services and Charges | 33,985 | 35,887 | 1,902 |
| Federal Government | 3,959,726 | 3,566,386 | (393,340) |
| Investment Income | 82,230 | 109,782 | 27,552 |
| Other | 315,908 | 323,313 | 7,405 |
| TOTAL REVENUES | 17,121,026 | 17,100,008 | (21,018) |
| BUDGETARY EXPENDITURES: | | | |
| CURRENT: | | | |
| Primary, Secondary and Other Education | 4,080,207 | 4,057,322 | 22,885 |
| Higher Education Support | 1,757,919 | 1,747,701 | 10,218 |
| Public Assistance and Medicaid | 7,035,079 | 6,461,232 | 573,847 |
| Health and Human Services | 1,027,607 | 1,009,562 | 18,045 |
| Justice and Public Protection | 1,357,975 | 1,334,870 | 23,105 |
| Environmental Protection and Natural Resources | 124,285 | 119,727 | 4,558 |
| Transportation | 38,780 | 38,773 | 7 |
| General Government | 421,428 | 383,286 | 38,142 |
| Community and Economic Development | 136,476 | 132,164 | 4,312 |
| INTERGOVERNMENTAL | 983,940 | 942,652 | 41,288 |
| CAPITAL OUTLAY | 172,889 | 158,454 | 14,435 |
| DEBT SERVICE | 811,736 | 716,581 | 95,155 |
| TOTAL BUDGETARY EXPENDITURES | 17,948,321 | 17,102,324 | 845,997 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES | (827,295) | (2,316) | 824,979 |
| OTHER FINANCING SOURCES (USES): | | | |
| Bond Proceeds | — | — | — |
| Operating Transfers-in | 70,486 | 1,060,204 | 989,718 |
| Operating Transfers-out | (31,838) | (1,034,781) | (1,002,943) |
| Encumbrance Reversions | — | 86,452 | 86,452 |
| TOTAL OTHER FINANCING SOURCES (USES) | 38,648 | 111,875 | 73,227 |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) BUDGETARY EXPENDITURES AND OTHER FINANCING USES | (788,647) | 109,559 | 898,206 |
| UNRESERVED, UNDESIGNATED BUDGETARY FUND BALANCES (DEFICITS), JULY 1 | | | |
| Decrease (Increase) in Budgetary Designations | 381,156 | 381,156 | — |
| | (152,723) | (152,723) | — |
| UNRESERVED, UNDESIGNATED BUDGETARY FUND BALANCES (DEFICITS), JUNE 30 | | | |
| Budgetary Designations, June 30 | (560,214) | 337,992 | 898,206 |
| | 1,625,411 | 1,625,411 | — |
| BUDGETARY FUND BALANCES (DEFICITS), JUNE 30 | \$ 1,065,197 | \$ 1,963,403 | \$ 898,206 |

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

| SPECIAL REVENUE FUNDS | | | DEBT SERVICE FUNDS | | |
|-----------------------|---------------------|--|--------------------|-------------------|--|
| BUDGET | ACTUAL | VARIANCE FAVORABLE (UNFAVORABLE) | BUDGET | ACTUAL | VARIANCE FAVORABLE (UNFAVORABLE) |
| \$ 636,262 | \$ 636,262 | \$ — | \$ — | \$ — | \$ — |
| 265,157 | 265,157 | — | — | — | — |
| 102,643 | 102,643 | — | — | — | — |
| 1,359,987 | 1,359,987 | — | 65,420 | 65,420 | — |
| 44,551 | 44,551 | — | — | — | — |
| 890,402 | 890,402 | — | 43,517 | 43,517 | — |
| 32,185 | 32,185 | — | — | — | — |
| 4,620,774 | 4,620,774 | — | — | — | — |
| 90,363 | 90,363 | — | 6,600 | 6,600 | — |
| 704,589 | 704,589 | — | 94,935 | 94,935 | — |
| <u>8,746,913</u> | <u>8,746,913</u> | <u>—</u> | <u>210,472</u> | <u>210,472</u> | <u>—</u> |
| 1,700,708 | 1,634,619 | 66,089 | — | — | — |
| 48,605 | 27,064 | 21,541 | — | — | — |
| 2,389,117 | 2,059,958 | 329,159 | — | — | — |
| 1,783,937 | 1,527,632 | 256,305 | — | — | — |
| 537,637 | 431,976 | 105,661 | — | — | — |
| 255,278 | 213,608 | 41,670 | — | — | — |
| 1,714,526 | 1,521,221 | 193,305 | — | — | — |
| 129,142 | 111,017 | 18,125 | — | — | — |
| 367,779 | 294,278 | 73,501 | — | — | — |
| 1,863,323 | 1,798,943 | 64,380 | — | — | — |
| 345,215 | 123,271 | 221,944 | — | — | — |
| 20,878 | 18,885 | 1,993 | 237,759 | 224,655 | 13,104 |
| <u>11,156,145</u> | <u>9,762,472</u> | <u>1,393,673</u> | <u>237,759</u> | <u>224,655</u> | <u>13,104</u> |
| <u>(2,409,232)</u> | <u>(1,015,559)</u> | <u>1,393,673</u> | <u>(27,287)</u> | <u>(14,183)</u> | <u>13,104</u> |
| 170,219 | 170,219 | — | 832 | 832 | — |
| 1,894,730 | 1,894,730 | — | 64,838 | 64,838 | — |
| (1,121,995) | (1,121,995) | — | (58,361) | (58,361) | — |
| 406,491 | 406,491 | — | — | — | — |
| <u>1,349,445</u> | <u>1,349,445</u> | <u>—</u> | <u>7,309</u> | <u>7,309</u> | <u>—</u> |
| <u>\$ (1,059,787)</u> | <u>333,886</u> | <u>\$ 1,393,673</u> | <u>\$ (19,978)</u> | <u>(6,874)</u> | <u>\$ 13,104</u> |
| | (549,861) | | | 115,338 | |
| | — | | | — | |
| | (215,975) | | | 108,464 | |
| | — | | | — | |
| | <u>\$ (215,975)</u> | | | <u>\$ 108,464</u> | |

STATE OF OHIO

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT FOR THE FISCAL YEAR ENDED JUNE 30, 1997

(amounts expressed in thousands)

| | PROPRIETARY FUND TYPES | | TOTAL PRIMARY GOVERNMENT (memorandum only) |
|---|---------------------------|---------------------|--|
| | ENTERPRISE | INTERNAL SERVICE | |
| OPERATING REVENUES: | | | |
| Charges for Sales and Services | \$ 2,702,860 | \$ 282,024 | \$ 2,984,884 |
| Premium and Assessment Income | 1,605,143 | — | 1,605,143 |
| Investment Income | 2,886,096 | — | 2,886,096 |
| Other | 33,132 | 6,330 | 39,462 |
| TOTAL OPERATING REVENUES | 7,227,231 | 288,354 | 7,515,585 |
| OPERATING EXPENSES: | | | |
| Costs of Sales and Services | 274,891 | 124,829 | 399,720 |
| Administration | 203,997 | 150,995 | 354,992 |
| Bonuses and Commissions | 144,689 | — | 144,689 |
| Prizes | 1,312,220 | — | 1,312,220 |
| Benefits and Claims | 2,532,990 | — | 2,532,990 |
| Depreciation | 21,123 | 10,227 | 31,350 |
| Other | 274,254 | 7,718 | 281,972 |
| TOTAL OPERATING EXPENSES | 4,764,164 | 293,769 | 5,057,933 |
| OPERATING INCOME (LOSS) | 2,463,067 | (5,415) | 2,457,652 |
| NONOPERATING REVENUES (EXPENSES): | | | |
| Investment Income | 16,436 | 1,803 | 18,239 |
| Interest Expense | — | (3,396) | (3,396) |
| Federal Grants | — | — | — |
| Other | (514) | (2,580) | (3,094) |
| TOTAL NONOPERATING REVENUES (EXPENSES) | 15,922 | (4,173) | 11,749 |
| INCOME (LOSS) BEFORE OPERATING TRANSFERS | 2,478,989 | (9,588) | 2,469,401 |
| OPERATING TRANSFERS: | | | |
| Operating Transfers-in | 28,218 | 36,728 | 64,946 |
| Operating Transfers-out | (844,745) | (26,521) | (871,266) |
| TOTAL OPERATING TRANSFERS | (816,527) | 10,207 | (806,320) |
| NET INCOME (LOSS) | 1,662,462 | 619 | 1,663,081 |
| RETAINED EARNINGS, JULY 1 (as restated) | 3,522,970 | 115,280 | 3,638,250 |
| RETAINED EARNINGS, JUNE 30 | \$ 5,185,432 | \$ 115,899 | \$ 5,301,331 |

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

| <u>COMPONENT UNIT</u> | <u>TOTAL REPORTING ENTITY (memorandum only)</u> |
|---|---|
| OHIO WATER DEVELOPMENT AUTHORITY | |
| \$ 97,936 | \$ 3,082,820 |
| — | 1,605,143 |
| 42,496 | 2,928,592 |
| 1,003 | 40,465 |
| <u>141,435</u> | <u>7,657,020</u> |
| | |
| 74,934 | 474,654 |
| 5,441 | 360,433 |
| — | 144,689 |
| — | 1,312,220 |
| — | 2,532,990 |
| 97 | 31,447 |
| — | 281,972 |
| <u>80,472</u> | <u>5,138,405</u> |
| <u>60,963</u> | <u>2,518,615</u> |
| | |
| — | 18,239 |
| — | (3,396) |
| 81,864 | 81,864 |
| 3,100 | 6 |
| <u>84,964</u> | <u>96,713</u> |
| <u>145,927</u> | <u>2,615,328</u> |
| | |
| — | 64,946 |
| — | (871,266) |
| — | (806,320) |
| 145,927 | 1,809,008 |
| <u>909,833</u> | <u>4,548,083</u> |
| | |
| <u>\$ 1,055,760</u> | <u>\$ 6,357,091</u> |

STATE OF OHIO
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT
FOR THE FISCAL YEAR ENDED JUNE 30, 1997
(amounts expressed in thousands)

| | <u>ENTERPRISE</u> | <u>INTERNAL SERVICE</u> | <u>TOTAL PRIMARY GOVERNMENT (memorandum only)</u> |
|--|-------------------|-----------------------------|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Operating Income (Loss)..... | \$ 2,463,067 | \$ (5,415) | \$ 2,457,652 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | |
| Investment Income | (2,885,746) | — | (2,885,746) |
| Depreciation | 21,123 | 10,227 | 31,350 |
| Provision for Uncollectible Accounts | 86,563 | — | 86,563 |
| Amortization of Premiums and Discounts | 99,632 | — | 99,632 |
| Interest on Bonds, Notes and Capital Leases | 9,807 | — | 9,807 |
| Interest Received on Loans..... | — | — | — |
| Miscellaneous Nonoperating Income | — | — | — |
| Decrease (Increase) in Assets: | | | |
| Intergovernmental Receivables | (417) | 430 | 13 |
| Premiums and Assessments Receivable | 341,046 | — | 341,046 |
| Other Receivables | (78,605) | (1,066) | (79,671) |
| Due from Other Funds | 24 | 344 | 368 |
| Inventories | (1,397) | (2,051) | (3,448) |
| Other Assets | (73,405) | 3 | (73,402) |
| Increase (Decrease) in Liabilities: | | | |
| Accounts Payable | 70,317 | (83) | 70,234 |
| Accrued Liabilities | 991 | 865 | 1,856 |
| Intergovernmental Payable | (7) | — | (7) |
| Due to Other Funds | (34) | 111 | 77 |
| Deferred Revenues | (4,362) | (75) | (4,437) |
| Workers' Compensation Benefits Payable | 40,012 | — | 40,012 |
| Refund and Other Liabilities | 665,206 | — | 665,206 |
| Liabilities Payable from Restricted Assets | 14,674 | — | 14,674 |
| NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES | 768,489 | 3,290 | 771,779 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | |
| Operating Transfers-in | 28,088 | 36,728 | 64,816 |
| Operating Transfers-out | (844,745) | (26,521) | (871,266) |
| Bond Proceeds | — | — | — |
| Federal Grants | — | — | — |
| Retirement of Revenue Bond Principal | — | — | — |
| Interest Paid | — | — | — |
| Bond and Note Issuance Costs | — | — | — |
| NET CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES | (816,657) | 10,207 | (806,450) |

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

| <u>COMPONENT UNIT</u> | | <u>TOTAL REPORTING ENTITY (memorandum only)</u> |
|---|--|---|
| <u>OHIO WATER DEVELOPMENT AUTHORITY</u> | | |
| \$ 60,963 | | \$ 2,518,615 |
| (42,496) | | (2,928,242) |
| 97 | | 31,447 |
| — | | 86,563 |
| 1,007 | | 100,639 |
| 73,926 | | 83,733 |
| (97,935) | | (97,935) |
| 3,050 | | 3,050 |
| — | | 13 |
| — | | 341,046 |
| (462) | | (80,133) |
| 586 | | 954 |
| — | | (3,448) |
| — | | (73,402) |
| — | | 70,234 |
| — | | 1,856 |
| — | | (7) |
| (586) | | (509) |
| — | | (4,437) |
| — | | 40,012 |
| — | | 665,206 |
| — | | 14,674 |
| <u>(1,850)</u> | | <u>769,929</u> |
| — | | 64,816 |
| — | | (871,266) |
| 6,745 | | 6,745 |
| 82,756 | | 82,756 |
| (64,135) | | (64,135) |
| (73,145) | | (73,145) |
| (91) | | (91) |
| <u>(47,870)</u> | | <u>(854,320)</u> |

(continued)

STATE OF OHIO

COMBINED STATEMENT OF CASH FLOWS

ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT FOR THE FISCAL YEAR ENDED JUNE 30, 1997

(amounts expressed in thousands)

(continued)

| | <u>ENTERPRISE</u> | <u>INTERNAL SERVICE</u> | <u>TOTAL PRIMARY GOVERNMENT (memorandum only)</u> |
|---|----------------------------|-----------------------------|---|
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Principal Payments on Bonds | (4,000) | (3,480) | (7,480) |
| Interest Paid | (9,807) | (1,801) | (11,608) |
| Principal Receipts on Capital Leases | — | 2,671 | 2,671 |
| Acquisition and Construction of Capital Assets | (8,405) | (3,350) | (11,755) |
| Proceeds from Sales of Fixed Assets | 32,270 | 134 | 32,404 |
| Principal Payments on Capital Leases | (8,643) | (298) | (8,941) |
| NET CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>1,415</u> | <u>(6,124)</u> | <u>(4,709)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Proceeds from the Sales and Maturities of Investments | 10,281,944 | 261 | 10,282,205 |
| Purchase of Investments | (10,424,537) | — | (10,424,537) |
| Investment Income Received | 924,090 | 1,802 | 925,892 |
| Borrower Rebate and Agent Fees..... | (60,626) | — | (60,626) |
| Loan Principal Repayments Received | — | — | — |
| Loan Disbursements | — | — | — |
| Loan Interest Received..... | — | — | — |
| NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES | <u>720,871</u> | <u>2,063</u> | <u>722,934</u> |
| NET INCREASE (DECREASE) | | | |
| IN CASH AND CASH EQUIVALENTS | 674,118 | 9,436 | 683,554 |
| CASH AND CASH EQUIVALENTS, JULY 1 (as restated) | 652,734 | 41,202 | 693,936 |
| CASH AND CASH EQUIVALENTS, JUNE 30 | <u>\$ 1,326,852</u> | <u>\$ 50,638</u> | <u>\$ 1,377,490</u> |
| NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES | | | |
| Acquisition and Construction of Capital Assets | \$ — | \$ 5,737 | \$ 5,737 |
| INCREASE (DECREASE) IN CONTRIBUTED CAPITAL | <u>\$ —</u> | <u>\$ 5,737</u> | <u>\$ 5,737</u> |

Cash and cash equivalents in the Component Units column on the Combined Balance Sheet include:

| | |
|---|--------------------------|
| Proprietary-Ohio Water Development Authority..... | \$ 6,999 |
| Colleges and Universities..... | 151,905 |
| Total | <u>\$ 158,904</u> |

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

| <u>COMPONENT UNIT</u> | <u>TOTAL REPORTING ENTITY (memorandum only)</u> |
|---------------------------|---|
| — | (7,480) |
| — | (11,608) |
| — | 2,671 |
| (77) | (11,832) |
| — | 32,404 |
| — | (8,941) |
| <u>(77)</u> | <u>(4,786)</u> |
| 7,086,713 | 17,368,918 |
| (7,042,019) | (17,466,556) |
| 42,859 | 968,751 |
| — | (60,626) |
| 71,739 | 71,739 |
| (199,401) | (199,401) |
| 95,139 | 95,139 |
| <u>55,030</u> | <u>777,964</u> |
| 5,233 | 688,787 |
| 1,766 | 695,702 |
| <u>\$ 6,999</u> | <u>\$ 1,384,489</u> |
| \$ — | \$ 5,737 |
| <u>\$ —</u> | <u>\$ 5,737</u> |

STATE OF OHIO
STATEMENT OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1997
(amounts expressed in thousands)

STATE HIGHWAY PATROL RETIREMENT SYSTEM

| | PENSION | POST- EMPLOYMENT | TOTAL |
|--|-------------------|---------------------|-------------------|
| ADDITIONS: | | | |
| <i>Contributions:</i> | | | |
| Employer | \$ 12,176 | \$ 2,531 | \$ 14,707 |
| Employees | 6,223 | — | 6,223 |
| Other Contributions | 349 | 6 | 355 |
| Total Contributions | 18,748 | 2,537 | 21,285 |
| <i>Investment Income:</i> | | | |
| Net Appreciation in Fair Value of Investments | 39,617 | 6,928 | 46,545 |
| Interest | 11,641 | 2,029 | 13,670 |
| Dividends | 2,998 | 523 | 3,521 |
| Other Investment Income | 585 | 102 | 687 |
| | 54,841 | 9,582 | 64,423 |
| Less: Investment Expense | 1,736 | 361 | 2,097 |
| Net Investment Income | 53,105 | 9,221 | 62,326 |
| TOTAL ADDITIONS | 71,853 | 11,758 | 83,611 |
| DEDUCTIONS: | | | |
| Benefits and Claims | 15,920 | 2,023 | 17,943 |
| Refunds of Employee Contributions | 67 | — | 67 |
| Administrative Expenses | 1,056 | 148 | 1,204 |
| TOTAL DEDUCTIONS | 17,043 | 2,171 | 19,214 |
| NET INCREASE (DECREASE) | 54,810 | 9,587 | 64,397 |
| FUND BALANCE RESERVED FOR EMPLOYEES' PENSION AND POSTEMPLOYMENT HEALTHCARE BENEFITS | | | |
| JULY 1 | 379,953 | 67,722 | 447,675 |
| JUNE 30 | \$ 434,763 | \$ 77,309 | \$ 512,072 |

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

STATE OF OHIO

STATEMENT OF CHANGES IN FUND BALANCE DISCRETELY PRESENTED COMPONENT UNITS - COLLEGE AND UNIVERSITY FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 1997 (amounts expressed in thousands)

| | <u>COMPONENT UNITS</u> |
|--|----------------------------|
| REVENUES AND OTHER ADDITIONS: | |
| Unrestricted Current Fund Revenues | \$ 2,706,398 |
| Local Appropriations-Restricted | 14,334 |
| Federal Grants and Contracts-Restricted | 419,883 |
| State Grants and Contracts-Restricted | 84,519 |
| Local Grants and Contracts-Restricted | 6,511 |
| Private Gifts, Grants and Contracts-Restricted | 296,718 |
| Endowment Income-Restricted | 25,897 |
| Investment Income-Restricted | 21,305 |
| Realized Gain on Investments-Restricted (net) | 129,420 |
| Interest on Loans Receivable | 4,564 |
| Investment in Plant-Additions | 738,281 |
| Other | 208,381 |
| TOTAL REVENUES AND OTHER ADDITIONS | <u>4,656,211</u> |
| EXPENDITURES AND OTHER DEDUCTIONS: | |
| Educational and General Expenditures | 3,519,339 |
| Auxiliary Enterprises Expenditures | 497,299 |
| Hospital Expenditures | 486,729 |
| Indirect Costs Recovered | 69,646 |
| Grant Refunds and Adjustments | 965 |
| Loan Cancellations and Write-offs | 2,286 |
| Administrative and Collection Costs | 2,524 |
| Expended for Plant Facilities | 177,338 |
| Retirement of Indebtedness | 150,737 |
| Interest on Indebtedness | 42,982 |
| Investment in Plant-Deductions | 535,083 |
| Other | 4,417 |
| TOTAL EXPENDITURES AND OTHER DEDUCTIONS | <u>5,489,345</u> |
| TRANSFERS: | |
| Operating Transfers from Primary Government | 1,410,667 |
| NET INCREASE (DECREASE) FOR THE YEAR BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE | |
| Cumulative Effect of Change in Accounting Principle..... | 577,533 |
| | <u>5,072</u> |
| NET INCREASE (DECREASE) FOR THE YEAR | 582,605 |
| FUND BALANCE AND OTHER CREDITS, JULY 1 (as restated) | 9,056,797 |
| FUND BALANCE AND OTHER CREDITS, JUNE 30 | <u>\$ 9,639,402</u> |

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

STATE OF OHIO

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES DISCRETELY PRESENTED COMPONENT UNITS - COLLEGE AND UNIVERSITY FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 1997

(amounts expressed in thousands)

COMPONENT UNITS

REVENUES:

| | |
|---|-------------------------|
| Tuition, Fees and Other Student Charges | \$ 1,312,515 |
| Local Appropriations | 14,649 |
| Federal Grants and Contracts | 417,227 |
| State Grants and Contracts | 87,037 |
| Local Grants and Contracts | 7,987 |
| Private Gifts, Grants and Contracts | 242,651 |
| Endowment Income | 89,508 |
| Sales and Services | 1,066,928 |
| Temporary Investment Income | 57,431 |
| Other Sources | 115,058 |
| TOTAL REVENUES | <u>3,410,991</u> |

EXPENDITURES AND MANDATORY TRANSFERS:

EDUCATIONAL AND GENERAL:

| | |
|---|------------------|
| Instruction and Departmental Research | 1,516,724 |
| Separately Budgeted Research | 333,465 |
| Public Service | 195,076 |
| Academic Support | 343,025 |
| Student Services | 194,765 |
| Institutional Support | 339,260 |
| Operation and Maintenance of Plant | 262,541 |
| Scholarships and Fellowships | 332,320 |
| TOTAL EDUCATIONAL AND GENERAL | 3,517,176 |

AUXILIARY ENTERPRISES 496,395

HOSPITALS 486,729

TOTAL EXPENDITURES **4,500,300**

MANDATORY TRANSFERS, NET:

| | |
|---|----------------------|
| Principal and Interest | 89,513 |
| Renewals and Replacements | 3,048 |
| Other | 795 |
| TOTAL MANDATORY TRANSFERS, NET | <u>93,356</u> |

TOTAL EXPENDITURES AND MANDATORY TRANSFERS **4,593,656**

OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):

OPERATING TRANSFERS FROM PRIMARY GOVERNMENT 1,402,674

NONMANDATORY TRANSFERS, NET:

| | |
|----------------------------|----------|
| Capital Improvements | (92,499) |
| Other | (2,090) |

ADDITIONS/(DEDUCTIONS):

| | |
|---|-------------------------|
| Excess of Restricted Receipts over Transfers to Revenue | 74,773 |
| Indirect Costs Recovered | (69,551) |
| Other | 23 |
| TOTAL OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS) | <u>1,313,330</u> |

NET INCREASE (DECREASE) FOR THE YEAR BEFORE CUMULATIVE EFFECT

OF CHANGE IN ACCOUNTING PRINCIPLE 130,665

Cumulative Effect of Change in Accounting Principle..... 9,254

NET INCREASE (DECREASE) IN FUND BALANCE **\$ 139,919**

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



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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Ohio present the financial position of the various fund types and account groups, the results of operations of the various fund types, and the cash flows of the proprietary funds. The financial statements, as of June 30, 1997, and for the year then ended, conform with generally accepted accounting principles (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification) documents these principles. The State's significant accounting policies are as follows.

A. Financial Reporting Entity

For financial reporting purposes, the State of Ohio's primary government includes all funds, account groups, elected officials, departments and agencies, bureaus, boards, commissions, and authorities that make up the State's legal entity. Component units, legally separate organizations for which the State's elected officials are financially accountable, also comprise, in part, the State's reporting entity.

GASB Statement No. 14, *The Financial Reporting Entity*, defines financial accountability. The criteria for determining financial accountability include the following considerations: 1) appointment of a voting majority of an organization's governing authority and the ability of the primary government to either impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government, or 2) an organization is fiscally dependent on the primary government. Information for obtaining complete financial statements for the State's component units is available from the Ohio Office of Budget and Management.

1. Blended Component Units

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

2. Discretely Presented Component Units

The component units' columns in the combined financial statements include the financial data of the following organizations. The separate discrete column labeled, "Component Units," emphasizes these organizations' separateness from the State's primary government.

| | | | |
|-----------------------------------|---|---|--|
| Proprietary: | Ohio Water Development Authority | Ohio State University Ohio University Shawnee State University University of Akron University of Cincinnati University of Toledo Wright State University Youngstown State University | State Community Colleges: Cincinnati State Community College Clark State Community College Columbus State Community College Edison State Community College Northwest State Community College Owens State Community College Southern State Community College Terra State Community College Washington State Community College |
| Colleges and Universities: | Cleveland State University Kent State University Miami University | Medical College of Ohio at Toledo | |

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Joint Ventures and Related Organizations

As discussed in more detail in NOTE 22, the State participates in several joint ventures and has related organizations. The State does not include the financial activities of these organizations in its financial statements, in conformity with GASB Statement No. 14.

B. Basis of Presentation — Fund Accounting

The State of Ohio uses funds and account groups to report its financial position and results of operations. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. An account group is an accounting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

Primary government and component unit funds fall into four categories: governmental, proprietary, fiduciary, and college and university.

1. Primary Government

In the primary government's financial statements, each fund category is divided into separate "fund types," which are described along with the two account groups, as follows:

Governmental Fund Types

General — The General Fund, the State's primary operating fund, accounts for resources traditionally associated with government, which are not required legally or by sound financial management to be accounted for in another fund.

Special Revenue — The special revenue funds account for revenue sources that are legally restricted to expenditure for specific purposes.

Debt Service — The debt service funds account for the accumulation of resources for the payment of general long-term debt principal and interest.

Capital Projects — The capital projects funds account for the acquisition of fixed assets and construction of major capital facilities and for major repairs and replacements other than those financed by proprietary or trust funds.

Proprietary Fund Types

Enterprise — The enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises — where the State's intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the State has decided that periodic determination of net income is appropriate for accountability and other purposes.

Internal Service — The internal service funds account for the financing of goods or services that a State department or agency provides to other State departments and agencies or to other government units on a cost-reimbursement basis.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Fund Types

Trust funds account for assets that the State holds in a trustee capacity. The State's General Purpose Financial Statements present expendable and pension trust funds. The Pension Trust Fund includes the State Highway Patrol Retirement System for its fiscal year ended December 31, 1996.

Agency funds account for assets the State holds as an agent for individuals, private organizations, other governments, or other funds. The Agency Fund includes the assets of the Public Employees Retirement System and the Police and Firemen's Disability and Pension Fund, for their fiscal years ended December 31, 1996.

Account Groups

General Fixed Assets — The General Fixed Assets Account Group accounts for fixed assets acquired or constructed for the State's general governmental purposes. This group accounts for fixed assets not accounted for in the proprietary and trust funds.

General Long-Term Obligations — The General Long-Term Obligations Account Group accounts for the State's unmatured general obligation bonds and other long-term obligations not required to be accounted for in the proprietary and trust funds.

2. Component Units

Presentation of the underlying fund types of the individual component units reported in the discrete column is available from each respective component unit's separately issued financial statements. The component unit funds include the Ohio Water Development Authority for its fiscal year ended December 31, 1996.

The State presents a Statement of Current Funds Revenues, Expenditures and Other Changes in the General Purpose Financial Statements, in accordance with Section 2600.111 of the Governmental Accounting Standards Board's *Codification of Governmental Accounting and Financial Reporting*. The Current Funds, a college and university fund type, accounts for economic resources that are expendable for any purpose in performing the primary objectives of the higher education institutions.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Governmental and expendable trust funds are accounted for using a flow of current financial resources measurement focus. Under this measurement focus, operating statements present increases (i.e., revenue and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets, and unreserved fund balance is a measure of available expendable resources.

Proprietary and pension trust funds are accounted for using a flow of economic resources measurement focus, which emphasizes the determination of net income. Under this measurement focus, operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net assets. Fund equity (i.e., net assets) is segregated on the balance sheet into two components, contributed capital and retained earnings/fund balance.

Agency funds are custodial in nature, and therefore, do not present results of operations or have a measurement focus.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The modified accrual basis of accounting has been applied to all governmental, expendable trust, and agency funds. Under the modified accrual basis of accounting, the State recognizes revenues when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction is determinable, and "available" means the amount is collectible within the current period or soon enough thereafter to pay liabilities of the current period. The State considers revenues as available when collected within 60 days after year end.

Under the modified accrual basis, expenditures are recorded when related fund liabilities are incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when due.

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

- Personal income taxes
- Sales and use taxes
- Motor vehicle fuel taxes
- Unemployment taxes
- Charges for goods and services
- Investment income

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

Deferred revenue, as reported on the State's combined balance sheet, represents resources received before the State has a legal claim to them, such as the receipt of federal grant moneys prior to the incurrence of qualifying expenditures. When the State has a legal claim to the resources, revenue is recognized.

The accrual basis of accounting has been applied to the proprietary and pension trust funds. Under this method, revenues are recorded when earned, and expenses are recorded when incurred.

The State's proprietary and pension trust funds apply all applicable GASB pronouncements and the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

College and university funds apply the principles of accounting and reporting pursuant to the National Association of College and University Business Officers accounting and reporting model. The college and university funds are accounted for on the accrual basis of accounting, with the following exceptions: 1) depreciation expense is not calculated or reported, and 2) revenues and expenditures of an academic term encompassing more than one fiscal year are recognized in the period when the program is predominantly conducted.

D. Budgetary Process

As required by the Ohio Revised Code, the Governor submits biennial operating and capital budgets to the General Assembly. The particular budget, which includes those funds of the State subject to appropriation pursuant to State law, is comprised of all proposed expenditures for the State and of estimated revenues and borrowings for a biennium.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Biennially, the General Assembly approves operating and capital appropriations. Operating appropriations are provided in annual amounts while capital appropriations are provided in two-year amounts. Because capital projects funds' appropriations are not made on an annual basis, budgetary basis financial statements for these funds are not presented.

The State's Controlling Board, comprised of six members of the General Assembly and the Director of the Office of Budget and Management (OBM) or a designee, can transfer or increase an appropriation within the limitations set under Chapter 127, Ohio Revised Code. The Board has delegated the authority to the Director of OBM to transfer appropriations between existing operating expenditure/expense line-items within a state agency in amounts not to exceed a total of 10 percent of the appropriation from which the transfer is made or \$25,000, whichever is less, within a fiscal year.

All governmental funds are budgeted except the following activities within the fund types:

Special Revenue Fund:

- Certain activities within the Community and Economic Development, Employment Services, and Student Aid Commission Special Revenue Funds, as discussed in NOTE 3

Capital Projects Fund:

- Ohio Building Authority

Debt Service Fund:

- Economic Development Bond Service
- Transportation Certificate Retirement
- Vietnam Conflict Compensation Bond Retirement
- Ohio Public Facilities Commission
- Ohio Building Authority
- Enterprise Bond Retirement
- School Building Program Bond Service

For budgeted funds, the State's Central Accounting System controls expenditures by appropriation line-item, so at no time can expenditures exceed appropriations and financial-related legal compliance is assured. A modified cash basis of accounting is used for budgetary purposes. Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded as a reserve of the applicable appropriations, is employed as an extension of formal budgetary integration in the State's accounting system. Encumbrances outstanding in the General, special revenue, and capital projects funds at fiscal year end are reported as reservations of fund balance for expenditure in subsequent years. Operating encumbrances are generally canceled five months after fiscal year end while capital encumbrances are automatically reapportioned. Unencumbered appropriations lapse at the end of the biennium for which they were appropriated. A more comprehensive accounting of activity on the budgetary basis at the legal level of budgetary control is provided in the *Detailed Appropriation Summary by Fund Report*, which is available for public inspection at the Ohio Office of Budget and Management.

In the Combined Statement of Revenues, Expenditures and Changes in Fund Balances — Budget and Actual (Non-GAAP Budgetary Basis), budgeted revenues for the General Fund represent periodically updated revenue budgets. For other budgeted funds, the original budgeted revenues, as submitted by the Governor, do not represent actual forecasts of revenues and are not amended to coincide with any legislative changes to the original expenditure budget. Accordingly, budgeted revenues and other financing sources and uses for budgeted funds other than the General Fund are reported at actual amounts, since the State does not have updated, budgeted revenue and other financing sources and uses amounts for use in the accompanying budgetary basis financial statements. In addition, budgetary expenditures include cash disbursements against fiscal year 1997

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

appropriations and outstanding encumbrances, as of June 30, 1997, that were committed during fiscal year 1997. Encumbrance reversions represent lapses of prior years' appropriations.

The Employment Services Expendable Trust Fund and the State Highway Patrol Pension Trust Fund are not legally required to adopt budgets. For budgeted proprietary and trust funds, the State is not legally required to report budgetary data and comparisons for these funds. Budgetary data for discretely presented component units are not presented.

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

F. Cash Equity with Treasurer and Cash and Cash Equivalents

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

Cash and cash equivalents include amounts on deposit with financial institutions and cash on hand. Also included in cash and cash equivalents are investments with original maturities of three months or less from the date of acquisition, which are reported in the Bureau of Workers' Compensation and Ohio Lottery Commission enterprise funds, the State Highway Patrol Retirement System Pension Trust Fund, and the University of Cincinnati and University of Toledo component unit funds.

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

F. Investments

Investments include long-term investments that may be restricted by law or other legal instruments. Investments are carried at cost or amortized cost (which does not exceed market) except those of the Deferred Compensation Agency Fund, which are reported at market, and those of the Bureau of Workers' Compensation Enterprise Fund and State Highway Patrol Retirement System Pension Trust Fund, which are reported at fair value. For the colleges and universities, investments received as gifts are reported at the fair market or appraised value at the donation date.

G. Intergovernmental Revenues/Receivables

Intergovernmental revenues primarily represent resources from reimbursement-type grants received from the federal government. Intergovernmental receivables and revenues are recorded when the related grant expenditures/expenses are incurred.

H. Inventories

For governmental funds, the costs of material inventories are recorded as expenditures when purchased. At year end, physical counts are taken of significant inventories for the governmental fund types and are generally reported on the balance sheet at moving-average cost. Proprietary and college and university funds' inventories are valued at cost, which approximates market; principal inventory cost methods applied include first-in, first-

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

out, average cost, moving-average, and retail. Inventories recorded in the governmental fund types do not reflect current appropriate resources, and therefore, an equivalent portion of fund balance is reserved.

I. Food Stamps

Food stamp coupons held in the State's and its agents' custody are stated at face value and are offset by deferred revenue, in conformity with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*. The State recognizes revenue and expenditures in the Special Revenue Fund when the food stamp coupons are distributed to eligible recipients.

J. Restricted Assets

Assets restricted for payment of deferred prize awards (Ohio Lotto) and tuition benefits are reported in the enterprise funds for the Ohio Lottery Commission and the Ohio Tuition Trust Authority, respectively.

Covenants for the Ohio Building Authority's bonds require its pledged receipts be held and invested in a reserve account placed with a trustee financial institution. These restricted assets are reported in the internal service funds.

Generally, restricted assets reported for the college and university funds are assets held in trust that are legally restricted under bond covenants or other financing arrangements.

K. Fixed Assets

General Fixed Assets — Fixed assets purchased with governmental fund resources are recorded in the General Fixed Assets Account Group at historical cost, or at estimated historical cost in cases when no historical records exist. Donated fixed assets are valued at estimated fair market value at the donation date. The costs of normal maintenance and repairs that do not add to the asset value or materially extend an asset's useful life are not capitalized. The costs of major improvements are capitalized, while interest costs associated with the acquisition of general fixed assets are not capitalized.

Public domain (infrastructure) general fixed assets such as roads, bridges, curbs and gutters, streets and sidewalks, historical monuments, drainage systems, and lighting systems are not capitalized, since these assets are immovable and of value only to the government.

Assets in the General Fixed Assets Account Group are not depreciated.

Proprietary and Fiduciary Fund Fixed Assets — Fixed assets are stated at cost or, for donated assets, at estimated fair market value at the donation date. Fixed assets, excluding land, are depreciated using the straight-line method over the following estimated useful lives:

| | |
|-------------------------|-------------|
| Buildings | 20-45 years |
| Machinery and Equipment | 5-20 years |
| State Vehicles | 5 years |

Material interest is capitalized on proprietary fund fixed assets acquired through the issuance of debt.

College and University Fund Fixed Assets — All purchased fixed assets are valued at cost. Donated fixed assets are valued at estimated fair market value at the donation date. Generally, public domain (infrastructure) assets are not capitalized. College and university fund fixed assets are not depreciated.



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Sureties

Sureties include various assets placed by their owners in safekeeping with the Treasurer of State, as required by applicable statutes.

M. Long-Term Obligations

Governmental funds recognize long-term obligations as liabilities when due. Only the portion expected to be financed from expendable available financial resources is reported as a liability of a governmental fund. The remaining portion of such obligations is reported in the General Long-Term Obligations Account Group. Included among these liabilities are the noncurrent portions of liabilities resulting from debt issuances, certificate of participation financing arrangements, compensated absences, judgments, settlements, and claims, contingencies, leases, and workers' compensation benefits. Long-term liabilities expected to be financed from proprietary fund and college and university fund operations are accounted for in those funds.

As discussed in NOTES 11 and 12, bonds issued by the Ohio Building Authority (OBA) to finance the construction of State-related projects are reported as special obligation bonds in the General Long-Term Obligations Account Group, while OBA bonds issued to finance the construction of facilities leased to local government are reported as revenue bonds in the internal service funds.

N. Compensated Absences

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

Such leave is liquidated in cash, under certain restrictions, either annually in December, or at the time of termination from employment. For governmental funds, the noncurrent portion of the liability for compensated absences is reported in the General Long-Term Obligations Account Group. For proprietary funds, the liability for compensated absences is reported as a noncurrent accrued liability.

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

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, vacation, compensatory time, and personal leaves are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as at termination or retirement. Leave time that has been earned, but is unavailable for use as paid time off or as some other form of compensation because an employee has not met a minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments, as of the balance sheet date, and on

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

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

O. Fund Equity

Reservations
Reservations of equity represent amounts that are not appropriable or are legally restricted for a specific purpose.

Designations

Designations of equity represent tentative management plans that are subject to change.

Contributed Capital

Contributed capital represents equity acquired through capital contributions from other funds.

P. Self-Insurance

The State's primary government is self-insured for claims covered under its traditional healthcare plan, vehicle liability, public fidelity blanket bonds, property losses, and tort liability. While not the predominant participant, the State's primary government participates in a public entity risk pool, which is accounted for in the Bureau of Workers' Compensation Enterprise Fund, for the financing of its workers' compensation liability (See NOTE 14D). Estimates for significant incurred but not reported claims or contingent liabilities are included in accrued liabilities and in the General Long-Term Obligations Account Group.

Q. Interfund/Intra-Entity Transactions

The State of Ohio records the following types of interfund/intra-entity transactions within its reporting entity:

Operating Transfers — Legally required transfers are reported when incurred as "Operating Transfers-in" by the receiving fund and as "Operating Transfers-out" by the disbursing fund. Legally required transfers between the primary government and its component units are reported as "Operating Transfers from/to Primary Government" and "Operating Transfers from/to Component Units."

Transfers of Expenditures (Reimbursement) — Reimbursements of expenditures made by one fund for another are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the reimbursed fund.

Residual Equity Transfers — Nonroutine or nonrecurring transfers between funds are reported as additions to or deductions from fund equity.

Quasi-external Transactions — Charges or collections for services rendered by one fund to another are recorded as revenues of the receiving fund and expenditures/expenses of the disbursing fund.

Transactions between funds that are representative of non-current lending/borrowing arrangements outstanding, as of the end of the fiscal year, are reported as advances to/from other funds. All other outstanding balances between funds are reported as due to/from other funds.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A summary of interfund balances and interfund and intra-entity transfers is presented in NOTE 7.

R. Memorandum Only — Total Columns

Total columns on the general purpose financial statements are captioned "Memorandum Only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 RESTATEMENTS AND CHANGES IN ACCOUNTING PRINCIPLES AND STANDARDS

A. Restatements

Certain restatements of fund balances/retained earning balances, as of June 1996, are summarized as follows (amounts expressed in thousands).

| Fund | Fund Balance/ Retained Earnings as Previously Reported, June 30, 1996 | Increase (Decrease) for Restatement | Fund Balance/ Retained Earnings as Restated, July 1, 1996 |
|----------------------------|---|--|--|
| Primary Government: | | | |
| General Fund | \$2,180,206 | \$ (12,467) | \$2,167,739 |
| Enterprise Funds: | | | |
| Workers' Compensation | \$ 946,393 | \$2,315,488 | \$3,263,881 |
| Office of Auditor of State | — | 17,054 | 17,054 |
| All Other Enterprise Funds | 242,035 | — | 242,035 |
| Total Enterprise Fund | \$1,190,428 | \$2,332,542 | \$3,522,970 |

Component Units:

| | | | |
|--|-------------|-------------|-------------|
| College and University Funds: | | | |
| University of Cincinnati | \$1,800,408 | \$ 10,772 | \$1,811,180 |
| Central State University | 83,986 | (83,986) | — |
| Clark State Community College | 39,464 | 100 | 39,564 |
| Edison State Community College | 22,146 | 147 | 22,293 |
| Washington State Community College | 22,224 | (185) | 22,039 |
| All Other College and University Funds | 7,161,721 | — | 7,161,721 |
| Total College and University Funds | \$9,129,949 | \$ (73,152) | \$9,056,797 |

The General Fund's fund balance is restated by a \$12.5 million reduction to reflect a change in the reporting of the Office of the Auditor of State's operations from the General Fund to the Enterprise Fund.

For the Enterprise Fund, the \$2.32 billion increase in the Workers' Compensation Fund's retained earnings is due to 1) a change in the Fund's fiscal year-end from December 31, 1995 to June 30, 1996, which resulted in an increase in retained earnings of \$771.7 million and 2) the Fund's early implementation of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which resulted in an increase in retained earnings of approximately \$1.54 billion. The \$17 million increase in the Office of the Auditor of State's Fund reflects a change in reporting this fund's operations from the General Fund to the Enterprise Fund, as previously discussed.

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

For the College and University Funds, fund balance is restated for a \$73.2 million net decrease to reflect:

- a change in the manner the University of Cincinnati Foundation, a non-for-profit organization and a component unit of the University of Cincinnati, recognizes revenue from pledges when the Foundation adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 116, *Accounting for Contributions Received and Contributions Made*, and FASB Statement No. 117, *Financial Statements of Non-for-Profit Organizations*. This change resulted in a \$10.8 million increase in the University's beginning fund balance.
- the exclusion of Central State University's financial statements, for the fiscal year ended June 30, 1997. The University's financial statements, which are immaterial to the College and University Funds, were not available in time for publication in this report because of a financial management emergency, and consequently, beginning fund balance was reduced by approximately \$84 million.
- adjustments principally to the cash and cash equivalents, investments, fixed assets, and accrued liabilities balances for Clark State Community College, which collectively increased fund balance by \$100 thousand.
- an adjustment to the opening fixed asset balance for Edison State Community College, which increased fund balance by \$147 thousand.
- write-offs of accounts receivable at Washington State Community College, which decreased fund balance by \$185 thousand.

Additionally, the July 1, 1996 beginning balance of long-term obligations reported in the General Long-Term Obligations Account Group reflects a net increase of approximately \$63.2 million (See NOTE 15). The restatement includes:

- a \$10.1 million increase in the balance of certificate of participation obligations for facility improvements at the Kickenbacker International Airport. The State issued the obligations in the previous fiscal year; however, the State had not reported the obligations in its financial statements, as of June 30, 1996.
- a \$3.8 million decrease in the compensated absences balance due to the reclassification of the Office of the Auditor of State from a governmental to an enterprise operations, as previously discussed.
- a \$56.9 million increase in the workers' compensation obligation, which was corrected when the Bureau of Workers' Compensation Enterprise Fund changed its fiscal year-end from December 31 to June 30.

B. Changes in Accounting Principle

For fiscal year 1997, the Ohio State University, a component unit fund, changed its method of calculating accrued sick leave under the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. Prior to fiscal year 1997, the University applied the vesting method for calculating the liability. For fiscal year 1997 reporting, the University elected to change its sick leave liability calculation to the termination payment method. University management considers the termination method preferable to the vesting method because it directly reflects the University's historical experience of sick leave payments to terminated employees.

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

The cumulative effect on prior years of this change in accounting principle is recognized as a \$9.3 million increase in the University's net assets. The change also resulted in recognition of \$1.2 million less expenditures for fiscal year 1997 than would have been recognized under the vesting method.

Additionally, Youngstown State University, a component unit fund, changed its fixed assets capitalization threshold policy in fiscal year 1997. As a result of the change, the University retroactively wrote-off fixed assets acquired in previous fiscal years that did not meet the University's new capitalization policy. The cumulative effect of the change is recognized as a \$4.2 million decrease in the University's net assets.

C. Newly Issued Accounting Pronouncements

In March 1997, the Governmental Accounting Standards Board (GASB) issued Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Effective July 1, 1997, the State will adopt the Statement's provisions, which will require the State to report its investments at fair value as of the balance sheet date and reflect the changes in the fair value of investments as revenue in the State's operating statements. Also, the Statement will require the State to report its external investment pool, STAROhio, as an investment trust fund. The provisions of this statement, which are effective for fiscal years beginning after June 15, 1997, will be reflected in the State's financial report for the year ended June 30, 1998. Management has not yet determined the impact that implementation of GASB Statement No. 31 will have on the State's financial statements.

Effective July 1, 1996, the Bureau of Workers' Compensation Enterprise Fund opted to early-implement GASB Statement No. 31's provisions.

NOTE 3 GAAP vs. NON-GAAP BUDGETARY BASIS

"Actual" revenues, operating transfers-in, expenditures, encumbrances, and operating transfers-out on the non-GAAP budgetary basis do not equal those reported on the GAAP basis in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances — All Governmental Fund Types and Expendable Trust Funds. This inequality results primarily from basis differences in the recognition of accruals, deferred revenue, interfund transactions, and loan transactions, and from timing differences in the budgetary basis of accounting for encumbrances. On the non-GAAP budgetary basis, encumbrances are recognized as expenditures in the year encumbered, while on the modified accrual basis, expenditures are recognized when goods or services are received regardless of the year encumbered.

Budgeted expenditures in the accompanying Combined Statement of Revenues, Expenditures and Changes in Fund Balances — Budget and Actual (Non-GAAP Budgetary Basis) represent original appropriations modified by supplemental and amended appropriations made throughout the year, including \$262.2 million, \$991.8 million, and \$13.9 million increases in the budgets of the General, Special Revenue, and Debt Service funds, respectively.

A reconciliation of the fund balances recorded under the two bases for the General, Special Revenue, and Debt Service funds is presented in the following table.

NOTE 3 GAAP vs. NON-GAAP BUDGETARY BASIS (Continued)

Reconciliation of GAAP Basis Fund Balances to Non-GAAP Budgetary Basis Fund Balances June 30, 1997 (in thousands)

| | General | Special Revenue | Debt Service |
|--|-------------|-----------------|--------------|
| Total Fund Balances - GAAP Basis | \$2,320,267 | \$2,457,314 | \$290,995 |
| Less: Unbudgeted Fund Balances | — | 81,943 | 181,846 |
| Total Budgeted Fund Balances - GAAP Basis | 2,320,267 | 2,375,711 | 109,149 |
| Less: Reserved Fund Balances | 1,438,917 | 2,514,873 | 108,534 |
| Less: Designated Fund Balances | 605,900 | — | — |
| Unreserved/Undesignated Fund Balances - GAAP Basis | 195,450 | (139,102) | 615 |

BASIS DIFFERENCES

| Revenue Accruals/Adjustments: | | |
|------------------------------------|-------------|-----------|
| Taxes Receivable | (787,434) | (190,463) |
| Intergovernmental Receivable | (433,449) | (350,826) |
| Loans Receivable | (9,599) | (299,935) |
| Other Receivables | (21,690) | (29,806) |
| Due from Other Funds | (13,359) | (27,737) |
| Inventories | (2,807) | (33,197) |
| Other Assets | (836) | (8,320) |
| Deferred Revenues | 64,590 | 58,957 |
| Total Revenue Accruals/Adjustments | (1,204,924) | (882,027) |

Expenditure Accruals/Adjustments:

| | | |
|--|-----------|---------|
| Accounts Payable | 74,144 | 235,114 |
| Medicaid Claims Payable | 475,780 | — |
| Accrued Liabilities | 104,594 | 53,324 |
| Intergovernmental Payable | 231,824 | 371,239 |
| Due to Other Funds | 35,913 | 10,863 |
| Refund and Other Liabilities | 540,589 | 71,751 |
| Total Expenditure Accruals/Adjustments | 1,462,844 | 742,291 |

Other Adjustments:

| | | |
|--|-------------|--------------|
| Fund Balance Reclassifications: | | |
| From Unreserved (Non-GAAP Budgetary Basis) to Reserved for: | | |
| Debt Service | — | 108,534 |
| Budget Stabilization | 828,307 | — |
| Noncurrent Portion of Loans Receivable | 9,793 | — |
| Other | 146,394 | — |
| From Undesignated (Non-GAAP Budgetary Basis) to Designated | 685,900 | — |
| Cash and Investments Held Outside of State Treasury | (11,889) | (1,603) |
| Other | 1 | 2 |
| Total Other Adjustments | 1,658,506 | 460,247 |
| Total Basis Differences | 1,916,426 | 320,511 |
| Encumbrances | (148,473) | (397,384) |
| Unreserved/Undesignated and Designated Fund Balances (Deficits) - Non-GAAP Budgetary Basis | \$1,963,403 | \$ (215,975) |

*This amount includes certain unbudgeted activities within the Community and Economic Development, Employment Services, and Student Aid Commission Special Revenue Funds

NOTE 4 DEPOSITS AND INVESTMENTS

A. Legal Requirements

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

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

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

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

- Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest;
- Bonds, notes, debentures, or other obligations or securities issued by any federal government agency, or the Export-Import Bank of Washington;
- Repurchase agreements in the securities enumerated above;
- Interim deposits in the eligible institutions applying for interim moneys;
- Bonds and other obligations of the State of Ohio;
- The Treasurer of State's investment pool;
- Linked deposits, reduced-rate deposits at financial institutions that provide reduced-rate loans to small businesses, as authorized under Section 135.63, Ohio Revised Code;
- Agricultural linked deposits, reduced-rate deposits at financial institutions that provide reduced-rate loans to agricultural businesses, as authorized under Section 135.74, Ohio Revised Code;
- Reverse repurchase agreements with any eligible financial institution that is a member of the federal reserve system or federal home loan bank, or any recognized U.S. government securities dealer;
- Securities lending agreements with any eligible financial institution that is a member of the federal reserve system or federal home loan bank, or any recognized U.S. government securities dealer;
- Commercial paper, rated in one of the two highest rating categories by two nationally recognized rating agencies and not exceeding five percent of the investment portfolio;

- Bankers' acceptances maturing in 270 days or less and not exceeding 10 percent of the investment portfolio;
- Debt of domestic corporations and foreign nations diplomatically recognized by the United States, rated investment grade by nationally recognized rating agencies and, in the aggregate, not exceeding five percent of the investment portfolio; and
- No-load money market funds consisting of U.S. government and agency obligations and repurchase agreements secured by such obligations.

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

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

During the reporting period, the Public Employees Retirement System, Police and Firemen's Disability and Pension Fund, School Employees Retirement System, and the State Teachers Retirement System, the investments of which are held in the Treasurer of State's custody and are reported in the Retirement Systems Agency Fund, had investments in derivatives and similar debt and investment transactions. Specific information on the nature of the transactions and the reasons for entering into them can be found in each respective system's Comprehensive Annual Financial Report.

B. Deposits

1. Primary Government

As of June 30, 1997, the carrying amount of deposits was (in thousands) \$1,094,400 and the bank balance was \$1,082,461. Of the bank balance, \$228,766 was fully insured or collateralized with securities held by the primary government or its agent in the primary government's name (Category 1), \$624,374 was collateralized with securities held by the pledging financial institution's trust department or its agent in the primary government's name (Category 2), and \$229,321, although meeting legal collateralization requirements, was categorized as uninsured and uncollateralized (Category 3).

2. Component Units

As of June 30, 1997, the carrying amount of deposits was (in thousands) \$196,795 and the bank balance was \$252,346. Of the bank balance, \$42,650 was fully insured or collateralized with securities held by the respective component units or their agents in the component unit's name (Category 1), \$179,418 was collateralized with securities held by the pledging financial institution's trust department or its agent in the respective component unit's name (Category 2), and \$30,278, although meeting legal collateralization requirements, was categorized as uninsured and uncollateralized (Category 3).

C. Investments

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

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

The level of credit risk assumed by the primary government and its component units and the carrying amount and fair value of investments, as of June 30, 1997, are as follows (in thousands):

| | Primary Government | | | Total | Fair Value |
|---|--------------------|------------|--------------|---------------|---------------|
| | Category 1 | Category 2 | Category 3 | | |
| U.S. government & agency obligations | | | | | |
| Not on securities loan | \$35,374,651 | \$ — | \$ 4,558,360 | \$ 39,933,011 | \$ 40,808,934 |
| On securities loan | — | — | 187,288 | 187,288 | 187,288 |
| Common and preferred stock | 25,800,774 | — | 6,490,597 | 32,291,371 | 39,147,648 |
| On securities loan | — | — | 62,147 | 62,147 | 62,147 |
| Corporate bonds and notes | 6,443,687 | — | 1,969,105 | 8,412,792 | 8,404,966 |
| Foreign stocks and bonds | 8,893,950 | — | — | 8,893,950 | 9,740,894 |
| Commercial paper | 3,742,808 | — | 1,137,406 | 4,880,214 | 4,880,283 |
| Repurchase agreements | 306,387 | — | 15 | 306,387 | 307,519 |
| Bankers' acceptances | 18,620 | — | — | 18,620 | 18,617 |
| Municipal obligations | 1,015 | — | — | 1,015 | 1,088 |
| Securities lending collateral | — | — | — | — | — |
| U.S. government & agency obligations | 105,000 | — | 3,215,801 | 3,320,801 | 3,320,805 |
| Repurchase agreements | 4,234,312 | — | — | 4,234,312 | 4,341,793 |
| Common and preferred stock | — | — | 712,156 | 712,156 | 712,156 |
| Corporate bonds and notes | 698,104 | — | — | 698,104 | 698,547 |
| Commercial paper | 29,959 | — | — | 29,959 | 29,959 |
| | \$85,649,267 | \$ 15 | \$18,334,000 | 103,983,282 | 112,662,644 |
| Investments held by broker-dealers under securities loans with cash collateral | | | | | |
| U.S. government & agency obligations | — | — | — | — | 8,553,141 |
| Common and preferred stock | — | — | — | — | 694,418 |
| Mutual funds | — | — | — | — | 2,353,580 |
| Real estate | — | — | — | — | 7,363,322 |
| Venture capital | — | — | — | — | 111,835 |
| Direct mortgage loans | — | — | — | — | 38,432 |
| Securities lending collateral — mutual funds | — | — | — | — | 70,032 |
| Deposit with Federal government | — | — | — | — | 1,818,503 |
| Deposit with deferred compensation plan | — | — | — | — | 852,788 |
| Less: Component units' equity in the Treasurer of State investment pool (STAROhio) | — | — | — | — | (222,300) |
| | | | | \$125,417,061 | \$135,565,620 |

STATE OF OHIO
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The State cannot sell securities received as collateral unless the borrower defaults. Consequently, these amounts are not reflected in the financial statements. The State invests cash collateral in short-term obligations, which have a weighted average maturity of 45 days or less and generally match the maturities of securities loans. Loan contracts do not provide any loss indemnification by securities lending agents in cases of borrower default; however, during fiscal year 1997, the State had not experienced any losses due to credit or market risk on securities lending activities.

During the fiscal year, the Treasurer and the STAROhio program lent U.S. government and agency obligations in exchange for collateral consisting of cash and/or other U.S. government obligations. The BWC lent fixed maturities and equity securities in exchange for cash, broker-provided, and letters of credit collateral.

NOTE 5 TAXES

Taxes receivable, as of June 30, 1997, consist of the following (in thousands):

| | General | Special Revenue | Trust and Agency | Total |
|-------------------------------|------------------|------------------|------------------|--------------------|
| Income Taxes | \$325,091 | \$ 38,387 | \$ — | \$ 363,478 |
| Sales Taxes | 462,343 | 24,393 | — | 486,736 |
| Motor Vehicle Fuel Taxes | — | 115,854 | — | 115,854 |
| Unemployment Taxes | — | — | 160,046 | 160,046 |
| Other Taxes | — | — | 11,829 | 11,829 |
| Total Taxes Receivable | \$787,434 | \$190,463 | \$160,046 | \$1,137,943 |

As of June 30, 1997, refund liabilities for income and corporation franchise taxes, totaling \$596.4 million, are reported as "Refunds and Other Liabilities," of which \$539.4 million is reported in the General Fund and \$57 million is reported in the Special Revenue Fund.

NOTE 6 LOANS AND OTHER RECEIVABLES

A. Loans Receivable

Loans receivable (net of uncollectible amounts) for the primary government and its component units, as of June 30, 1997, consist of the following (in thousands):

| Loan Type | Primary Government | | | Capital Projects | Total |
|--|--------------------|-----------------|--------------|------------------|-------------|
| | General | Special Revenue | Debt Service | | |
| Columbiana County Economic Stabilization | \$ 3,465 | \$ — | \$ — | \$ — | \$ 3,465 |
| Community and Economic Development | — | — | — | — | — |
| Office of Minority Financial Incentives | 5,169 | 232,304 | — | — | 5,169 |
| Office of Financial Incentives | — | 94,381 | — | — | 232,304 |
| Ohio Housing Finance Agency | — | — | — | — | 94,381 |
| Total Community and Economic Development | 5,169 | 326,685 | — | — | 331,854 |
| Primary - Secondary, and Other Education: | | | | | |
| Vocational Education | 1,305 | 369 | — | — | 1,674 |
| Bankruptcy and Port Authority | — | 323 | — | — | 323 |
| Public School Building | — | 17,192 | — | — | 17,192 |
| Vocational School Assistance | — | 8,053 | — | — | 8,053 |
| School Building | — | 10,600 | — | — | 10,600 |
| Total Primary, Secondary and Other Education | 1,305 | 36,537 | — | — | 37,842 |
| | | | | | (Continued) |

STATE OF OHIO
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The total carrying amount of deposits and investments, as of June 30, 1997, reported for the primary government and its component units is (in thousands) \$129,645,147. The total carrying amount of deposits and investments categorized and disclosed in this note is \$129,866,289. A reconciliation of the difference follows (in thousands):

| | Deposits | Investments | Total |
|---|--------------------|----------------------|----------------------|
| Cash equity with Treasurer (unrestricted and restricted) | \$ 206,837 | \$ 5,879,168 | \$ 6,086,005 |
| Cash and cash equivalents (unrestricted and restricted) | 369,470 | 1,157,892 | 1,527,362 |
| Investments | 49,753 | 107,759,428 | 107,809,181 |
| Collateral on Lent Securities (unrestricted and restricted) | 386,145 | 9,065,364 | 9,451,509 |
| Deposit with federal government | — | 1,818,503 | 1,818,503 |
| Deposit with deferred compensation plan | — | 859,969 | 859,969 |
| Restricted Assets: | | | |
| Investments | — | 528,402 | 528,402 |
| Dedicated investments | — | 1,564,216 | 1,564,216 |
| Carrying amount per combined balance sheet | 1,012,205 | 128,632,942 | 129,645,147 |
| Outstanding warrants and other reconciling items | 278,990 | (57,848) | 221,142 |
| Total Reporting Entity | \$1,291,195 | \$128,575,094 | \$129,866,289 |

D. Securities Lending Transactions

The Treasurer of State and the Bureau of Workers' Compensation (BWC) participate in securities lending programs for securities included in the "Cash Equity with Treasurer," "Investments," and "Dedicated Investments" accounts and the STAROhio program. Each lending program is administered by a custodial agent bank, whereby certain securities are transferred to an independent broker-dealer (borrower) in exchange for collateral. The State has minimized its exposure to credit risk due to borrower default by requiring the custodial agent to ensure that the State's lent securities are collateralized at no less than 102 percent of market value.

For loan contracts the Treasurer executes, not more than 15 percent of the State's cash and investment portfolio, which is reported as "Cash Equity with Treasurer," can be lent to a single broker-dealer. For the STAROhio program, not more than 25 percent of STAROhio investment pool may be lent at any one time, and not more than 10 percent of the investment pool may be subject to term loans in excess of seven days.

STATE OF OHIO
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 1997

STATE OF OHIO
NOTES TO THE FINANCIAL STATEMENTS
NOTE 6 LOANS AND OTHER RECEIVABLES (Continued)

JUNE 30, 1997

| Loan Type | General | Special Revenue | Debt Service | Capital Projects | Total |
|--|---------|-----------------|--------------|------------------|-----------|
| Higher Education Research Investment Loans | — | — | 6,224 | — | 6,224 |
| Natural Resources | — | 162 | — | — | 162 |
| Highway and Transit Infrastructure Bank Buller Transportation Improvement District | — | 35,000 | — | — | 35,000 |
| Local Infrastructure Improvements | — | — | — | 109,664 | 109,664 |
| Total Loans Receivable | \$9,839 | \$398,384 | \$6,224 | \$109,664 | \$524,211 |

Component Units

| Loan Type | Ohio Water Development Authority (12/31/96) | Ohio State University | University of Cincinnati | Kent State University | Other Component Units | Total |
|--------------------------------|---|-----------------------|--------------------------|-----------------------|-----------------------|-------------|
| Water and Wastewater Treatment | \$1,608,445 | — | — | — | — | \$1,608,445 |
| Student | — | 53,960 | 29,206 | 18,377 | 74,433 | 175,976 |
| Other | — | — | 650 | — | 615 | 1,265 |
| Total Loans Receivable | \$1,608,445 | \$53,960 | \$29,856 | \$18,377 | \$75,048 | \$1,785,686 |

B. Other Receivables

Other receivables for the primary government, as of June 30, 1997, consist of the following (in thousands):

| | Primary Government | | | | | | |
|--|--------------------|-----------------|--------------|------------------|------------|------------------|------------------|
| | General | Special Revenue | Debt Service | Capital Projects | Enterprise | Internal Service | Trust and Agency |
| Unrestricted: | | | | | | | |
| Accounts Receivable | \$ 3,907 | \$ 2,096 | \$ — | \$ — | \$ 224,296 | \$ 3,948 | \$ — |
| Interest and Dividends Receivable | 13,522 | 8,587 | 1,037 | 2,543 | 93,718 | 472 | 2,463 |
| Women, Infants and Children Program Rebate Receivable | — | 9,945 | — | — | — | — | — |
| Nursing Facility Bed Assessments Receivable | — | 10,819 | — | — | — | — | — |
| Leases Receivable | — | — | — | — | 39,669 | — | — |
| Receivables from Lottery Sales Agents | — | — | — | 40,998 | — | — | — |
| Claims & Settlements Receivable | — | — | — | — | — | 22,056 | — |
| Employer Interest and Penalties on Unemployment Taxes | — | 2,179 | — | — | — | — | — |
| Refunds from Academic Grants and Scholarships Programs | 4,261 | — | — | — | 29 | 1,656 | 114 |
| Miscellaneous Receivables | — | 1,574 | — | — | — | — | — |
| Total Unrestricted | 21,690 | 35,200 | 1,037 | 2,543 | 359,041 | 45,745 | 24,633 |
| Restricted: | | | | | | | |
| Interest Receivable | \$21,690 | \$35,200 | \$1,037 | \$2,543 | \$378,212 | \$45,745 | \$24,633 |
| Total Unrestricted and Restricted | \$43,380 | \$70,400 | \$2,074 | \$5,086 | \$737,253 | \$91,490 | \$49,266 |

Under long-term direct financing leases with local governments for office space, the Ohio Building Authority charges a pro-rata share of the buildings' debt service and operating costs based on square-footage occupied. Future lease payments due the Ohio Building Authority Internal Service Fund, net of exoneratory costs, are as follows (in thousands):

STATE OF OHIO
NOTES TO THE FINANCIAL STATEMENTS
NOTE 6 LOANS AND OTHER RECEIVABLES (Continued)

JUNE 30, 1997

| | Year Ending June 30, | Leases Receivable |
|---|----------------------|-------------------|
| 1998 | 1998 | \$ 7,752 |
| 1999 | 1999 | 5,367 |
| 2000 | 2000 | 5,369 |
| 2001 | 2001 | 5,374 |
| 2002 | 2002 | 5,382 |
| Thereafter | Thereafter | 33,097 |
| Total minimum lease payments | | 62,341 |
| Less: Amount representing interest | | 22,872 |
| Present value of net minimum lease payments | | \$39,669 |

Other receivables for the State's component units, as of June 30, 1997, consist of the following (in thousands):

| | Component Units | | | | | Total |
|---------------------------|-----------------------|--------------------------|--------------------------------|-------------------------|-----------------------|-----------|
| | Ohio State University | University of Cincinnati | Bowling Green State University | Medical College of Ohio | Other Component Units | |
| Accounts Receivable | \$179,561 | \$27,406 | \$ 6,093 | \$16,875 | \$87,598 | \$317,533 |
| Interest Receivable | 10,574 | 5,529 | 11,568 | 790 | 3,731 | 32,192 |
| Pledges Receivable | — | — | — | — | — | 32,113 |
| Miscellaneous Receivables | — | 408 | — | — | — | 4,505 |
| Total Other Receivables | \$190,135 | \$65,456 | \$17,661 | \$17,665 | \$95,516 | \$386,433 |

NOTE 7 INTERFUND AND INTRA-ENTITY BALANCES AND TRANSFERS

Interfund balances, as of June 30, 1997, and operating transfers among the primary government's funds, for the year ended June 30, 1997, are as follows (in thousands):

| Fund Type/Fund | Due from Other Funds | Due to Other Funds | Advances to Other Funds | Advances from Other Funds | Operating Transfers in | Operating Transfers out |
|---|----------------------|--------------------|-------------------------|---------------------------|------------------------|-------------------------|
| | | | | | | |
| General | \$ 13,359 | \$ 35,913 | \$ — | \$ — | \$ 142,605 | \$ 847,794 |
| Special Revenue: | | | | | | |
| Community and Economic Development | 2,969 | 520 | — | 85,076 | 55,247 | 45,215 |
| Human Services | 595 | 358 | — | — | 14,261 | 9,608 |
| Health | 177 | 105 | — | — | 1,976 | 4,875 |
| Mental Health and Retardation | 887 | 801 | — | — | 7,037 | — |
| Employment Services | — | — | — | — | — | 3,000 |
| Education | 398 | 153 | — | — | 733,466 | 10,935 |
| Student Aid Commission | — | — | — | — | — | 6,730 |
| Highway Safety | 3,419 | 2,420 | — | — | 145,529 | 2,800 |
| Highway Operating | 4,015 | 6,467 | — | — | 641,311 | 184,777 |
| Natural Resources | 497 | 118 | — | — | 546 | 3,060 |
| Wildlife and Waterway Safety | 332 | 48 | — | — | 1,000 | — |
| Revenue Distribution | 9,675 | 128 | — | — | 42,084 | 680,022 |
| Local Transportation Improvements | 4,773 | 2 | — | — | 58,247 | — |
| Total Special Revenue Fund | 27,737 | 11,120 | — | 85,076 | 1,710,704 | 951,022 |
| Debt Service: | | | | | | |
| Economic Development Bond Service | — | — | — | — | 21,052 | 6 |
| Coal Research/Development Bond Retirement | — | — | — | — | 9,026 | — |
| Development Bond Retirement | — | — | — | — | 24 | — |
| Highway Obligations Bond Retirement | 127 | — | — | — | — | 109 |
| Public Improvements Bond Retirement | — | — | — | — | — | — |
| Local Infrastructure Improvements | — | — | — | — | — | 13 |
| Local Infrastructure Improvements Bond Retirement | — | — | — | — | — | — |
| Ohio Public Facilities Commission | 1,115 | — | — | — | 80,623 | — |
| Ohio Building Authority | — | — | — | — | 444,603 | 662 |
| | — | — | — | — | 202,747 | — |

(Continued)

NOTE 7 INTERFUND AND INTRA-ENTITY BALANCES AND TRANSFERS (Continued)

For the fiscal year ended June 30, 1997, the Capital Projects Fund reports approximately \$5.7 million in residual equity transfers-out. The transfers represent contributions of capital to the Internal Service Fund, as discussed in more detail in NOTE 19.

Operating transfers between the primary government's funds and its component units, for the year ended June 30, 1997, consist of the following (in thousands):

| Primary Government: | Operating Transfers from Primary Government | Operating Transfers to Component Units |
|------------------------------------|---|--|
| General Fund | \$ — | \$ 1,410,667 |
| Component Units: | | |
| College and University Funds | | |
| Ohio State University | 376,623 | |
| University of Cincinnati | 175,615 | |
| Ohio University | 122,117 | |
| Miami University | 66,794 | |
| University of Akron | 92,405 | |
| Bowling Green State University | 73,365 | |
| Kent State University | 99,984 | |
| University of Toledo | 78,064 | |
| Cleveland State University | 64,053 | |
| Youngstown State University | 44,992 | |
| Wright State University | 81,220 | |
| Shawnee State University | 13,756 | |
| Medical College of Ohio | 34,200 | |
| Terra State Community College | 5,855 | |
| Columbus State Community College | 27,251 | |
| Clark State Community College | 5,875 | |
| Edison State Community College | 4,398 | |
| Southern State Community College | 3,378 | |
| Washington State Community College | 3,863 | |
| Cincinnati State Community College | 14,464 | |
| Northwest State Community College | 3,099 | |
| Owens State Community College | 19,316 | |
| Total Reporting Entity | \$1,410,667 | \$1,410,667 |

NOTE 8 FIXED ASSETS

A. Primary Government

Fixed assets by category, as of June 30, 1997, are as follows (in thousands):

| | Enterprise | Internal Service | Pension Trust | General Fixed Assets | Total Primary Government |
|--------------------------------|------------|------------------|---------------|----------------------|--------------------------|
| Land | \$ 18,070 | \$ — | \$ 370 | \$ 186,169 | \$ 204,609 |
| Buildings | 272,509 | 6,319 | 2,947 | 2,167,257 | 2,449,032 |
| Land Improvements | 86 | — | — | 155,364 | 155,430 |
| Machinery and Equipment | 167,250 | 107,070 | 220 | 214,561 | 489,101 |
| State Vehicles | 1,492 | 810 | 16 | 225,095 | 227,413 |
| Construction in Progress | — | — | — | 446,095 | 446,095 |
| Total Fixed Assets (at cost) | 459,387 | 114,199 | 3,553 | 3,394,541 | 3,971,680 |
| Less: Accumulated Depreciation | 173,207 | 83,624 | 567 | 2,577,398 | 2,577,398 |
| Total Fixed Assets (net) | \$286,180 | \$30,575 | \$2,986 | \$3,394,541 | \$3,714,282 |

NOTE 7 INTERFUND AND INTRA-ENTITY BALANCES AND TRANSFERS (Continued)

Operating transfers between the primary government's funds and its component units, for the year ended June 30, 1997, consist of the following (in thousands):

| Fund Type/Fund | Due from Other Funds | Due to Other Funds | Advances to Other Funds | Advances from Other Funds | Operating Transfers in | Operating Transfers out |
|---|----------------------|--------------------|-------------------------|---------------------------|------------------------|-------------------------|
| Debt Service: (Continued) | | | | | | |
| Enterprise Bond Retirement | — | — | — | — | 27,536 | 32,815 |
| State Projects Bond Service | — | — | — | — | 5,234 | 25 |
| School Building Program Bond Service | — | — | — | — | 10,695 | — |
| Highway Capital Improvement Bond Service | — | — | — | — | 6,476 | 86 |
| Total Debt Service Fund | 1,242 | — | — | — | 807,992 | 33,942 |
| Capital Projects: | | | | | | |
| Aris Facilities Building Improvements | 43 | — | — | — | 40,525 | 540 |
| Higher Education Improvements | 110 | 1,121 | — | — | — | — |
| Highway Obligations Construction | 41 | — | — | — | — | — |
| Mental Health/Mental Retardation | 25 | — | — | — | — | — |
| Facilities Improvements | 1,169 | — | — | — | — | — |
| Parks and Recreation Improvements | 1 | 5 | — | — | — | 46 |
| Local Infrastructure Improvements | — | — | — | — | — | — |
| Ohio Building Authority | — | — | — | — | 85,522 | 368,143 |
| Administrative Services Building Improvements | 54 | — | — | — | — | — |
| Youth Services Building Improvements | 24 | — | — | — | — | — |
| Transportation Building Improvements | 117 | 17 | — | — | 109,080 | — |
| Adult Correctional Building Improvements | 60 | — | — | — | 75,344 | — |
| Highway Safety Building Improvements | 6 | — | — | — | — | 642 |
| Ohio Parks and Natural Resources | 53 | — | — | — | — | — |
| Highway Capital Improvement | 45 | — | — | — | 36,677 | — |
| Sports Facilities Building | 1,770 | 1,143 | — | — | 347,148 | 369,371 |
| Total Capital Projects Fund | 1,770 | 1,143 | — | — | 347,148 | 369,371 |
| Enterprise: | | | | | | |
| Liquor Control | 86 | 16 | — | — | 75 | 89,621 |
| Ohio Lottery Commission | — | — | — | — | — | 748,520 |
| Workers' Compensation | — | — | — | — | — | 4,894 |
| Underground Parking Garage | — | — | — | — | — | 1,710 |
| Office of Auditor of State | 1,590 | — | — | — | — | — |
| Total Enterprise Fund | 1,676 | 16 | — | — | 28,143 | 844,745 |
| Internal Service: | | | | | | |
| Ohio Building Authority | — | — | — | — | 27,901 | 26,521 |
| Ohio Data Network | 7,486 | 56 | — | — | — | — |
| Ohio Postal Industries | 22,259 | 1,860 | — | — | 8,827 | — |
| Support Services | 4,701 | 95 | — | — | — | — |
| Telecommunications | 3,673 | 27 | — | — | — | — |
| Total Internal Service Fund | 38,219 | 2,038 | — | — | 36,728 | 26,521 |
| Expendable Trust: | | | | | | |
| Unclaimed Funds | 257 | — | 85,076 | — | — | — |
| Pension Trust: | | | | | | |
| State Highway Patrol | 1,589 | — | — | — | — | — |
| Agency: | | | | | | |
| Holding and Distribution | — | 17,434 | — | — | — | — |
| Payroll Withholding and Fringe Benefits | 83 | 21,591 | — | — | — | — |
| Deferred Compensation | 3,232 | — | — | — | — | — |
| Other | 47 | — | — | — | — | — |
| Total Trust and Agency Funds | 5,208 | 39,025 | 85,076 | — | — | — |
| Total per Financial Statements - Primary Government | 89,213 | 89,255 | 85,076 | 85,076 | 3,073,395 | 3,073,395 |
| Reconciliation for Timing Differences for Funds with December 31, 1996 Year-Ends | | | | | | |
| Reconciled Total for the Primary Government | 42 | — | — | — | — | — |
| Component Units: | | | | | | |
| Ohio State University | 2/4,994 | 2/4,994 | — | — | — | — |
| University of Cincinnati | 10,258 | 10,258 | — | — | — | — |
| Other Component Units | 58,234 | 58,234 | — | — | — | — |
| Total per Financial Statements - Component Units | 343,486 | 343,486 | — | — | — | — |
| Total Reporting Entity | \$432,741 | \$432,741 | — | — | — | — |

No projects were under construction, for the year ended June 30, 1997, that resulted in capitalized interest for the proprietary and fiduciary fund types.

Changes in general fixed assets, for the year ended June 30, 1997, are as follows (in thousands):

| | Balance July 1, 1996 | Beginning Balance Adjustments | Additions | Deletions/Net Transfers | Balance June 30, 1997 |
|-----------------------------------|----------------------|-------------------------------|------------------|-------------------------|-----------------------|
| Land | \$ 178,507 | \$ 135 | \$ 7,902 | \$ (465) | \$ 186,169 |
| Buildings | 2,052,570 | 66,704 | 87,836 | (39,802) | 2,167,257 |
| Land Improvements | 149,076 | 3,918 | 5,790 | (3,420) | 155,364 |
| Machinery and Equipment | 190,204 | (2,808) | 38,917 | (11,752) | 214,561 |
| State Vehicles | 217,554 | (3,963) | 27,803 | (16,299) | 225,095 |
| Construction-in-Progress | 479,197 | (18,731) | 442,828 | (456,999) | 446,095 |
| Total General Fixed Assets | \$3,287,207 | \$45,255 | \$610,876 | \$(528,797) | \$3,394,541 |

B. Component Units

Fixed assets by category for the State's component units, as of June 30, 1997, are as follows (in thousands):

| | Ohio State University | University of Cincinnati | Ohio University | Miami University | University of Akron |
|---------------------------------------|-----------------------|--------------------------|------------------|------------------|---------------------|
| Land | \$ 30,762 | \$ 15,389 | \$ 9,898 | \$ 2,143 | \$ 16,968 |
| Buildings | 1,200,279 | 708,621 | 307,451 | 297,669 | 261,762 |
| Land Improvements | 134,500 | 17,199 | 52,392 | 28,504 | 29,178 |
| Machinery, Equipment, and Vehicles | 605,765 | 107,049 | 117,166 | 86,166 | 91,080 |
| Library Books and Publications | 114,784 | 77,556 | 45,420 | 34,110 | 45,313 |
| Construction-in-Progress | 152,865 | 59,566 | 11,959 | 39,236 | 16,152 |
| Total Fixed Assets (at cost) | 2,238,955 | 985,380 | 544,332 | 487,828 | 460,453 |
| Less: Accumulated Depreciation | \$2,238,955 | \$985,380 | \$544,332 | \$487,828 | \$460,453 |

| | Kent State University | University of Toledo | Cleveland State University | Other Component Units | Total Component Units |
|---------------------------------------|-----------------------|----------------------|----------------------------|-----------------------|-----------------------|
| Land | \$ 6,037 | \$ 17,479 | \$ 47,627 | \$ 52,278 | \$ 196,581 |
| Buildings | 235,961 | 261,291 | 244,047 | 1,037,347 | 4,574,428 |
| Land Improvements | 26,860 | 25,163 | 8,955 | 73,194 | 395,945 |
| Machinery, Equipment, and Vehicles | 60,971 | 55,904 | 51,594 | 347,560 | 1,523,255 |
| Library Books and Publications | 45,129 | 17,052 | 42,391 | 87,294 | 508,055 |
| Construction-in-Progress | 14,214 | 38,810 | 25,541 | 63,403 | 421,786 |
| Total Fixed Assets (at cost) | 389,172 | 415,699 | 420,155 | 1,681,076 | 7,623,050 |
| Less: Accumulated Depreciation | \$389,172 | \$415,699 | \$420,155 | \$1,681,076 | \$7,623,050 |

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

- Public Employees Retirement System
- State Teachers Retirement System
- State Highway Patrol Retirement System

A. Public Employees Retirement System (PERS)

Pension Benefits

PERS is a cost-sharing, defined benefit multiple-employer public employee retirement system. PERS benefits are established under Chapter 145, Ohio Revised Code. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

PERS issues a stand-alone financial report, copies of which may be obtained by making a written request to: Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio, 43215-4642, or by calling (614) 466-2085.

Employer and employee required contributions to PERS are established under the Ohio Revised Code and are based on percentages of covered employees' gross salaries, which are calculated annually by the retirement system's actuary. Contribution rates for calendar year 1996 are as follows:

| | Contribution Rates — Calendar Year 1996 | |
|---------------------------|---|----------------|
| | Employee Share | Employer Share |
| Regular Employees | 8.50% | 13.31% |
| Law Enforcement Employees | 9.00% | 16.70% |

Employer contributions required and made for the last three years follow (in thousands):

| | Primary Government | | | Component Units | | |
|------|---------------------------------|-----------------------------|-----------------------------|---|---|---|
| | For the Year Ended December 31, | For the Year Ended June 30, | For the Year Ended June 30, | Employer's Contribution for Law Enforcement Employees | Employer's Contribution for Regular Employees | Employer's Contribution for Regular Employees |
| 1996 | \$196,501 | \$2,410 | \$96,962 | 2,480 | 1996 | 98,615 |
| 1995 | 188,913 | 2,480 | 1996 | 2,454 | 1995 | 94,465 |
| 1994 | 178,344 | 2,454 | 1995 | | | |

Other Postemployment Benefits

All age and service retirees with 10 or more years of service credit qualify for healthcare coverage under PERS. Healthcare coverage for disability recipients and primary survivor recipients is also available. Chapter 145, Ohio Revised Code, provides the statutory authority for employer contributions. The portion of the employer rate that is used to fund healthcare is 2.89 percent of covered payroll for law enforcement employees, and 4.29 percent of covered payroll for regular employees for calendar year 1996. Employees do not fund any portion of healthcare costs.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

PERS healthcare benefits are advance-funded on an actuarially determined basis. An entry-age normal actuarial cost method of valuation is used in determining the present value of benefit liabilities and normal cost. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. The investment assumption rate for 1995 was 7.75 percent, while healthcare costs were assumed to increase by 5.25 percent annually. An annual increase of 5.25 percent, compounded annually, is the base portion of the individual pay increase assumption. Additionally, annual pay increases over and above the base portion are assumed to range from zero to 5.1 percent.

With regard to asset valuation for the PERS healthcare plan, short-term securities consisting of commercial paper and U.S. Treasury obligations are carried at cost; equity securities, fixed income investments, and investments in real estate are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

The number of active contributing plan participants for the multiple-employer plan was 62,332 for the primary government, as of June 30, 1997. Employer contribution requirements are as follows (in thousands):

| | |
|---|--|
| | Actuarially Determined and Actual Contributions |
| Primary Government: (for the year ended December 31, 1996) | \$93,458 |
| Regular Employees | 1,313 |
| Law Enforcement Employees | \$94,771 |
| Total | \$46,116 |
| Component Units: (for the year ended June 30, 1997) | \$46,116 |

PERS had \$7.2 billion in net assets available for healthcare benefits at December 31, 1995. The actuarial accrued liability and the unfunded actuarial accrued liability based on the actuarial cost method used were \$8.6 billion and \$1.4 billion, respectively.

B. State Teachers Retirement System (STRS)

Pension Benefits

STRS is a cost-sharing, defined benefit multiple-employer public employee retirement system. For reporting STRS, the State has early implemented GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, for the year ended June 30, 1997.

Participants in STRS may retire after 30 years of credited service regardless of age, or at or after age 55 with 25 years of credited service, or at or after age 60 with five years of credited service. Members retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts. Retirees are entitled to a maximum annual retirement benefit, payable in monthly installments for life, equal to the greater of the "formula benefit" or the "money-purchase benefit" calculation.

Under the "formula benefit" calculation, the maximum annual retirement allowance is equal to 2.1 percent of an average of a member's three highest years' salary multiplied by the member's number of years of credited service (up to 30 years and 2.5 percent a year for earned Ohio service over 30 years, up to a maximum allowance of 100 percent of final average salary). Under the "money-purchase benefit" calculation, a member's lifetime

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

contributions, plus interest at specified rates, are matched by an equal amount from contributed employer funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance. Annually, after retirement, STRS benefits are increased by the greater of the amount of the change in the Consumer Price Index or the cumulative increase in prior years, less previous cost-of-living increases, up to a maximum of three percent.

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

STRS also provides death, survivors', disability, healthcare, and supplemental benefits. STRS benefits are established under Chapter 3307, Ohio Revised Code.

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

Employer and employee required contributions to STRS are established by the Board and limited under the Ohio Revised Code to employer and employee rates of 14 percent and 10 percent, respectively, and are based on percentages of covered employees' gross salaries, which are calculated annually by the retirement system's actuary. Contribution rates for fiscal year 1997 were 14 percent for employers and 9.3 percent for employees. For STRS, 12 percent of the employer rate is used to fund pension obligations. The difference between the total employer rate and the share used to fund pension obligations is the percentage used to fund the STRS healthcare program.

Employer contributions required and made for the last three years are as follows (in thousands):

| Year Ended June 30, | Primary Government | | Component Units |
|---------------------|--------------------|-----------|-----------------|
| | 1997 | 1996 | |
| 1997 | \$5,051 | \$111,928 | |
| 1996 | 4,780 | 112,449 | |
| 1995 | 4,795 | 107,210 | |

The pension liability, as calculated in accordance with GASB Statement No. 27, was zero before and after the transition.

Other Postemployment Benefits

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

The employer contribution is advance-funded, but not on an actuarially determined basis. Net healthcare costs paid by the primary government and its component units, for the year ended June 30, 1997, totaled \$842 thousand and \$18.6 million, respectively. Eligible benefit recipients for the primary government, for the same period, totaled 1,020. Net assets available to fund future healthcare benefits was \$1.6 billion, as of June 30, 1996.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

C. State Highway Patrol Retirement System (SHIPRS)

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

The plan issues a stand-alone financial report that includes financial statements and required supplementary information, and the State reports the plan as a pension trust fund. Copies of the financial report may be obtained by writing to the Ohio State Highway Patrol Retirement System, 6161 Busch Boulevard, Suite 119, Columbus, Ohio 43229-2553, or by calling (614) 466-2268.

SHIPRS is authorized under Chapter 5505, Ohio Revised Code, to provide retirement and disability benefits to retired members and survivor benefits to qualified dependents of deceased members of the Ohio State Highway Patrol. Chapter 5505, Ohio Revised Code, also requires contributions by active members and the Ohio State Highway Patrol. The employee contribution rate is established by the General Assembly, and any change in the rate requires legislative action. The employer contribution rate is established by the SHIPRS Retirement Board and certified to the State of Ohio every two years. By law, the employer rate may not exceed three times the employee contribution rate.

Through June 8, 1996, active members and the employer contributed 10.5 percent and 24.53 percent, respectively, of active member payroll, of which all of the employee's contribution and 19.03 percent of the employer's contribution were used to fund pension benefits. Effective June 9, 1996, active members and the employer began contributing 10 percent and 24 percent, respectively, of active member payroll, of which all of the employee's contribution and 19.87 percent of the employer's contribution were used to fund pension benefits. The difference in the total employer rates charged during 1996 and the employer rates applicable to the funding of pension benefits is applied to the funding of postemployment healthcare benefits.

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

All investments are reported at fair value. Fair value is "the amount that the plan can reasonably expect to receive for an investment in a current sale, between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale." Short-term investments are reported at cost, which approximates fair value. Corporate bonds are valued at the median price by the brokerage firms. Securities traded on a national exchange are valued at the last reported sales price at the current exchange rate. The fair value of real estate investments are based on the estimated current value and on independent appraisals.

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

Annual pension cost for the State totaled \$11.9 million for the year, 100 percent of which was contributed during the year.

SHIPRS used the entry-age normal actuarial cost method for the Schedule of Funding Progress for the actuarial valuation, dated December 31, 1996. Assumptions used in preparing the Schedule of Funding Progress and in determining the annual required contribution include: a 7.75 percent rate of return on investments; projected salary increase of five percent attributable to inflation and additional projected salary increases ranging from zero to 3.5 percent per year attributable to seniority and merit; and postretirement increases each year equal to the increase in the Consumer Price Index (not to exceed three percent).



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

The unfunded actuarial liability is being amortized using the level-percentage of projected payroll method over a closed period of 16 years.

In addition to retirement and healthcare benefits, SHIPRS also provides for disability and survivors' benefits. Qualified dependents of a deceased member are eligible for monthly survivors' benefits.

The Schedule of Funding Progress for the last three years is as follows (in thousands):

| (A) Valuation Year | (B) Actuarial Accrued Liability (AAL) | (C) Valuation Assets | (D) Unfunded Actuarial Accrued Liability (UAAL) (B) - (C) | (E) Ratio of Assets to AAL (C)/(B) | (F) Active Member Payroll | (G) UAAL as Percentage of Active Member Payroll (D)/(F) |
|--------------------------|--|----------------------------|--|---|------------------------------------|--|
| 1994 ^(a) | \$374,007 | \$330,787 | \$43,220 | 88.4% | \$58,117 | 74.4% |
| 1995 | 402,450 | 370,425 | 32,025 | 92.0 | 59,825 | 53.5 |
| 1995 ^{(a)(b)} | 427,757 | 370,425 | 57,332 | 86.6 | 59,825 | 95.8 |
| 1996 | 424,351 | 370,425 | 53,926 | 87.3 | 59,825 | 90.1 |
| 1996 | 454,514 | 411,316 | 43,198 | 90.5 | 59,239 | 72.9 |

^(a) Revised actuarial assumptions or methods

^(b) Plan amended

Amounts reported in the schedule do not include assets or liabilities for postemployment healthcare benefits.

Other Postemployment Benefits

In addition to providing pension benefits, SHIPRS pays health insurance claims on behalf of all persons receiving a monthly pension or survivor benefit and Medicare Part B basic premiums for those eligible benefit recipients upon proof of coverage. The number of active contributing plan participants, as of December 31, 1996, was 1,375. The cost of retiree healthcare benefits is recognized as claims are incurred and premiums are paid. The calendar year 1996 expense was \$2 million.

Healthcare benefits are established in Chapter 5505, Ohio Revised Code, and are advance funded by the employer on the same actuarially determined basis (using the same assumptions) as are the SHIPRS pension benefits, as previously discussed. In addition, the assumption that projected healthcare premiums would increase at a rate of five percent, compounded annually, due to inflation was also used in the valuation. The net assets available for benefits allocated to healthcare costs at December 31, 1996 was \$73.8 million, and include investments, which are carried at fair value, as described above.

As of December 31, 1996, the actuarial accrued liability for healthcare benefits, the portion of the present value of plan promises to pay benefits in the future that are not covered by future normal cost contributions, was \$61.6 million; the prefunded actuarial accrued liability for healthcare benefits at that date was \$12.2 million.

Employer contributions are made in accordance with actuarially determined requirements. The employer contribution requirement was approximately \$2.9 million or 4.8 percent of active member payroll for the period January 1 to December 31, 1996.

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

For the year ended June 30, 1997, NOTE 15 summarizes changes in general obligation bonds reported in the General Long-Term Obligations Account Group.

Future general obligation debt service requirements, as of June 30, 1997, are as follows (in thousands):

| Year Ending June 30, | Principal | Interest | Total |
|--------------------------|-------------|-----------|-------------|
| 1998 | \$ 164,860 | \$ 66,169 | \$ 231,029 |
| 1999 | 144,545 | 59,333 | 203,878 |
| 2000 | 132,860 | 53,282 | 186,142 |
| 2001 | 135,425 | 48,242 | 183,667 |
| 2002 | 137,975 | 42,914 | 180,889 |
| Thereafter | 1,040,190 | 210,219 | 1,250,409 |
| | 1,755,855 | 480,159 | 2,236,014 |
| Less: Unaccrued Discount | 157,259 | — | 157,259 |
| Total | \$1,598,596 | \$480,159 | \$2,078,755 |

NOTE 11 SPECIAL OBLIGATION BONDS

Special obligation bonds reported in the General Long-Term Obligations Account Group have been authorized and issued by the Ohio Building Authority (OBA), the Ohio Public Facilities Commission (OPFC), and the Treasurer of State for the Department of Education. OBA bonds finance the capital costs of categories of facilities including correctional facilities and office buildings for State departments and agencies and, in some cases, related facilities for local governments. OPFC bonds finance the cost of capital facilities for the state-supported institutions of higher education, mental hygiene and retardation, and parks and recreation. Elementary and Secondary Education Bonds issued by the Treasurer of State for the Department of Education finance the cost of capital facilities for local school districts.

OBA bonds issued for State agencies are reflected as special obligation bonds, and OBA bonds issued for related local government facilities are shown as revenue bonds (See NOTE 12).

Pledges of lease rental payments from appropriations made to the General Fund and the Highway Safety and Highway Operating Special Revenue funds, moneys held by trustees pursuant to related trust agreements, and other receipts, as required by the respective bond documents secure OBA, OPFC, and the Elementary and Secondary Education bonds.

Special obligation bonds outstanding and bonds authorized but unissued, as of June 30, 1997, are as follows (in thousands):

| Organization | Fiscal Years Issued | Average Net Interest Rates | Maturing Through Fiscal Year | Outstanding Balance | Authorized But Unissued |
|------------------------------------|---------------------|----------------------------|------------------------------|---------------------|-------------------------|
| Ohio Building Authority | 1986-97 | 4.6%-9.0% | 2017 | \$1,988,987 | \$ 750,200 |
| Ohio Public Facilities Commission | 1986-97 | 4.5%-7.3% | 2012 | 2,559,040 | 1,095,470 |
| Elementary and Secondary Education | 1995-97 | 5.1%-5.8% | 2007 | 116,810 | 400,000 |
| Total Special Obligation Bonds | | | | \$4,664,837 | \$2,285,670 |

NOTE 10 GENERAL OBLIGATION BONDS

The State has pledged its faith and credit for the payment of principal and interest on general obligation bonds accounted for and included with obligations in the General Long-Term Obligations Account Group.

At various times since 1921, Ohio voters, by 14 constitutional amendments (the last adopted in November 1995), have authorized the incurrence of general obligation debt for the construction and improvement of local infrastructure improvements, highways, research and development of coal technology, parks, recreation, and natural resources, and state facilities. In practice, general obligation bonds are retired over periods of 10 to 25 years.

A 1987 constitutional amendment authorized the issuance of \$1.2 billion of general obligation bonds for infrastructure improvements (Infrastructure Bonds), of which no more than \$120 million may be issued in any calendar year. As of June 30, 1997, the General Assembly had authorized \$1.2 billion of these bonds to be sold, of which approximately \$1.08 billion had been issued and \$94.3 million (net of unaccrued discount of \$157.3 million on deep-discount bonds issued) was outstanding. In November 1995, voters approved another constitutional amendment to authorize the issuance of an additional \$1.2 billion of Infrastructure Bonds, of which no more than \$120 million (plus any prior years' principal amounts not issued under the new authorization) may be sold in any state fiscal year. As of June 30, 1997, the General Assembly had authorized \$120 million in Infrastructure Bonds to be issued under the provisions of the 1995 constitutional amendment.

A 1968 constitutional amendment authorized the issuance of Highway Obligations in amounts up to \$100 million in any calendar year, with no more than \$500 million in principal amount outstanding at any one time. The aggregate of General Assembly authorizations, as of June 30, 1997, for Highway Obligations, was \$1.86 billion, of which \$1.75 billion had been issued and \$357.7 million was outstanding. Pursuant to a constitutional amendment voters approved in November 1995, the remaining \$109.7 million in General Assembly authorizations for the issuance of Highway Obligations expired December 31, 1996.

Through approval of the November 1995 amendment, voters authorized the issuance of Highway Capital Improvements Bonds in amounts up to \$220 million in any fiscal year (plus any prior fiscal years' principal amounts not issued under the new authorization), with no more than \$1.2 billion outstanding at any time. As of June 30, 1997, the General Assembly had authorized the issuance of \$432.5 million in Highway Capital Improvements Bond, of which \$175 million had been issued and \$170 million was outstanding.

Coal Research and Development Bonds and Parks, Recreation, and Natural Resources Bonds may be issued as long as the outstanding principal amounts do not exceed \$100 and \$200 million, respectively. As of June 30, 1997, the General Assembly had authorized the issuance of \$150 million in Coal Research and Development Bonds, of which \$95 million had been issued and \$32.4 million was outstanding. Legislative authorizations for the issuance of Parks and Natural Resources Bonds totaled \$180 million, as of June 30, 1997, of which \$100 million had been issued and \$94.2 million was outstanding.

General obligation bonds outstanding and bonds authorized but unissued, as of June 30, 1997, are as follows (in thousands):

| Purpose | Fiscal Years Issued | Average Net Interest Rates | Maturing Through Fiscal Year | Outstanding Balance | Authorized But Unissued |
|--|---------------------|----------------------------|------------------------------|---------------------|-------------------------|
| Infrastructure Improvements | 1990-97 | 4.8%-8.2% | 2017 | \$ 944,346 | \$240,000 |
| Highway Obligations | 1988-97 | 4.5%-6.5% | 2005 | 357,700 | — |
| Highway Capital Improvements | 1997 | 4.7%-4.8% | 2007 | 170,000 | 257,500 |
| Coal Research and Development | 1992-96 | 4.5%-5.6% | 2005 | 32,350 | 55,000 |
| Parks, Recreation, and Natural Resources | 1995-97 | 4.5%-5.6% | 2012 | 94,200 | 80,000 |
| Total General Obligation Bonds | | | | \$1,598,596 | \$632,500 |

NOTE 11 SPECIAL OBLIGATION BONDS (Continued)

For the year ended June 30, 1997, NOTE 15 summarizes changes in special obligation bonds reported in the General Long-Term Obligations Account Group.

Future special obligation debt service requirements, as of June 30, 1997, are as follows (in thousands):

| Year Ending June 30, | Principal | Interest | Total |
|----------------------|--------------------|--------------------|--------------------|
| 1998 | \$ 430,333 | \$ 243,664 | \$ 673,997 |
| 1999 | 408,188 | 225,111 | 633,299 |
| 2000 | 396,292 | 205,320 | 601,612 |
| 2001 | 387,143 | 181,285 | 568,428 |
| 2002 | 360,431 | 157,520 | 517,951 |
| Thereafter | 2,682,450 | 678,740 | 3,361,190 |
| Total | \$4,664,837 | \$1,681,640 | \$6,356,477 |

In August 1996, the OBA issued \$70 million in special obligation bonds with an average interest rate of 4.8 percent to retire \$69 million in bonds with an interest rate of 8.4 percent. In December 1996, the OBA issued \$70 million in special obligation bonds with an average interest rate of 4.9 percent to retire \$99 million in bonds with an interest rate of 6.2 percent. The net proceeds of the refunding bonds, plus an additional \$1.9 million and \$31.1 million from existing debt service moneys were placed with a trustee in August and December, respectively, to retire the bonds at the call date, and consequently, the liability associated with the refunded bonds has been removed from the General Long-Term Obligations Account Group.

The refunding transactions in August and December reduced the OBA's total future debt service payments by about \$16 million and \$40 million and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$10 million and \$9 million, respectively.

In April 1997, the OPFC issued \$132.4 million in special obligation bonds to advance refund \$186.3 million in bonds. The net proceeds of approximately \$133.1 million (after payment of approximately \$625 thousand for underwriter's discount), plus an additional \$64.7 million from existing debt service moneys, were used to purchase U.S. government securities, which were placed in an irrevocable trust with an agent to provide for all future debt service payments on the refunded principal. As a result, the advance refunded bonds are considered defeased under the appropriate trust agreement, and the liability for the advance refunded bonds has been removed from the General Long-Term Obligations Account Group.

The OPFC refunded the special obligation bonds to reduce its debt service over the next seven years by approximately \$27.9 million to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of approximately \$6.4 million.

In prior years, the OBA and OPFC defeased certain bond issues by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the various trust accounts' assets and liabilities for the defeased bonds are not included in the State's financial statements. As of June 30, 1997, \$479.7 million and \$129.1 million of OBA and OPFC bonds outstanding, respectively, are considered defeased.

NOTE 12 REVENUE BONDS AND NOTES

The State Constitution permits State agencies and authorities to issue bonds that are not supported by the faith and credit of the State. These bonds pledge income derived from user fees and rentals on the acquired or



NOTE 12 REVENUE BONDS AND NOTES (Continued)

constructed assets to pay the debt service. Issuers for the primary government include the Treasurer of State for the Ohio Department of Development's Office of Financial Incentives, and the Ohio Building Authority (OBA), which has issued revenue bonds on its own behalf and for the Ohio Bureau of Workers' Compensation. Major issuers for the State's component units include the Ohio Water Development Authority, the Ohio State University, the University of Cincinnati, and the University of Toledo.

A. Primary Government

Revenue bonds accounted for in the Enterprise Fund finance the costs of the William Green Building, which houses the main operations of the Ohio Bureau of Workers' Compensation in Columbus.

OBA revenue bonds reported in the Internal Service Fund finance the costs of office buildings and related facilities for shared use by local governments. The principal and interest requirements on these bonds are paid from rentals received under the long-term lease agreements discussed in NOTE 6.

Economic development bonds, issued by the Treasurer of State for the Office of Financial Incentives' Direct Loan Program, provide financing for loans and loan guarantees to businesses within the State, which cannot obtain conventional financing for economic development projects that create or retain jobs in the State. The bonds are backed with profits derived from the sale of spirituous liquor by the Ohio Department of Liquor Control and pledged moneys and related investment earnings held in reserve under a trust agreement with a financial institution. As of June 30, 1997, approximately \$167 million in economic development bonds payable from liquor profits were outstanding.

Additionally, taxable economic development bonds in the amount of \$4.6 million, issued by the Treasurer of State in connection with the Ohio Enterprise Bond Program, were outstanding, as of June 30, 1997. Proceeds from this bond issuance in fiscal year 1988 were placed in a reserve with trustee and are pledged to support, in part, the payment of principal and interest on other economic development bonds issued under this program.

During fiscal year 1997, \$10 million of Ohio Enterprise Bonds were issued under the authority of Section 166.09, Ohio Revised Code, to provide private entities with capital financing for economic development projects. The Ohio Enterprise Bonds, which are reported as "no commitment" debt in NOTE 16, are primarily secured by the property financed, and payments by the borrowing entities are used to retire the debt and to service interest payments.

Revenue bonds outstanding for the primary government, as of June 30, 1997, are as follows (in thousands):

| Enterprise: Organization | Fiscal Year Issued | Interest Rates | Maturing Through Fiscal Year | Outstanding Balance |
|---|--------------------------|-------------------|------------------------------------|------------------------|
| Ohio Building Authority/ Bureau of Workers' Compensation | 1994 | 3.3%-5.1% | 2014 | \$202,109 |
| Internal Service: Ohio Building Authority | | | | |
| General Long-Term Obligations: Treasurer of State/Economic Development | 1986-97 | 4.5%-9.8% | 2008 | 40,169 |
| Total Revenue Bonds | 1987 | 5.7%-9.7%* | 2022 | 171,595 |
| | | | | <u>\$413,873</u> |

*Average net interest rates

NOTE 12 REVENUE BONDS AND NOTES (Continued)

For the year ended June 30, 1997, NOTE 15 summarizes changes in revenue bonds reported in the General Long-Term Obligations Account Group.

Future bond service requirements for revenue bonds of the primary government, as of June 30, 1997, are as follows (in thousands):

| Year Ending June 30, | Enterprise Fund | | Internal Service Fund | | General Long-Term Obligations Account Group | |
|---------------------------|-----------------|-----------|-----------------------|----------|---|-----------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 1998 | \$ 5,000 | \$ 9,655 | \$ 2,939 | \$ 5,288 | \$ 4,790 | \$ 12,589 |
| 1999 | 6,000 | 9,455 | 3,108 | 5,289 | 5,270 | 12,250 |
| 2000 | 7,000 | 9,209 | 3,265 | 5,288 | 5,655 | 11,871 |
| 2001 | 8,000 | 8,915 | 3,432 | 5,290 | 5,060 | 11,456 |
| 2002 | 9,000 | 8,517 | 3,610 | 5,293 | 5,060 | 11,024 |
| Thereafter | 170,255 | 57,225 | 24,300 | 8,112 | 144,760 | 123,271 |
| Total | 205,255 | 102,976 | 40,654 | 18,206 | 171,595 | 182,511 |
| Less Unamortized Discount | 3,146 | — | 485 | — | 485 | — |
| Total | \$202,109 | \$102,976 | \$40,169 | \$18,206 | \$171,110 | \$182,511 |

On October 1, 1996, the Treasurer of State issued \$66.8 million in taxable Series 1996 Development Assistance Bonds to advance refund \$54.4 million of outstanding Series 1989 Liquor Profits Refunding Bonds. The net proceeds of \$65.8 million (after payment of \$944,532 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 1989 bonds. As a result, the Series 1989 bonds are considered to be defeased and the liability for those bonds has been removed from the General Long-Term Obligations Account Group.

The State advance refunded the Series 1989 bonds to reduce its total debt service payments over the next four years by approximately \$11.6 million. The refunding resulted in an economic loss of \$2.1 million. The economic loss is the difference between the present value of the debt service payments on the old and new debt.

B. Component Units

Ohio Water Development Authority (OWDA) bonds and notes provide financing to local government authorities (LGA) in the State of Ohio for the acquisition, construction, maintenance, repair, and operation of water development projects and solid waste projects, including the construction of sewage and related water treatment facilities. The principal and interest requirements on OWDA obligations are generally paid from investment earnings, federal funds and/or repayments of loan principal and interest thereon from the LGAs.

A portion of OWDA's outstanding bonds have been issued for the Water Pollution Control Loan Program, which provides low-cost financing to LGAs for the construction of wastewater treatment facilities. In the event pledged program revenues, which consist of interest requirements from the LGAs as reimbursement for construction costs, are not sufficient to meet debt service requirements for the bonds, the General Assembly may appropriate moneys for the full replenishment of a bond reserve. As of December 31, 1996, approximately \$376.8 million in bonds were outstanding for this program. Future bond service requirements for the Water Pollution Control Loan Program revenue bonds, as of December 31, 1996, are as follows (in thousands):

NOTE 12 REVENUE BONDS AND NOTES (Continued)

| Year Ending December 31, | Principal | Interest | Total |
|--------------------------|-----------|-----------|-----------|
| 1997 | \$ 13,150 | \$ 19,773 | \$ 32,923 |
| 1998 | 15,880 | 19,145 | 35,025 |
| 1999 | 16,900 | 18,392 | 35,292 |
| 2000 | 17,275 | 17,588 | 34,863 |
| 2001 | 17,820 | 16,709 | 34,529 |
| Thereafter | 293,070 | 115,378 | 408,448 |
| Total | 374,095 | 206,985 | 581,080 |
| Add: Unamortized Premium | 2,677 | — | 2,677 |
| Total | \$376,772 | \$206,985 | \$583,757 |

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

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

Future bond service requirements for revenue bonds and notes reported in the component unit funds, as of June 30, 1997, are as follows (in thousands):

| Year Ending December 31 or June 30, | Ohio Water Development Authority (12/31/1996) | | | Ohio State University | | | University of Cincinnati | | |
|-------------------------------------|---|-----------|-------------|-----------------------|----------|-----------|--------------------------|-----------|-----------|
| | Principal | Interest | Total | Principal | Interest | Total | Principal | Interest | Total |
| 1997 | \$ 68,720 | \$ 67,792 | \$ 136,512 | \$ 18,173 | \$ 8,130 | \$ 26,303 | \$ 38,169 | \$ 11,453 | \$ 49,622 |
| 1998 | 81,315 | 64,311 | 145,626 | 19,633 | 7,302 | 25,935 | 10,241 | 9,255 | 19,496 |
| 1999 | 77,020 | 60,431 | 137,451 | 17,139 | 6,518 | 23,652 | 9,279 | 8,735 | 18,014 |
| 2000 | 79,390 | 56,497 | 135,887 | 16,039 | 5,756 | 21,795 | 8,559 | 8,223 | 16,782 |
| 2001 | 79,985 | 52,913 | 132,898 | 16,398 | 4,987 | 21,595 | 9,115 | 7,733 | 16,848 |
| 2002 | 809,340 | 339,488 | 1,248,828 | 89,597 | 19,829 | 109,426 | 122,155 | 53,820 | 175,975 |
| Thereafter | 1,795,770 | 641,432 | 1,937,202 | 176,174 | 52,532 | 228,706 | 197,518 | 99,219 | 296,737 |
| Less Unamortized Discount | 30,216 | — | 30,216 | — | — | — | — | — | — |
| Total | \$1,265,554 | \$641,432 | \$1,906,986 | \$176,174 | \$52,532 | \$228,706 | \$197,518 | \$99,219 | \$296,737 |

| Year Ending December 31 or June 30, | University of Toledo | | | Other Component Units | | | Total Component Units | | |
|-------------------------------------|----------------------|----------|-----------|-----------------------|-----------|-----------|-----------------------|-------------|-------------|
| | Principal | Interest | Total | Principal | Interest | Total | Principal | Interest | Total |
| 1997 | \$ 3,220 | \$ 4,765 | \$ 7,985 | \$ 23,625 | \$ 14,760 | \$ 38,385 | \$ 68,720 | \$ 67,792 | \$ 136,512 |
| 1998 | 2,962 | 4,559 | 7,484 | 14,778 | 13,960 | 28,738 | 164,502 | 103,419 | 267,921 |
| 1999 | 3,096 | 4,409 | 7,489 | 14,793 | 13,266 | 28,059 | 123,597 | 89,507 | 213,104 |
| 2000 | 3,273 | 4,251 | 7,476 | 14,599 | 12,555 | 27,154 | 123,676 | 89,425 | 213,101 |
| 2001 | 3,273 | 4,082 | 7,312 | 15,061 | 11,827 | 26,888 | 122,407 | 83,698 | 206,105 |
| 2002 | 69,523 | 42,587 | 112,112 | 208,046 | 99,939 | 307,985 | 44,004 | 28,639 | 72,643 |
| Thereafter | 85,205 | 64,653 | 149,858 | 290,902 | 166,307 | 457,209 | 1,398,663 | 555,663 | 1,954,326 |
| Less Unamortized Discount | — | — | — | — | — | — | 2,045,969 | 1,024,143 | 3,069,712 |
| Total | \$85,205 | \$64,653 | \$149,858 | \$290,902 | \$166,307 | \$457,209 | \$2,045,969 | \$1,024,143 | \$3,069,712 |

NOTE 13 CERTIFICATES OF PARTICIPATION

As of June 30, 1997, approximately \$26.6 million in certificate of participation obligations were reported in the General Long-Term Obligations Account Group. In fiscal year 1992, the Department of Transportation issued \$8.7 million of certificates of participation obligations to finance the acquisition of the Paulhandle Rail Line Project. During fiscal year 1996, the Department also sold \$10 million in certificates of participation obligations to finance State assistance to the Greater Cleveland Regional Transit Authority for a share of the Cleveland Waterfront Transit Line Project's construction cost, and \$10.2 million in obligations to provide assistance to the Rickenbacker Port Authority for facility improvements at the Rickenbacker International Airport in Franklin and Pickaway counties.

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

Obligations outstanding for the primary government under certificate of participation financing arrangements, as of June 30, 1997, are as follows (in thousands):

| Project | Fiscal Year Issued | Interest Rates | Maturing Through Fiscal Year | Outstanding Balance |
|--|--------------------|----------------|------------------------------|---------------------|
| General Long-Term Obligations: | | | | |
| Department of Transportation: | | | | |
| Panhandle Rail Line Project | 1992 | 5.0%-6.5% | 2012 | \$ 7,475 |
| Waterfront Transit Line Project | 1996 | 4.5%-8.0% | 2003 | 9,000 |
| Rickenbacker Port Authority Improvements | 1996 | 6.13% | 2015 | 10,155 |
| Total Certificates of Participation Obligations | | | | \$26,630 |

As of June 30, 1997, the primary government's future commitments under the certificate of participation financing arrangements are as follows (in thousands):

| Year Ending June 30, | General Long-Term Obligations Account Group | |
|----------------------|---|-----------------|
| | Principal | Interest |
| 1998 | \$ 1,570 | \$ 1,542 |
| 1999 | 1,850 | 1,430 |
| 2000 | 2,175 | 1,308 |
| 2001 | 2,285 | 1,198 |
| 2002 | 2,405 | 1,079 |
| Thereafter | 16,345 | 6,618 |
| Total | \$26,630 | \$13,175 |

For the year ended June 30, 1997, NOTE 15 summarizes changes in certificate of participation obligations reported in the General Long-Term Obligations Account Group.

For the State's component units, approximately \$86.8 million in certificate of participation obligations are reported in the College and University Funds. The obligations finance building construction costs at the Ohio State University and University of Cincinnati.

NOTE 13 CERTIFICATES OF PARTICIPATION (Continued)

As of June 30, 1997, future commitments under the certificate of participation financing arrangements for the State's component units are as follows (in thousands):

| Year Ending December 31 or June 30, | Ohio State University | | University of Cincinnati | | Total Component Units | |
|-------------------------------------|-----------------------|--------------|--------------------------|-----------------|-----------------------|-----------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 1998 | \$ 480 | \$ 163 | \$ 643 | \$ 320 | \$ 4,530 | \$ 800 |
| 1999 | 480 | 146 | 636 | 250 | 4,446 | 740 |
| 2000 | 515 | 128 | 646 | 1,023 | 5,210 | 1,540 |
| 2001 | 530 | 109 | 656 | 1,705 | 5,847 | 2,235 |
| 2002 | 570 | 87 | 697 | 1,770 | 6,838 | 2,340 |
| Thereafter | 1,630 | 113 | 1,743 | 77,540 | 128,795 | 79,170 |
| Total | \$4,215 | \$746 | \$4,961 | \$82,610 | \$22,056 | \$86,825 |

NOTE 14 OTHER LONG-TERM OBLIGATIONS

As of June 30, 1997, other general long-term obligations of the State reported in the General Long-Term Obligations Account Group are as follows (in thousands):

| | |
|--|--------------------|
| Compensated Absences (A) | \$ 276,547 |
| Lease Agreements (B) | 12,072 |
| Judgments, Settlements, and Claims (C) | 122,438 |
| Litigation Liabilities (C) | 37,310 |
| Workers' Compensation Obligation (D) | 561,900 |
| Total Other General Long-Term Obligations | \$1,010,267 |

For the year ended June 30, 1997, NOTE 15 summarizes the changes in other general long-term obligations reported in the General Long-Term Obligations Account Group.

A. Compensated Absences

To lessen the impact of terminal leave pay on a given State agency's budget, an accrued leave funding program was instituted by law in 1982. State agencies must contribute a percentage of gross payroll to a common pool of resources from which terminal leave expenditures/expenses are paid. The amount of cash equity with Treasurer and related interest receivable available to satisfy terminal pay claims at June 30, 1997 was approximately \$27.2 million. These and related assets are reported as part of the Payroll Withholding and Fringe Benefits Agency Fund.

The compensated absence liability for the primary government's proprietary funds is reported net of the funds' portion of accrued leave funding and is included in "Accrued Liabilities." The compensated absence liability for the primary government's governmental funds is also reported net of the funds' portion of the accrued leave funding and is reported as part of the General Long-Term Obligations Account Group.

For the primary government, the gross compensated absences liability, as of June 30, 1997, was \$336.5 million, of which \$35.6 million is allocable to the proprietary funds and \$300.9 million is allocable to the General Long-Term Obligations Account Group. The net (after reduction of the \$27.2 million) compensated absence liability, as of June 30, 1997, was \$309.3 million, of which \$32.8 million is reported in the proprietary funds and \$276.5 million is reported in the General Long-Term Obligations Account Group.

NOTE 14 OTHER LONG-TERM OBLIGATIONS (Continued)

For the State's component units, the compensated absences liability, as of June 30, 1997, in the amount of \$178.2 million is included in "Accrued Liabilities."

B. Lease Agreements

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

Assets acquired through capital leasing are valued at the lower of fair market value or the present value of the future minimum lease payments at the lease's inception. The noncurrent portion of capital lease obligations for the proprietary fund types are reported in those funds as long-term obligations. The related assets and depreciation of these assets are included in the proprietary funds. Capital lease obligations for the governmental fund types are reported in the General Long-Term Obligations Account Group and the related assets are reported in the General Fixed Assets Account Group.

Operating leases (leases on assets not recorded in the combined balance sheet) contain various renewal options as well as some purchase options.

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

The primary government's total operating lease expenditures/expenses for fiscal year 1997 were approximately \$93.4 million. Future minimum lease commitments for operating leases and capital leases judged to be noncancelable, as of June 30, 1997, are as follows (in thousands):

| Year Ending June 30, | CAPITAL LEASES | | | |
|--|------------------|-----------------|-----------------------|-------------------------------|
| | Operating Leases | Enterprise Fund | Internal Service Fund | General Long-Term Obligations |
| 1998 | \$7,074 | \$ 9,862 | \$20 | \$ 5,438 |
| 1999 | 1,818 | 6,575 | — | 4,295 |
| 2000 | 87 | — | — | 1,956 |
| 2001 | 78 | — | — | 1,542 |
| 2002 | — | — | — | 349 |
| Thereafter | — | — | — | — |
| Total Minimum Lease Payments | \$9,057 | 16,437 | 20 | 13,680 |
| Less Amount Representing Interest | — | 832 | — | 1,508 |
| Present Value of Net Minimum Lease Payments | — | \$15,605 | \$20 | \$12,072 |
| | | | | \$27,697 |

As of June 30, 1997, the primary government had the following fixed assets (net of accumulated depreciation for proprietary funds) under capital leases, which are reported under "Accrued Liabilities" in the proprietary funds (in thousands):

NOTE 14 OTHER LONG-TERM OBLIGATIONS (Continued)

| | Enterprise Fund | Internal Service Fund | General Fixed Assets | Total |
|--------------|-----------------|-----------------------|----------------------|-----------------|
| Equipment | \$15,605 | \$32 | \$28,193 | \$43,830 |
| Vehicles | — | — | 37 | 37 |
| Total | \$15,605 | \$32 | \$28,230 | \$43,867 |

Amortization expense for the proprietary funds is included with depreciation expense.

C. Judgments, Settlements, and Claims/Litigation Liabilities

The Ohio Department of Education has been involved with several school desegregation court cases filed against the State by various local boards of education. In cases when the judgment went against the State, the courts decided that the State was responsible for sharing in all past and future desegregation costs. As of June 30, 1997, the State was responsible for an estimated \$82.7 million liability for past desegregation costs, which is recorded in the General Long-Term Obligations Account Group until such time that it becomes payable from the General Fund.

Additionally, the State has accrued approximately \$36.6 million for anticipated federal program disallowances, \$2.8 million for legal costs, and \$316 thousand for claims payable under the Disability Assistance Program that the Ohio Department of Human Services administers.

For information on the State's loss contingencies arising from pending litigation, see NOTE 23.

D. Workers' Compensation Obligation

The State's primary government is permitted to pay its workers' compensation liability on a terminal funding (pay-as-you-go) basis. As a result, the Workers' Compensation Enterprise Fund recognized an unbilled premium receivable for the State's portion of its actuarially determined liability for compensation, which is recorded in the General Long-Term Obligations Account Group, in the amount of \$561.9 million.

E. Liabilities Payable from Restricted Assets

Deferred Prize Awards

Deferred prize awards payable in installments over future years totaling approximately \$1.34 billion, as of June 30, 1997, are recorded as "Liabilities Payable from Restricted Assets" at present value based upon interest rates the Treasurer of State provides the Ohio Lottery Commission Enterprise Fund. The interest rates, ranging from four to 11.7 percent, represent the expected long-term rate of return on the assets restricted for the payment of deferred prize awards. Once established for a particular deferred prize award, the interest rate does not fluctuate with changes in the expected long-term rate of return. The difference between the present value and gross amount of the obligations is amortized into income over the terms of the obligations using the interest method.

NOTE 14 OTHER LONG-TERM OBLIGATIONS (Continued)

The present value of future payments of unpaid prize awards, as of June 30, 1997, is as follows (in thousands):

| Year Ending June 30, | |
|----------------------------|--------------------|
| 1996 | \$ 158,033 |
| 1998 | 157,875 |
| 2000 | 157,742 |
| 2001 | 157,705 |
| 2002 | 157,634 |
| Thereafter | 1,532,901 |
| | <u>2,321,890</u> |
| Less: Unamortized Discount | 977,144 |
| Net Prize Liability | <u>\$1,344,746</u> |

Prizes can be claimed within six months of the drawing date for on-line games and within six months of the closing date for instant games. After the expiration of the statutory six-month period, the prize liability is reduced by the amount estimated for unclaimed prizes.

Tuition Benefits

The actuarial present value of future tuition benefits payable from the Tuition Trust Authority Enterprise Fund totaling \$208.8 million, as of June 30, 1997, are recorded as "Liabilities Payable from Restricted Assets." The valuation method reflects the present value of estimated tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition increases at state universities and state community colleges and termination of plan participation. The following assumptions were used in the actuarial determination of tuition benefits payable: 7.5 percent rate of return, compounded annually, on the investment of current and future assets; a projected tuition increase of 6.0 percent, compounded annually; and a 3.0 percent Consumer Price Index (CPI) inflation rate. The assumed rate of projected tuition increase is a compounded average result. Tuition rates are assumed to grow based on a formula reflecting CPI, student enrollment, and proportion to total expenditures covered by tuition.

F. Reserve for Compensation

The Workers' Compensation Enterprise Fund provides benefits to employees for losses sustained from job-related injury, disease, or death. The Bureau has computed a reserve for compensation, as of June 30, 1997, in the amount of \$12.86 billion. The reserve, which includes estimates for reported claims and claims incurred but not reported, is reported as "Workers' Compensation Benefits Payable."

Changes in general long-term obligations, for the year ended June 30, 1997, are as follows (in thousands):

| Balance, as of July 1, 1996 (as restated) | General Obligation Bonds (NOTE 10) | Special Obligation Bonds (NOTE 11) | Revenue Bonds (NOTE 12) | Certificates of Participation (NOTE 13) | Other General Long-Term Obligations (NOTE 14) | Total |
|---|---|---|-------------------------------|--|---|--------------------|
| | \$1,304,564 | \$4,448,836 | \$ 67,490 | \$27,895 | \$1,028,089 | \$6,876,874 |
| Additions: | | | | | | |
| Debt Issues | 445,000 | 1,034,391 | 168,740 | — | — | 1,648,131 |
| Deep-Discount Accretions | 14,872 | 2,885 | — | — | — | 17,757 |
| Increase in Compensated Absences | — | — | — | — | 4,868 | 4,868 |
| Increase in Lease Obligations | — | — | — | — | 3,970 | 3,970 |
| Increase in Judgments, Settlements, and Claims | — | — | — | — | 44,386 | 44,386 |
| Increase in Litigation Liabilities | — | — | — | — | 32,310 | 32,310 |
| Total Additions | 459,872 | 1,037,276 | 168,740 | — | 85,534 | 1,751,422 |
| Deductions: | | | | | | |
| Debt Refinements, Terminations, and Defalcations | 165,840 | 821,275 | 64,635 | 1,265 | — | 1,053,015 |
| Decrease in Lease Obligations | — | — | — | — | 4,940 | 4,940 |
| Decrease in Judgments, Settlements, and Claims | — | — | — | — | 59,841 | 59,841 |
| Decrease in Litigation Liabilities | — | — | — | — | 3,375 | 3,375 |
| Decrease in Workers' Compensation Obligation | — | — | — | — | 35,200 | 35,200 |
| Total Deductions | 165,840 | 821,275 | 64,635 | 1,265 | 103,356 | 1,156,371 |
| Balance, as of June 30, 1997 | \$1,598,598 | \$4,664,837 | \$171,595 | \$26,630 | \$1,010,267 | \$7,471,925 |

Fiscal year 1997 additions to the general obligation bonds, special obligation bonds, and revenue bonds do not include discounts and bond issuance costs of approximately \$600 thousand, \$6.7 million, and \$1.9 million, respectively, which are netted with bond proceeds reported on the operating statement.

NOTE 16 NO COMMITMENT DEBT

The State of Ohio by action of the General Assembly created various financing authorities for the expressed purpose of making available to non-profit and, in some cases, for profit private entities lower cost sources of capital financing for facilities and projects found to be for a public purpose. Fees are assessed to recover related processing and application costs incurred. The authorities' debt instruments represent limited obligations payable solely from payments made by the borrowing entities. Most of the bonds are secured by the property financed. Upon repayment of the bonds, ownership of acquired property transfers to the entity served by the bond issuance. This debt is not deemed to constitute debt of the State or pledge of the faith and credit of the State. Accordingly, these bonds are not reflected in the accompanying financial statements.

As of June 30, 1997, revenue bonds and notes outstanding that represent "no commitment" debt for the State are as follows (in thousands):

| Organization | Outstanding Amount |
|--|-----------------------|
| Ohio Department of Development: | |
| Ohio Housing Finance Agency | \$1,801,487 |
| Ohio Enterprise Bond Program | 120,165 |
| Hospital Facilities Bonds | 8,275 |
| Total No Commitment Debt | \$1,929,927 |

NOTE 17 DEFERRED COMPENSATION PLAN

The State of Ohio offers its employees and elected officials a deferred compensation plan created in accordance with Internal Revenue Code Section 457 that is reported in the Deferred Compensation Agency Fund. The plan, available to any public employee, permits participants to defer a portion of their salary and the related tax liability until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State (without being restricted to the provisions of benefits under the plan), subject only to the claim of the State's general creditors. Participants' rights under the plan are equal to those of general creditors of the State in an amount equal to the fair market value of the deferred account for each participant. The Plan Agreement states that the State and the Ohio Public Employees' Deferred Compensation Board, the plan administrator, have no liability for losses under the plan with exception of fraud or wrongful taking.

The State believes that it is unlikely that the assets will be used to satisfy the claims of general creditors in the future, and no assets have been used in the past to satisfy such claims.

The \$852.8 million and \$7.2 million asset balances reported for the primary government and its component units, respectively, on the Combined Balance Sheet -- All Fund Types, Account Groups and Discretely Presented Component Units as "Deposit with Deferred Compensation Plan" represent the State of Ohio's assets actually held by the plan administrator. Plan assets are carried at market value.

In October 1997, the Governmental Accounting Standards Board (GASB) issued Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. The provisions of this statement are effective for periods beginning after December 31, 1998, or when a government complies with the requirements of subsection (g) of IRC Section 457, whichever is earlier. The statement requires state and local governments, which have fiduciary responsibilities for IRC Section 457 plans, to report such plans as expendable trust funds. The statement also requires plan investments to be reported at fair value. Management has not yet determined the impact that GASB Statement No. 32 will have on the State's financial statements.

NOTE 18 ENTERPRISE FUNDS

A. Segment Information

The State has six enterprise funds, which provide for the tuition guarantee program, liquor sales, lottery sales, workers' compensation insurance services, underground state parking facilities, and government audit and management advisory services.

Segment information, as of and for the fiscal year ended June 30, 1997, is as follows (in thousands):

| | Tuition Trust Authority | Liquor Control | Ohio Lottery Commission | Workers' Compensation | Underground Parking Garage | Office of Auditor of State | Total Enterprise Funds |
|--|-------------------------|----------------|-------------------------|-----------------------|----------------------------|----------------------------|------------------------|
| Operating Revenues | \$ 15,201 | \$366,636 | \$2,463,261 | \$ 4,348,344 | \$ 2,373 | \$ 31,466 | \$ 7,227,231 |
| Depreciation | 57 | 587 | 6,622 | 11,575 | 408 | 1,874 | 21,123 |
| Amortization of Premiums/ (Accrual of Discounts) | (350) | — | 99,611 | 371 | — | (27,095) | 2,463,067 |
| Operating Income (Loss) | 2,309 | 95,524 | 752,015 | 1,639,902 | 412 | 28,143 | 28,218 |
| Operating Transfers in | — | 75 | 748,520 | 4,894 | 1,710 | — | 844,745 |
| Operating Transfers out | — | 89,621 | 3,464 | 1,635,008 | (1,231) | 494 | 1,662,462 |
| Net Income (Loss) | 18,677 | 6,050 | — | — | — | — | (Continued) |

STATE OF OHIO
NOTES TO THE FINANCIAL STATEMENTS

NOTE 18 ENTERPRISE FUNDS (Continued)

| | Tuition Trust Authority | Liquor Control | Ohio Lottery Commission | Workers' Compensation | Underground Parking Garage | Office of Auditor of State | Total Enterprise Funds |
|---|-------------------------|----------------|-------------------------|-----------------------|----------------------------|----------------------------|------------------------|
| Fixed Asset Additions | 154 | 4,774 | 1,530 | — | 33 | 3,132 | 9,623 |
| Fixed Asset Disposals | 25 | 330 | 8,856 | 56,900 | 2 | 2,092 | 68,205 |
| Net Working Capital | 20,556 | 18,128 | 148,225 | 1,120,875 | 1,356 | 14,852 | 1,323,992 |
| Increase (Decrease) in Cash & Cash Equivalents | 272 | 3,050 | 26,136 | 645,189 | (816) | 287 | 674,118 |
| Total Assets | 247,316 | 42,414 | 2,679,686 | 24,355,719 | 10,004 | 25,899 | 27,361,038 |
| Bonds and Other Non-current Liabilities Payable | — | — | — | — | — | — | — |
| Operating Revenues | 97 | 2,063 | 8,181 | 13,072,451 | 84 | 4,422 | 13,087,298 |
| Total Equity (Deficits) | 38,126 | 19,804 | 202,119 | 4,898,889 | 8,946 | 17,548 | 5,185,432 |

B. Workers' Compensation Fund

For the Workers' Compensation Enterprise Fund, the reserve for compensation (see NOTE 14F.) consists of reserves for indemnity and medical claims resulting from work-related injuries and illnesses. The estimate for this liability is based on historical claims experience data and assumptions and projections as to future events, including claims frequency, severity, persistency, and inflationary trends for medical claim reserves.

The reserve for compensation adjustment expenses liability, which is included in "Refund and Other Liabilities" in the amount of \$1.6 billion, is an estimate of future expenses to be incurred in the settlement of claims. The estimate for this liability is based on projected claims-related expenses, estimated costs of the Health Partnership Program, and the reserve for compensation.

Management of the Ohio Bureau of Workers' Compensation and the Industrial Commission of Ohio believes that the reported liability estimates are adequate; however, the ultimate liabilities may vary from amounts provided. The methods of making such estimates and for establishing the resulting liabilities are reviewed and updated quarterly based upon current circumstances. Any adjustments resulting from changes in estimates are recognized in the current period. For additional information, refer to the Fund's separate audited financial report, for the fiscal year ended June 30, 1997.

NOTE 19 CHANGES IN CONTRIBUTED CAPITAL

For the fiscal year ended June 30, 1997, changes in contributed capital reported in the primary government's Internal Service Funds are as follows (in thousands):

| | Ohio Data Network | Ohio Penal Industries | Support Services | Total |
|--|-------------------|-----------------------|------------------|----------|
| Contributed Capital Balance, July 1, 1996 | \$28,476 | \$1,497 | \$5,257 | \$35,230 |
| Additions: | | | | |
| Capital Contributions from Other Funds (reported as Residual Equity Transfers out) | — | — | — | — |
| Capital Projects Funds: | | | | |
| Administrative Services Building Improvements | 5,722 | — | — | 5,722 |
| Adult Correctional Building Improvements | — | 15 | — | 15 |
| Total Additions | 5,722 | 15 | — | 5,737 |
| Contributed Capital Balance, June 30, 1997 | \$34,198 | \$1,512 | \$5,257 | \$40,967 |

NOTE 20 FUND EQUITY — OTHER RESERVES AND DESIGNATIONS

A. Primary Government

The "Reserved for Other" account reported for the governmental and expendable trust funds in the primary government's combined balance sheet, as of June 30, 1997, consists of the following (in thousands):

| Reserved for Other: | General | Special Revenue | Capital Projects | Expendable Trust | Total |
|---|------------------|------------------|------------------|------------------|------------------|
| Intergovernmental Receivable | | | | | |
| Advance Payments to Local Government | \$ 21,322 | \$ 41,350 | \$ — | \$ — | \$ 62,672 |
| Inventories | 2,807 | 33,873 | — | — | 36,680 |
| Other Assets — Prepays | — | 431 | — | — | 431 |
| Human Services Stabilization | 111,204 | — | — | — | 111,204 |
| Loan Commitments | — | 40,240 | — | — | 40,240 |
| Health Care Benefits | 8,905 | 6,558 | — | — | 15,463 |
| Advances to Other Funds | — | — | — | 85,076 | 85,076 |
| Office of Minority Financial Incentives | — | — | — | — | — |
| Mini-Loan Deposits | 2,156 | — | — | — | 2,156 |
| Total | \$146,394 | \$173,383 | \$40,243 | \$85,076 | \$445,096 |

Reserved retained earnings for the Enterprise Fund, as of June 30, 1997, are provided for future health care benefits funding from the Liquor Control Fund, the payment of deferred lottery prizes from the Ohio Lottery Commission, and insurance claims payable from the Workers' Compensation Fund in the amounts of \$60 thousand, \$31 million, and \$100.8 million, respectively.

Reserved retained earnings for the Internal Service Fund, as of June 30, 1997, are provided for the funding of future health care benefits in the amount of \$319 thousand.

As of June 30, 1997, designations of the General Fund's unreserved fund balance are as follows (in thousands):

| General Fund | Unreserved, Designated | Unreserved, Designated Fund Balance |
|---|------------------------|-------------------------------------|
| Income Tax Reduction Program | \$262,900 | |
| Public School Building Program | 250,000 | |
| SchoolNet Plus Program | 94,400 | |
| Instructional Materials Education Program | 35,000 | |
| Budget Stabilization | 34,400 | |
| Distance Learning Program | 9,200 | |
| Total Designations | \$685,900 | |

B. Component Units

Reservations of fund balances for the component unit funds, as of June 30, 1997, consist of the following (in thousands):

| Restricted For: | Ohio State University | University of Cincinnati | Other Component Units | Total Component Units |
|---|-----------------------|--------------------------|-----------------------|-----------------------|
| General Operations (includes Auxiliary Enterprises) | \$ 96,894 | \$ 73,281 | \$ 63,360 | \$ 233,535 |
| Loan Programs | 61,068 | 30,507 | 93,803 | 185,378 |
| Endowment and Quasi-Endowment Activities | 621,281 | 674,374 | 124,875 | 1,420,530 |
| Plant Operations | 11,338 | 13,759 | 11,788 | 36,885 |
| Annuity and Life Income | 3,542 | 3,870 | — | 7,412 |
| University Foundations | — | 60,327 | — | 60,327 |
| Grants and Contracts | — | — | 1,828 | 1,828 |
| Student Organizations and Support Services | — | — | 451 | 451 |
| Total Reserved Balance | \$794,123 | \$856,118 | \$296,105 | \$1,946,346 |

NOTE 20 FUND EQUITY — OTHER RESERVES AND DESIGNATIONS (Continued)

As of June 30, 1997, designations of unreserved fund balances reported in the component unit funds consist of the following (in thousands):

| Unreserved, Designated For: | Total Component Units |
|--|-----------------------|
| Educational and General Programs | \$173,723 |
| Auxiliary Enterprises | 13,603 |
| Hospital Operations | 317 |
| Loan Programs | 2,254 |
| Endowment and Quasi-Endowment Activities | 32,689 |
| Plant Operations | 61,522 |
| Total Designations | \$284,108 |

NOTE 21 COMPONENT UNIT FUNDS

Condensed financial statements for the component unit funds, as of and for the fiscal year ended June 30, 1997, are as follows (in thousands):

| | Condensed Balance Sheet — Component Units | | | |
|--|---|-----------------------|--------------------------|-----------------------|
| | Ohio Water Development Authority (12/31/96) | Ohio State University | University of Cincinnati | Other Component Units |
| Assets | | | | |
| Cash Equity with Treasurer | \$ 107 | \$ — | \$ — | \$ — |
| Cash and Cash Equivalents | 6,882 | 31,074 | 3,922 | 75,934 |
| Investments | 725,798 | 1,160,521 | 42,094 | 774,189 |
| Receivables | 1,612,223 | 250,691 | 95,312 | 247,796 |
| Due from Other Funds | 344 | 274,984 | 10,258 | 57,890 |
| Inventories | — | 17,768 | 4,610 | 20,351 |
| Deposit with Deferred Compensation Plan | 739 | — | — | 6,442 |
| Restricted Assets | — | 26,667 | 486,825 | 13,831 |
| Fixed Assets (net of accumulated depreciation) | 277 | 2,238,955 | 985,380 | 4,397,994 |
| Other Assets | 16,216 | 19,019 | 539,814 | 29,529 |
| Total Assets | \$2,362,596 | \$4,019,689 | \$2,168,215 | \$5,623,856 |
| Liabilities | | | | |
| Accounts Payable | \$ 29,658 | \$ 67,866 | \$ 21,595 | \$ 64,767 |
| Accrued Liabilities | 5,686 | 183,910 | 93,347 | 266,531 |
| Intergovernmental Payable | 344 | 274,984 | 10,258 | 309 |
| Due to Other Funds | — | 63,372 | 8,801 | 57,890 |
| Deferred Revenues | 4,855 | 25,361 | 63,143 | 84,536 |
| Retain and Other Liabilities | 739 | — | — | 42,612 |
| Liability for Deferred Compensation | 1,265,554 | 176,174 | 197,518 | 6,442 |
| Revenue Bonds and Notes | — | 4,215 | 82,610 | — |
| Certificates of Participation | — | — | — | — |
| Total Liabilities | 1,308,836 | 795,892 | 477,272 | 895,194 |
| Fund Equity and Other Credits | | | | |
| Investment in General Fixed Assets | — | 2,057,201 | 826,534 | 4,042,241 |
| Total Unreserved Retained Earnings | 1,055,760 | — | — | — |
| Total Fund Balance | — | 1,166,596 | 864,409 | 682,421 |
| Total Fund Equity and Other Credits | 1,055,760 | 3,223,797 | 1,690,943 | 4,724,662 |
| Total Liabilities, Fund Equity and Other Credits | \$2,362,596 | \$4,019,689 | \$2,168,215 | \$5,623,856 |

NOTE 21 COMPONENT UNIT FUNDS (Continued)

Condensed Statement of Changes in Fund Balances — Colleges and Universities

| | Ohio State University | University of Cincinnati | Other Colleges and Universities | Total College and University Component Units |
|---|-----------------------|--------------------------|---------------------------------|--|
| Total Revenues and Other Additions | \$ 1,642,461 | \$ 809,362 | \$ 2,204,388 | \$ 4,656,211 |
| Total Expenditures and Other Deductions | (1,648,111) | (1,105,214) | (2,736,020) | (5,489,345) |
| Transfers from Primary Government | 370,623 | 175,615 | 858,429 | 1,410,667 |
| Net Increase (Decrease) for the Year Before Cumulative Effect of Change in Accounting Principle | 370,973 | (120,237) | 326,797 | 577,533 |
| Cumulative Effect of Change in Accounting Principle | 9,254 | — | (4,182) | 5,072 |
| Net Increase (Decrease) for the Year | 380,227 | (120,237) | 322,615 | 582,605 |
| Fund Balance and Other Credits, July 1 (as restated) | 2,843,570 | 1,811,180 | 4,402,047 | 9,056,797 |
| Fund Balance and Other Credits, June 30 | \$ 3,223,797 | \$ 1,690,943 | \$ 4,724,662 | \$ 9,639,402 |

Condensed Statement of Current Funds Revenues, Expenditures and Other Changes — Colleges and Universities

| | Ohio State University | University of Cincinnati | Other Colleges and Universities | Total College and University Component Units |
|---|-----------------------|--------------------------|---------------------------------|--|
| Total Revenues | \$ 1,232,237 | \$ 414,124 | \$ 1,764,630 | \$ 3,410,991 |
| Expenditures: | | | | |
| Educational and General | 1,024,432 | 486,372 | 2,006,372 | 3,517,176 |
| Auxiliary Enterprises | 110,113 | 51,977 | 334,305 | 496,395 |
| Hospitals | 345,336 | — | 141,393 | 486,729 |
| Total Expenditures | 1,479,881 | 538,349 | 2,482,070 | 4,500,300 |
| Mandatory Transfers, Net | 28,732 | 20,622 | 44,002 | 93,356 |
| Total Expenditures and Mandatory Transfers | 1,508,613 | 558,971 | 2,526,072 | 4,593,656 |
| Other Transfers and Additions (Deductions): | | | | |
| Operating Transfers from Primary Government | 373,287 | 171,932 | 857,455 | 1,402,674 |
| Nonmandatory Transfers, Net | (38,541) | (15,874) | (40,174) | (94,589) |
| Additions (Deductions) | (11,054) | 8,397 | 7,902 | 5,245 |
| Total Other Transfers and Additions (Deductions) | 323,692 | 164,455 | 825,183 | 1,313,330 |
| Net Increase (Decrease) for the Year Before Cumulative Effect of Change in Accounting Principle | 47,316 | 19,608 | 63,741 | 130,665 |
| Cumulative Effect of Change in Accounting Principle | 9,254 | — | — | 9,254 |
| Net Increase in Fund Balances | \$ 56,570 | \$ 19,608 | \$ 63,741 | \$ 139,919 |

NOTE 22 JOINT VENTURES AND RELATED ORGANIZATIONS

A. Joint Ventures

Great Lakes Protection Fund (GLPF)

The Great Lakes Protection Fund is an Illinois nonprofit organization that was formed to further federal and state commitments to the restoration and maintenance of the Great Lakes Basin's ecosystem. The governors of seven of the eight states that border on the Great Lakes comprise the GLPF's membership. Under the GLPF's articles



NOTE 22 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

of incorporation, each state is required to make a financial contribution. Income earned on the contributions provides grants to projects that advance the goals of the Great Lakes Toxic Substances Control Agreement and the binational Great Lakes Quality Agreement.

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

Annually, one-third of the GLPF's net earnings is allocated and paid to member states in proportion to their respective cash contributions to the GLPF. The allocation is based on the amount and period of time the states' contributions were invested. GLPF earnings distributions are to be used by the states to finance projects that are compatible with the GLPF's objectives. Ohio has applied its distribution (approximately \$612 thousand for the year ended December 31, 1996) to the operations of its own protection program, known as the Lake Erie Protection Program, which is modeled after the GLPF.

Required contributions and contributions received from the states, which border the Great Lakes, as of December 31, 1996 (the GLPF's year end), are as follows (in thousands):

| | Contribution Required | Contribution Received | Contribution Percentage |
|--------------|-----------------------|-----------------------|-------------------------|
| Michigan | \$25,000 | \$25,000 | 32.6% |
| Indiana* | 16,000 | — | — |
| Illinois | 15,000 | 10,800 | 14.0 |
| Ohio | 14,000 | 14,000 | 18.2 |
| New York | 12,000 | 12,000 | 15.6 |
| Wisconsin | 12,000 | 12,000 | 15.6 |
| Minnesota | 1,500 | 1,500 | 2.0 |
| Pennsylvania | 1,500 | 1,500 | 2.0 |
| Total | \$97,000 | \$76,800 | 100.0% |

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

Summary financial information for the GLPF, for the fiscal year ended December 31, 1996, is as follows (in thousands):

| | |
|---|------------|
| Cash and Investments | \$ 103,397 |
| Other Assets | 1,048 |
| Total Assets | \$ 104,445 |
| Total Liabilities | \$ 3,282 |
| Total Fund Equity | 101,163 |
| Total Liabilities and Fund Equity | \$ 104,445 |
| Total Revenues and Other Additions | \$ 9,937 |
| Total Expenditures | (6,926) |
| Change in Unrealized Gain on Investments | 5,417 |
| Cumulative Effect of Adoption of Financial Accounting Standards Board Statement No. 24, Accounting for Certain Investments Held by Not for Profit Organizations | 12,027 |
| Net Increase in Fund Equity | \$ 20,455 |

NOTE 22 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

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

Local Community and Technical Colleges

The State's primary government has an ongoing financial responsibility for the funding of six local community colleges and eight technical colleges. With respect to the local community colleges, State of Ohio officials appoint three members of each college's respective nine-member board of trustees; the remaining six members are appointed by county officials. The governing boards of the technical colleges consist of either seven or nine trustees, of which State officials appoint two and three members, respectively; the remaining members are appointed by the local school boards located in the respective technical college district.

The Ohio General Assembly appropriates moneys to these institutions from the General Fund to subsidize operations so that higher education can become more financially accessible to Ohio residents. These expenditures are included in the "Higher Education Support" expenditure function reported in the General Fund. The primary government also provides financing for the construction of these institutions' capital facilities by meeting the debt service requirements for the Higher Education Facilities bonds issued by the Ohio Public Facilities Commission (OPFC) for these purposes. The capital outlay expenditures for the projects financed by the OPFC bond issuances are included in the Higher Education Improvements Capital Projects Fund.

During fiscal year 1997, expenditures reported in the General Fund and the Higher Education Improvements Capital Projects Fund in support of the local community and technical colleges are as follows (in thousands):

| | Higher Education Support Expenditures | Capital Outlay Expenditures | Total |
|---------------------------------------|---------------------------------------|-----------------------------|------------------|
| Local Community Colleges: | | | |
| Cuyahoga Community College | \$ 36,637 | \$ 5,309 | \$ 41,946 |
| Jefferson Community College | 3,346 | 622 | 3,968 |
| Lakeland Community College | 12,390 | 3,204 | 15,594 |
| Lorain County Community College | 13,934 | 2,960 | 16,894 |
| Rio Grande Community College | 3,571 | 1,328 | 5,099 |
| Sinclair Community College | 30,454 | 4,425 | 34,879 |
| Total Local Community Colleges | 100,332 | 18,048 | 118,380 |
| Technical Colleges: | | | |
| Belmont Technical College | 4,230 | 720 | 4,950 |
| Central Ohio Technical College | 3,776 | 1,715 | 5,491 |
| Hocking Technical College | 15,052 | 1,788 | 16,840 |
| Lima Technical College | 5,888 | 3,078 | 8,966 |
| Marion Technical College | 3,117 | 155 | 3,272 |
| Muskingum Technical College | 4,883 | 68 | 4,951 |
| North Central Technical College | 6,235 | 249 | 6,484 |
| Stark Technical College | 7,867 | 168 | 8,035 |
| Total Technical Colleges | 51,048 | 7,941 | 58,989 |
| Total | \$151,380 | \$25,989 | \$177,369 |

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



NOTE 22 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

B. Related Organizations

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

During fiscal year 1997,

- The primary government distributed \$2.4 million in motor vehicle fuel excise tax collections from the Special Revenue Fund to the Ohio Turnpike Commission.
- Three separate funds, established for the Petroleum Underground Storage Tank Release Compensation Board, the Ohio Air Quality Development Authority, and the Higher Education Facility Commission, were accounted for on the primary government's Central Accounting System. The primary purpose of the funds is to streamline payroll processing for these organizations. The financial activities of the three funds, which do not receive any funding support from the primary government, have been included in the Other Agency Fund.

- The Public Defender's Office compensated the Ohio Legal Assistance Foundation approximately \$576 thousand from the Special Revenue Fund for administrative services performed under contract for the distribution of State funding to nonprofit legal aid societies. Also, during fiscal year 1997, the Ohio Legal Assistance Foundation received approximately \$580 thousand in state assistance from the Special Revenue Fund.

NOTE 23 CONTINGENCIES AND COMMITMENTS

A. Litigation

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

In instances when the unfavorable outcome of pending litigation has been assessed to be probable, liabilities are recorded in the financial statements. As of June 30, 1997, \$37.3 million in liabilities ultimately payable from various governmental funds has been recorded in the General Long-Term Obligations Account Group for this purpose.

Litigation, similar to that in other states, has been pending questioning the constitutionality of Ohio's system of school funding. The Ohio Supreme Court concluded in a decision released March 24, 1997 that major aspects of the system (including basic operating assistance and state loans) are unconstitutional. It ordered the State to provide for and fund sufficiently a system complying with the Ohio Constitution, staying its order for a year to permit time for responsive corrective actions by the Ohio General Assembly. In response to a State motion for reconsideration and clarification, the Court on April 25, 1997 indicated that property taxes may still play a role in, but "can no longer be the primary means" of, school funding. The Court also confirmed that contractual repayment provisions of certain debt obligations issued for school funding will remain valid after the stay terminates.



NOTE 24 RISK FINANCING

A. OhioMed Health Plan
Employees of the primary government have the option of participating in the OhioMed Health Plan, which is a fully self-insured health benefits plan established July 1, 1989. Medical Mutual of Ohio administers the plan under a claims administration contract with the primary government.

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

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

For governmental funds, the primary government recognizes claims as expenditures to the extent that the amounts are payable with expendable available financial resources; any remaining accrued unfunded liabilities are reported in the General Long-Term Obligations Account Group. For proprietary funds, claims are recognized as expenses when incurred.

Consequently, claims liabilities that exceed financial resources accounted for in the Payroll Withholding and Fringe Benefits Agency Fund are reported as unfunded liabilities in the proprietary funds and in the General Long-Term Obligations Account Group. As of June 30, 1997, approximately \$36.3 million in assets was available in the Agency Fund.

Changes in the balance of claims liabilities during the past two fiscal years are as follows (in thousands):

| | Fiscal Year 1997 | Fiscal Year 1996 |
|-----------------------------------|---------------------|---------------------|
| Claims Liabilities, as of July 1 | \$17,763 | \$13,944 |
| Add: Incurred Claims | 69,475 | 71,532 |
| Less: Claims Payments | (68,506) | (67,713) |
| Claims Liabilities, as of June 30 | <u>\$18,732</u> | <u>\$17,763</u> |

As of June 30, 1997, resources on deposit in the Payroll Withholding and Fringe Benefits Agency Fund for the payment of claims exceeded the estimated claims liability amount by \$17.6 million, thereby, resulting in a funding surplus. The surplus is offset with a "Due to Other Funds" balance reported in the Agency Fund with corresponding "Due from Other Funds" balances reported in the paying funds.

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

NOTE 23 CONTINGENCIES AND COMMITMENTS (Continued)

Other litigation pending in the U.S. Court of Appeals for the Sixth Circuit contests the Ohio Department of Human Services' former Medicaid financial eligibility rules for married couples where one spouse is living in a nursing facility and the other spouse resides in the community. The Department promulgated new eligibility rules effective January 1, 1996. It is appealing a court order directing it to provide notice to persons potentially affected by the former rules from 1990 through 1995. It is not possible at this time to state whether this appeal will be successful or, should plaintiffs prevail, the period, beyond the current fiscal year, during which necessary additional Medicaid expenditures would have to be made. Plaintiffs have estimated total additional Medicaid expenditures at \$600 million for the retroactive period and, based on current law, it is estimated that the State's share of those additional expenditures would be approximately \$240 million.

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

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

As a result of the 1996 State of Ohio Single Audit (completed in January 1997), approximately \$28.9 million of federal expenditures is in question as not being appropriate under the terms of the respective grants. The amount of expenditures, which may be ultimately disallowed by the grantor, cannot be determined at this time, and consequently, no provision for any liability or adjustments for this matter has been recognized in the State's financial statements for the fiscal year ended June 30, 1997.

C. Construction Commitments
As of June 30, 1997, the Department of Transportation had contractual commitments of approximately \$1.07 billion for highway construction projects. Funding for future expenditures is expected to be provided from federal, primary government, general obligation bonds, and local government sources in the amounts of \$546.1 million, \$265.4 million, \$40.5 million, and \$217.3 million, respectively.

As of June 30, 1997, construction (non-highway) commitments for the primary government's budgeted capital projects funds are as follows (in thousands):

| Capital Projects Fund | |
|--|------------------|
| Higher Education Improvements | \$229,412 |
| Adult Correctional Building Improvements | 116,381 |
| Arts Facilities Building Improvements | 61,024 |
| Administrative Services Building Improvements | 57,658 |
| Highway Safety Building Improvements | 36,120 |
| Ohio Parks and Natural Resources | 35,023 |
| Mental Health/Mental Retardation Facilities Improvements | 33,655 |
| Youth Services Building Improvements | 18,625 |
| Transportation Building Improvements | 11,255 |
| Parks and Recreation Improvements | 8,569 |
| Sports Facilities Building | 5,800 |
| Local Infrastructure Improvements | 15 |
| Total | <u>\$613,537</u> |

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NOTE 25. SUBSEQUENT EVENTS

Subsequent to June 30, 1997 (December 31, 1996 for the Ohio Water Development Authority), the State issued the following major debt (in thousands):

| Organization/Issue | Delivery Date of Issue | Net Interest Cost | Amount | Type of Debt |
|--|------------------------|-------------------|-----------|--------------------|
| Primary Government: | | | | |
| Ohio Public Facilities Commission: | | | | |
| Higher Education Capital Facilities Bonds, Series II - 1997B | October 1, 1997 | 4.7% | \$236,500 | Special Obligation |
| Component Units: | | | | |
| Ohio Water Development Authority: | | | | |
| 1997 Sale Water Series Refunding | February 6, 1997 | 4.8% | \$ 74,340 | Revenue |
| Water Pollution Control Loan Fund, Water Quality Series 1997 | October 15, 1997 | 5.2% | 211,440 | Revenue |
| Water Development, Community Assistance Series 1997 | October 15, 1997 | 5.3% | 51,830 | Revenue |
| Total Component Units | | | \$337,610 | |

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May __, 1998

State of Ohio
Treasurer of State
Columbus, Ohio

State of Ohio
Director of Transportation
Columbus, Ohio

National City Bank, Trustee
Columbus, Ohio

First Albany Corporation, for itself and the other Underwriters
New York, New York

We have examined the transcript of proceedings (the "Transcript") relating to the issuance by the State of Ohio (the "Issuer"), acting by and through its Treasurer of State (the "Treasurer") of its \$70,000,000 State of Ohio Major New State Infrastructure Project Revenue Bonds, Series 1998-1 (the "Bonds"). The Bonds are being issued pursuant to the provisions of Section 5531.10 of the Ohio Revised Code (the "Act") for the purpose of paying the costs of certain Major New State Infrastructure Projects (the "Series 1998-1 Projects"), as more particularly described in the Trust Agreement between the Issuer and National City Bank, Columbus, Ohio (the "Trustee"), dated as of May 1, 1998, as supplemented by the First Supplemental Trust Agreement between the Issuer and the Trustee, dated May 1, 1998 (collectively, the "Trust Agreement"). The Ohio Department of Transportation (the "Department") has entered into a Certificate and Agreement with the Treasurer (the "Certificate and Agreement") pursuant to which the Department has agreed to make deposits with the Treasurer equal to the Bond Service Charges on the Bonds (the "Bond Service Charges") plus certain related costs primarily from Pledged Federal Highway Receipts (as herein defined). The documents in the Transcript examined include executed counterparts of the following: (i) the Certificate and Agreement (the "Agreement") and (ii) the Trust Agreement. We have also examined a copy of a fully registered, executed and authenticated Bond, certified by the Trustee to be a true copy of the lowest-numbered Bond authenticated.

Based on this examination, we are of the opinion that, as of the date hereof, under existing federal and State of Ohio statutes, as now judicially construed, together with existing regulations, rulings and court decisions:

1. The Bonds, the Certificate and Agreement and the Trust Agreement have been

State of Ohio, Treasurer of State
State of Ohio, Director of Transportation
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duly and validly authorized, executed and delivered by the Treasurer, and are legal, valid, binding and enforceable against the Issuer in accordance with their respective terms. Pursuant to the Certificate and Agreement, the Department has agreed to make payments to the Treasurer sufficient to pay the Bond Service Charges on the Bonds; pursuant thereto, those payments are to be paid by the Department from funds appropriated to the Department for that purpose by the Ohio General Assembly; and the agreement of the Department to make those payments during any two-year period for which appropriations may lawfully be made by the Ohio General Assembly is effective and binding upon the Department only when and to the extent that funds have been appropriated and are available for that purpose and for that period; the Ohio General Assembly is not at any time obligated to make appropriations to pay those amounts.

2. The Bonds constitute special obligations of the Issuer, and the Bond Service Charges, together with the principal of and interest on Parity Obligations heretofore and hereafter issued and outstanding, are payable from, and secured under the Trust Agreement solely by, the Pledged Receipts and other moneys pledged and assigned by the Indenture to secure that payment. Those Pledged Receipts include (a) all moneys apportioned as a grant to the State by the United States Secretary of Transportation under Title 23 of the United States Code, or any successor legislation, or any other federal law relating to federal aid for highways, which are lawfully available to pay Bond Service Charges (the "Pledged Federal Highway Receipts") (excepting portions thereof designated for payment of certain other expenses or limited to a certain series of Bonds); (b) all amounts standing to the credit of the State Infrastructure Bank Revenue Bond Service Fund, other than amounts which are limited to a certain series of Bonds and other than any moneys therein raised by taxation by the State of Ohio; (c) any gifts, grants, donations and pledges, and receipts therefrom received by the State available for the payment of Bond Service Charges, to the extent not previously pledged and to the extent not prohibited; and (d) any other moneys accruing to the State from the sources described in the Act. The Bonds and the payment of debt service are not secured by an obligation or pledge of any moneys raised by taxation and the Bonds do not represent or constitute a debt or pledge of the faith and credit of the Issuer, the Treasurer or the Department.

3. Under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code") and is not treated as an item of tax preference under Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals and corporations.

4. Interest on, the transfer of, and any profit made on the sale, exchange, or other disposition of the Bonds are exempt from the Ohio personal income tax, the Ohio corporation franchise tax (to the extent calculated on the net income basis), and income taxes imposed by municipalities and other political subdivisions in Ohio.

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In giving the foregoing opinion with respect to the treatment of the interest on the Bonds and the status of the Bonds under the federal tax laws, we have assumed and relied upon compliance with the Issuer's covenants and the accuracy of the Issuer's representations and certifications contained in the transcript. The accuracy of those representations and certifications, which we have not independently verified, and the Issuer's compliance with those covenants, may be necessary for the interest on the Bonds to be and remain excluded from gross income and for the other tax effects stated above. Failure to comply with certain requirements subsequent to issuance of the Bonds could cause interest thereon to be included in gross income for federal income tax purposes, in some cases retroactively to the date of issuance of the Bonds.

Portions of the interest on the Bonds earned by corporations (as defined for federal income tax purposes) may be subject to the corporate alternative minimum tax that is imposed under Section 56 of the Code on a portion of the excess of the corporation's adjusted current earnings over its other alternative minimum taxable income. In addition, interest on the Bonds may be subject to the branch profits tax imposed under Section 884 of the Code on certain foreign corporations doing business in the United States and to the tax imposed on the excess net passive income of certain S corporations under Section 1375 of the Code.

The opinions set forth herein are qualified in their entirety as follows: (i) the terms and provisions of any instrument or agreement are subject to the application of bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and, in addition, are subject generally to the application of equitable principles; (ii) the remedy of specific performance is generally discretionary with the court and may not be available with respect to the enforcement of the terms and provisions of any instrument or agreement; (iii) judicial decisions indicate that public policy may make unenforceable provisions in agreements respecting payment by a debtor of the costs of enforcement, including, without limitation, attorneys' fees; and (iv) certain of the notice, waiver and remedial provisions contained in the instruments and agreements referred to in this opinion may be unenforceable in whole or in part; it being our opinion, however, that the inclusion of any such provisions does not affect the overall validity thereof and will not

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materially interfere with the practical realization of the benefits of any liens or security interests provided for therein.

Respectfully submitted,

CALFEE, HALTER & GRISWOLD LLP

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