

Financial Section

# Basic Financial Statements



**Cleveland from Lake Erie  
Rock and Roll Hall of Fame and Museum**

STATE OF OHIO  
STATEMENT OF NET POSITION  
JUNE 30, 2016  
(dollars in thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
<b>ASSETS:</b>				
Cash Equity with Treasurer.....	\$ 9,972,618	\$ 221,468	\$ 10,194,086	\$ 285,661
Cash and Cash Equivalents.....	146,893	576,486	723,379	1,595,153
Investments.....	1,274,281	24,816,148	26,090,429	6,144,234
Collateral on Lent Securities.....	898,554	16,290	914,844	24,565
Deposit with Federal Government.....	—	538,564	538,564	—
Taxes Receivable.....	1,453,121	—	1,453,121	—
Intergovernmental Receivable.....	1,352,886	7,522	1,360,408	49,431
Premiums and Assessments Receivable.....	—	781,414	781,414	—
Investment Trade Receivable.....	—	180,690	180,690	—
Loans Receivable, Net.....	1,181,967	—	1,181,967	277,178
Receivable from Primary Government.....	—	—	—	26,821
Receivable from Component Units.....	31,331	—	31,331	—
Other Receivables.....	1,221,957	479,089	1,701,046	1,320,515
Inventories.....	131,024	—	131,024	143,293
Other Assets.....	8,984	13,917	22,901	1,877,843
Restricted Assets:				
Cash Equity with Treasurer.....	—	54	54	—
Cash and Cash Equivalents.....	5,038	—	5,038	1,195,126
Investments.....	420,320	879,936	1,300,256	6,185,749
Collateral on Lent Securities.....	—	84,671	84,671	—
Other Receivables.....	—	393	393	—
Capital Assets Being Depreciated, Net.....	2,490,172	79,810	2,569,982	13,682,400
Capital Assets Not Being Depreciated.....	24,723,091	116,303	24,839,394	1,409,072
<b>TOTAL ASSETS</b> .....	<b>45,312,237</b>	<b>28,792,755</b>	<b>74,104,992</b>	<b>34,217,041</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b> .....	<b>5,757,784</b>	<b>94,360</b>	<b>5,852,144</b>	<b>1,581,700</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b> .....	<b>51,070,021</b>	<b>28,887,115</b>	<b>79,957,136</b>	<b>35,798,741</b>
<b>LIABILITIES:</b>				
Accounts Payable.....	803,732	64,613	868,345	743,143
Accrued Liabilities.....	379,445	4,144	383,589	514,159
Medicaid Claims Payable.....	1,273,165	—	1,273,165	—
Obligations Under Securities Lending.....	898,554	100,961	999,515	24,565
Investment Trade Payable.....	—	387,057	387,057	—
Intergovernmental Payable.....	1,096,910	275,915	1,372,825	12,551
Internal Balances.....	615,396	(615,396)	—	—
Payable to Primary Government.....	—	—	—	27,708
Payable to Component Units.....	26,872	—	26,872	—
Unearned Revenue.....	426,628	516,540	943,168	431,242
Benefits Payable.....	—	537	537	—
Refund and Other Liabilities.....	811,536	114,523	926,059	147,998
Noncurrent Liabilities:				
Bonds and Notes Payable:				
Due in One Year.....	1,208,339	—	1,208,339	920,357
Due in More Than One Year.....	16,267,291	—	16,267,291	10,241,887
Certificates of Participation:				
Due in One Year.....	34,724	—	34,724	—
Due in More Than One Year.....	160,175	—	160,175	—
Other Noncurrent Liabilities:				
Due in One Year.....	143,196	2,219,320	2,362,516	571,075
Due in More Than One Year.....	4,814,544	16,427,803	21,242,347	8,401,644
<b>TOTAL LIABILITIES</b> .....	<b>28,960,507</b>	<b>19,496,017</b>	<b>48,456,524</b>	<b>22,036,329</b>
<b>DEFERRED INFLOWS OF RESOURCES</b> .....	<b>2,161,787</b>	<b>9,397</b>	<b>2,171,184</b>	<b>4,433,212</b>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b> .....	<b>31,122,294</b>	<b>19,505,414</b>	<b>50,627,708</b>	<b>26,469,541</b>

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

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
<b>NET POSITION (DEFICITS):</b>				
Net Investment in Capital Assets.....	23,925,328	186,037	24,111,365	7,783,138
Restricted for:				
Primary, Secondary and Other Education.....	148,740	—	148,740	—
Higher Education Support.....	26,255	—	26,255	—
Public Assistance and Medicaid.....	810,132	—	810,132	—
Health and Human Services.....	103,534	—	103,534	—
Justice and Public Protection.....	132,257	—	132,257	—
Environmental Protection and Natural Resources.....	199,490	—	199,490	—
Transportation.....	3,191,913	—	3,191,913	229,401
General Government.....	169,286	—	169,286	—
Community and Economic Development.....	329,909	—	329,909	13,223
Lottery Prizes.....	—	77,464	77,464	—
Workers Compensation.....	—	8,596,001	8,596,001	—
Unemployment Compensation.....	—	315,980	315,980	—
Tuition Trust Authority.....	—	74,559	74,559	—
Nonexpendable for				
Colleges and Universities.....	—	—	—	3,583,607
Expendable for				
Colleges and Universities.....	—	—	—	2,717,439
Unrestricted.....	(9,089,117)	131,660	(8,957,457)	(4,997,608)
<b>TOTAL NET POSITION (DEFICITS).....</b>	<b>\$ 19,947,727</b>	<b>\$ 9,381,701</b>	<b>\$ 29,329,428</b>	<b>\$ 9,329,200</b>

**STATE OF OHIO**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**  
(dollars in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES				NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES, FEES, FINES AND FORFEITURES	OPERATING GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)	CAPITAL GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)		
<b>PRIMARY GOVERNMENT:</b>						
<b>GOVERNMENTAL ACTIVITIES:</b>						
Primary, Secondary						
and Other Education.....	\$ 12,728,780	\$ 26,743	\$ 1,937,875	\$ —	\$ (10,764,162)	
Higher Education Support .....	2,603,480	2,703	22,279	—	(2,578,498)	
Public Assistance and Medicaid .....	29,103,304	1,946,102	21,267,435	—	(5,889,767)	
Health and Human Services .....	1,656,750	169,611	794,059	—	(693,080)	
Justice and Public Protection .....	3,587,845	1,103,131	168,819	—	(2,315,895)	
Environmental Protection						
and Natural Resources.....	586,001	202,130	100,605	—	(283,266)	
Transportation .....	2,602,708	348,159	54,588	1,419,910	(780,051)	
General Government .....	948,796	557,775	39,436	149	(351,436)	
Community and Economic						
Development.....	3,353,699	571,317	336,698	10,877	(2,434,807)	
Interest on Long-Term Debt						
(excludes interest charged as						
program expense).....	99,819	—	—	—	(99,819)	
<b>TOTAL GOVERNMENTAL ACTIVITIES.....</b>	<b>57,271,182</b>	<b>4,927,671</b>	<b>24,721,794</b>	<b>1,430,936</b>	<b>(26,190,781)</b>	
<b>BUSINESS-TYPE ACTIVITIES:</b>						
Workers' Compensation.....	3,322,700	1,451,585	1,365,464	—	(505,651)	
Lottery Commission.....	2,866,920	3,987,235	35,071	—	1,155,386	
Unemployment Compensation.....	1,021,152	1,178,304	(360)	—	156,792	
Tuition Trust Authority.....	67,385	7,666	44,360	—	(15,359)	
Office of Auditor of State.....	78,917	49,369	—	—	(29,548)	
<b>TOTAL BUSINESS-TYPE ACTIVITIES.....</b>	<b>7,357,074</b>	<b>6,674,159</b>	<b>1,444,535</b>	<b>—</b>	<b>761,620</b>	
<b>TOTAL PRIMARY GOVERNMENT.....</b>	<b>\$ 64,628,256</b>	<b>\$ 11,601,830</b>	<b>\$ 26,166,329</b>	<b>\$ 1,430,936</b>	<b>\$ (25,429,161)</b>	
<b>COMPONENT UNITS:</b>						
Ohio Facilities Construction Commission.....	\$ 379,913	\$ 35,353	\$ 7,051	\$ —	\$ (337,509)	
Ohio State University.....	5,810,108	4,441,709	683,809	10,422	(674,168)	
Other Component Units.....	8,229,478	5,417,695	709,319	27,900	(2,074,564)	
<b>TOTAL COMPONENT UNITS.....</b>	<b>\$ 14,419,499</b>	<b>\$ 9,894,757</b>	<b>\$ 1,400,179</b>	<b>\$ 38,322</b>	<b>\$ (3,086,241)</b>	

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

**PRIMARY GOVERNMENT**

	<b>GOVERNMENTAL ACTIVITIES</b>	<b>BUSINESS-TYPE ACTIVITIES</b>	<b>TOTAL</b>	<b>COMPONENT UNITS</b>
<b>CHANGES IN NET POSITION:</b>				
Net (Expense) Revenue.....	\$ (26,190,781)	\$ 761,620	\$ (25,429,161)	\$ (3,086,241)
<b>General Revenues:</b>				
Taxes:				
Income.....	7,984,708	—	7,984,708	—
Sales.....	10,548,038	—	10,548,038	—
Corporate and Public Utility .....	2,737,316	—	2,737,316	—
Cigarette.....	1,008,677	—	1,008,677	—
Other.....	1,006,342	—	1,006,342	—
Restricted for Transportation Purposes:				
Motor Vehicle Fuel Taxes.....	1,798,483	—	1,798,483	—
Total Taxes.....	25,083,564	—	25,083,564	—
Tobacco Settlement.....	341,130	—	341,130	—
Escheat Property.....	161,904	—	161,904	—
Unrestricted Investment Income.....	70,897	8	70,905	(89,540)
State Assistance .....	—	—	—	2,155,883
Other.....	1,683	—	1,683	720,568
Gain (Loss) on Extinguishment of Debt.....	—	502,586	502,586	(87)
<b>Additions to Endowments and Permanent Fund Principal.....</b>				
	—	—	—	110,675
Transfers-Internal Activities.....	1,160,878	(1,160,878)	—	—
<b>TOTAL GENERAL REVENUES, GAINS (LOSSES), CONTRIBUTIONS, SPECIAL ITEMS AND TRANSFERS.....</b>				
	<b>26,820,056</b>	<b>(658,284)</b>	<b>26,161,772</b>	<b>2,897,499</b>
<b>CHANGE IN NET POSITION.....</b>	<b>629,275</b>	<b>103,336</b>	<b>732,611</b>	<b>(188,742)</b>
<b>NET POSITION (DEFICITS), JULY 1 (as restated)....</b>	<b>19,318,452</b>	<b>9,278,365</b>	<b>28,596,817</b>	<b>9,517,942</b>
<b>NET POSITION (DEFICITS), JUNE 30.....</b>	<b>\$ 19,947,727</b>	<b>\$ 9,381,701</b>	<b>\$ 29,329,428</b>	<b>\$ 9,329,200</b>

STATE OF OHIO  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016  
(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	BUCKEYE TOBACCO SETTLEMENT FINANCING AUTHORITY REVENUE BONDS
<b>ASSETS:</b>			
Cash Equity with Treasurer.....	\$ 5,923,688	\$ 476,675	\$ —
Cash and Cash Equivalents.....	83,138	3,383	5,038
Investments.....	1,238,489	—	420,320
Collateral on Lent Securities.....	534,517	42,858	—
Taxes Receivable .....	1,370,920	—	—
Intergovernmental Receivable.....	669,950	188,464	—
Loans Receivable, Net .....	1,057,980	—	—
Interfund Receivable .....	2,847	—	—
Receivable from Component Units.....	2,587	—	—
Other Receivables .....	253,256	455,018	472,202
Inventories .....	21,359	—	—
Other Assets .....	20	—	—
<b>TOTAL ASSETS .....</b>	<b>11,158,751</b>	<b>1,166,398</b>	<b>897,560</b>
<b>DEFERRED OUTFLOWS OF RESOURCES.....</b>	<b>—</b>	<b>—</b>	<b>4,331,322</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES.....</b>	<b>\$ 11,158,751</b>	<b>\$ 1,166,398</b>	<b>\$ 5,228,882</b>
<b>LIABILITIES:</b>			
Accounts Payable .....	\$ 289,458	\$ 151,097	\$ —
Accrued Liabilities.....	126,735	20,435	—
Medicaid Claims Payable.....	980,186	—	—
Obligations Under Securities Lending.....	534,517	42,858	—
Intergovernmental Payable.....	781,086	116,067	—
Interfund Payable.....	453,875	13,391	2,847
Payable to Component Units.....	18,958	2,014	—
Unearned Revenue.....	—	378,894	—
Refund and Other Liabilities.....	804,899	5,942	—
Liability for Escheat Property.....	271,580	—	—
<b>TOTAL LIABILITIES.....</b>	<b>4,261,294</b>	<b>730,698</b>	<b>2,847</b>
<b>DEFERRED INFLOWS OF RESOURCES.....</b>	<b>1,243,096</b>	<b>81,873</b>	<b>472,178</b>
<b>FUND BALANCES (DEFICITS):</b>			
Nonspendable.....	45,953	—	—
Restricted.....	1,270,315	287,297	4,753,857
Committed.....	820,878	66,810	—
Assigned.....	2,653,290	—	—
Unassigned.....	863,925	(280)	—
<b>TOTAL FUND BALANCES (DEFICITS) .....</b>	<b>5,654,361</b>	<b>353,827</b>	<b>4,753,857</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES .....</b>	<b>\$ 11,158,751</b>	<b>\$ 1,166,398</b>	<b>\$ 5,228,882</b>

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

<b>NONMAJOR GOVERNMENTAL FUNDS</b>	<b>TOTAL</b>
\$ 3,572,255	\$ 9,972,618
60,372	151,931
35,792	1,694,601
321,179	898,554
82,201	1,453,121
494,472	1,352,886
123,987	1,181,967
1,357	4,204
28,744	31,331
41,481	1,221,957
109,665	131,024
—	20
<u>4,871,505</u>	<u>18,094,214</u>
<u>—</u>	<u>4,331,322</u>
<b><u>\$ 4,871,505</u></b>	<b><u>\$ 22,425,536</u></b>
\$ 363,177	\$ 803,732
72,298	219,468
292,979	1,273,165
321,179	898,554
199,757	1,096,910
149,487	619,600
5,900	26,872
47,734	426,628
695	811,536
—	271,580
<u>1,453,206</u>	<u>6,448,045</u>
<u>50,803</u>	<u>1,847,950</u>
109,665	155,618
2,578,104	8,889,573
679,875	1,567,563
—	2,653,290
(148)	863,497
<u>3,367,496</u>	<u>14,129,541</u>
<b><u>\$ 4,871,505</u></b>	<b><u>\$ 22,425,536</u></b>

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# STATE OF OHIO

RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET POSITION  
JUNE 30, 2016  
(dollars in thousands)

**Total Fund Balances for Governmental Funds.....** **\$ 14,129,541**

Total net position reported for governmental activities in the Statement of Net Position is different because:

Net Pension Assets Reported for Governmental Activities are not Financing Resources and therefore are not Reported in the Funds 8,964

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

Land.....	2,358,859
Buildings and Improvements, net of \$2,253,035 accumulated depreciation.....	1,545,669
Land Improvements, net of \$320,421 accumulated depreciation.....	169,168
Machinery and Equipment, net of \$970,527 accumulated depreciation.....	535,745
Vehicles, net of \$235,371 accumulated depreciation.....	186,917
Infrastructure, net of \$35,585 accumulated depreciation.....	20,219,413
Construction-in-Progress.....	2,197,492
	<u>27,213,263</u>

The following Deferred Outflows of Resources are not related to the current period and therefore, are not reported in the funds.

Hedging Derivatives.....	37,060
Loss on Debt Refundings.....	177,839
Net Pension Asset/Liability.....	1,211,563
Total Deferred Outflows of Resources.....	<u>1,426,462</u>

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

<i>Accrued Liabilities:</i>	
Interest Payable.....	(159,977)
<i>Bonds and Notes Payable:</i>	
General Obligation Bonds.....	(9,283,156)
Revenue Bonds and Notes.....	(6,261,882)
Special Obligation Bonds.....	(1,930,592)
Certificates of Participation.....	(194,899)
<i>Other Noncurrent Liabilities:</i>	
Compensated Absences.....	(444,805)
Net Pension Liability.....	(3,800,346)
Net OPEB Obligation.....	(171,348)
Capital Leases Payable.....	(8,806)
Derivatives.....	(51,403)
Litigation Liabilities.....	(6,100)
Estimated Claims Payable.....	(1,700)
Pollution Remediation.....	(5,890)
Infrastructure Liabilities.....	(195,762)
	<u>(22,516,666)</u>

The following Deferred Inflows of Resources are not related to the current period and therefore, are not reported in the funds.

Resources from the Sale of Future Revenues.....	(1,229,393)
Net Pension Asset/Liability.....	(93,896)
Debt Refundings.....	(71)
Less Unavailable Resources Reported in the Funds.: .....	<u>(71)</u>
Taxes Receivable.....	70,974
Intergovernmental Receivable.....	444,860
Other Receivables.....	493,689
	<u>1,009,523</u>
Total Deferred Inflows of Resources.....	<u>(313,837)</u>

**Total Net Position of Governmental Activities.....** **\$ 19,947,727**

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

# STATE OF OHIO

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	BUCKEYE TOBACCO SETTLEMENT FINANCING AUTHORITY REVENUE BONDS
<b>REVENUES:</b>			
Income Taxes.....	\$ 7,995,959	\$ —	\$ —
Sales Taxes.....	10,547,926	—	—
Corporate and Public Utility Taxes.....	2,670,854	—	—
Motor Vehicle Fuel Taxes.....	1,109,241	—	—
Cigarette Taxes.....	1,008,677	—	—
Other Taxes.....	691,250	1,376	—
Licenses, Permits and Fees.....	706,064	1,479,437	—
Sales, Services and Charges.....	85,579	—	—
Federal Government.....	11,309,010	8,774,960	—
Tobacco Settlement.....	2,953	—	297,098
Escheat Property.....	161,904	—	—
Investment Income.....	93,014	3,656	2,141
Other.....	354,151	213,303	—
<b>TOTAL REVENUES.....</b>	<b>36,736,582</b>	<b>10,472,732</b>	<b>299,239</b>
<b>EXPENDITURES:</b>			
<b>CURRENT OPERATING:</b>			
Primary, Secondary and Other Education.....	9,245,474	176	61,272
Higher Education Support.....	2,438,331	239	—
Public Assistance and Medicaid.....	16,957,877	10,036,843	—
Health and Human Services.....	643,095	315,281	—
Justice and Public Protection.....	2,534,785	72,367	—
Environmental Protection and Natural Resources.....	80,943	—	—
Transportation.....	2,848	—	—
General Government.....	517,854	2,555	—
Community and Economic Development.....	2,421,478	—	—
<b>CAPITAL OUTLAY.....</b>	<b>—</b>	<b>4,625</b>	<b>—</b>
<b>DEBT SERVICE.....</b>	<b>—</b>	<b>—</b>	<b>329,359</b>
<b>TOTAL EXPENDITURES.....</b>	<b>34,842,685</b>	<b>10,432,086</b>	<b>390,631</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>1,893,897</b>	<b>40,646</b>	<b>(91,392)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Bonds, Notes, and COPs Issued.....	530,000	—	—
Refunding Bonds and COPs Issued.....	—	—	—
Payment to Refunded Bond and COPs Escrow Agents.....	—	—	—
Premiums/Discounts.....	56,696	—	—
Transfers-in.....	286,624	51,406	—
Transfers-out.....	(2,116,780)	(42,499)	(15,100)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>(1,243,460)</b>	<b>8,907</b>	<b>(15,100)</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>650,437</b>	<b>49,553</b>	<b>(106,492)</b>
<b>FUND BALANCES (DEFICITS), July 1 (as restated).....</b>	<b>5,004,435</b>	<b>304,274</b>	<b>4,860,349</b>
Increase (Decrease) for Changes in Inventories.....	(511)	—	—
<b>FUND BALANCES (DEFICITS), JUNE 30.....</b>	<b>\$ 5,654,361</b>	<b>\$ 353,827</b>	<b>\$ 4,753,857</b>

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

<b>NONMAJOR GOVERNMENTAL FUNDS</b>		<b>TOTAL</b>	
\$	390	\$	7,996,349
	112		10,548,038
	66,462		2,737,316
	689,242		1,798,483
	—		1,008,677
	313,716		1,006,342
	1,313,402		3,498,903
	59,568		145,147
	6,197,730		26,281,700
	—		300,051
	—		161,904
	14,564		113,375
	825,504		1,392,958
	<b>9,480,690</b>		<b>56,989,243</b>
	3,076,865		12,383,787
	28,490		2,467,060
	1,942,786		28,937,506
	602,036		1,560,412
	717,540		3,324,692
	330,103		411,046
	2,838,708		2,841,556
	354,962		875,371
	804,876		3,226,354
	673,969		678,594
	1,672,817		2,002,176
	<b>13,043,152</b>		<b>58,708,554</b>
	<b>(3,562,462)</b>		<b>(1,719,311)</b>
	540,000		1,070,000
	473,270		473,270
	(584,504)		(584,504)
	216,726		273,422
	3,413,674		3,751,704
	(416,447)		(2,590,826)
	<b>3,642,719</b>		<b>2,393,066</b>
	<b>80,257</b>		<b>673,755</b>
	3,260,233		13,429,291
	27,006		26,495
<b>\$</b>	<b>3,367,496</b>	<b>\$</b>	<b>14,129,541</b>

# STATE OF OHIO

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2016

(dollars in thousands)

<b>Net Change in Fund Balances -- Total Governmental Funds.....</b>	<b>673,755</b>
Change in Inventories.....	26,495
	<u>700,250</u>

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

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

Capital Outlay Expenditures.....	1,057,695
Depreciation Expense.....	<u>(401,772)</u>
Excess of Capital Outlay Over Depreciation Expense.....	<u>655,923</u>

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

General Obligation Bonds.....	(840,000)
Special Obligation Bonds.....	(230,000)
Refunding Bonds, including Bond Premium/Discount, Net.....	(587,042)
Premiums and Discounts, Net:	
General Obligation Bonds.....	(120,275)
Special Obligation Bonds.....	(39,374)
Capital Leases.....	<u>(6,734)</u>
Total Debt Proceeds.....	<u>(1,823,425)</u>

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

<i>Debt Principal Retirement and Defeasements:</i>	
General Obligation Bonds.....	1,223,499
Revenue Bonds and Notes.....	179,405
Special Obligation Bonds.....	298,258
Certificates of Participation.....	<u>32,185</u>
Total Long-Term Debt Repayment.....	<u>1,733,347</u>

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

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

<i>Increase in Other Assets.....</i>	1,622	
<i>Decrease in Accrued Interest and Other Accrued Liabilities.....</i>	6,475	
<i>Amortization of Bond Premiums/Accretion of Bond Discount, Net.....</i>	110,325	
<i>Increase in Refunding Loss Included in Deferred Outflows of Resources.....</i>	14,096	
<i>Increase in Pension Related Balances Included in Deferred Outflows of Resources.....</i>	868,240	
<i>Increase in Compensated Absences.....</i>	(22,988)	
<i>Increase in Derivative Liabilities (Excluding Hedging Derivatives) .....</i>	(3,146)	
<i>Decrease in Estimated Claims Payable.....</i>	486	
<i>Increase in Pollution Remediation.....</i>	(4,322)	
<i>Increase in Infrastructure Liability.....</i>	(195,762)	
<i>Increase in Net Pension Liability.....</i>	(1,096,540)	
<i>Increase in Liability for OPEB Obligation.....</i>	(22,217)	
<i>Increase in Litigation Liabilities.....</i>	(6,100)	
<i>Decrease in Other Noncurrent Liabilities.....</i>	7	
<i>Increase in Deferred Inflow of Resources.....</i>	(286,996)	
<i>Total additional revenues and expenditures.....</i>		<u>(636,820)</u>
 <b>Change in Net Position of Governmental Activities.....</b>		 <b><u>\$ 629,275</u></b>

# STATE OF OHIO

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) GENERAL FUND AND MAJOR SPECIAL REVENUE FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2016

(dollars in thousands)

	GENERAL			VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
	BUDGET		ACTUAL	
	ORIGINAL	FINAL		
<b>REVENUES:</b>				
Income Taxes.....	\$ 8,462,764	\$ 8,386,664	\$ 8,168,998	\$ (217,666)
Sales Taxes.....	10,587,424	10,588,124	10,562,822	(25,302)
Corporate and Public Utility Taxes.....	2,647,757	2,653,257	2,658,739	5,482
Motor Vehicle Fuel Taxes.....	1,077,664	1,077,664	1,077,664	—
Cigarette Taxes.....	969,800	969,800	1,007,643	37,843
Other Taxes.....	705,516	705,516	691,235	(14,281)
Licenses, Permits and Fees.....	711,136	711,136	710,570	(566)
Sales, Services and Charges.....	110,321	110,321	110,496	175
Federal Government.....	12,294,727	12,294,727	11,386,163	(908,564)
Tobacco Settlement.....	106	106	106	—
Investment Income.....	31,059	31,059	43,828	12,769
Other.....	1,517,228	1,517,228	1,872,081	354,853
<b>TOTAL REVENUES.....</b>	<b>39,115,502</b>	<b>39,045,602</b>	<b>38,290,345</b>	<b>(755,257)</b>
<b>BUDGETARY EXPENDITURES:</b>				
<b>CURRENT OPERATING:</b>				
Primary, Secondary and Other Education.....	9,488,776	9,487,196	9,425,349	61,847
Higher Education Support.....	2,312,719	2,952,582	2,673,494	279,088
Public Assistance and Medicaid.....	19,705,025	19,601,934	18,544,343	1,057,591
Health and Human Services.....	822,797	828,047	763,887	64,160
Justice and Public Protection.....	2,654,044	2,697,258	2,610,177	87,081
Environmental Protection and Natural Resources.....	120,045	148,295	133,700	14,595
Transportation.....	20,410	20,422	19,965	457
General Government.....	1,276,455	1,420,171	1,199,089	221,082
Community and Economic Development.....	2,718,578	3,329,393	2,623,885	705,508
<b>CAPITAL OUTLAY.....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>DEBT SERVICE.....</b>	<b>1,356,930</b>	<b>1,363,669</b>	<b>1,330,787</b>	<b>32,882</b>
<b>TOTAL BUDGETARY EXPENDITURES.....</b>	<b>40,475,779</b>	<b>41,848,967</b>	<b>39,324,676</b>	<b>2,524,291</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES.....</b>	<b>(1,360,277)</b>	<b>(2,803,365)</b>	<b>(1,034,331)</b>	<b>1,769,034</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Bonds, Notes, and COPs Issued.....	552,414	552,414	552,364	(50)
Transfers-in.....	2,220,199	2,220,699	1,182,649	(1,038,050)
Transfers-out.....	(2,215,642)	(2,215,642)	(1,660,248)	555,394
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>556,971</b>	<b>557,471</b>	<b>74,765</b>	<b>(482,706)</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>\$ (803,306)</b>	<b>\$ (2,245,894)</b>	<b>(959,566)</b>	<b>\$ 1,286,328</b>
<b>BUDGETARY FUND BALANCES (DEFICITS), JULY 1.....</b>			4,985,177	
<b>Outstanding Encumbrances at Beginning of Fiscal Year...</b>			796,642	
<b>BUDGETARY FUND BALANCES (DEFICITS), JUNE 30.....</b>			<b>\$ 4,822,253</b>	

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

**JOB, FAMILY AND OTHER HUMAN SERVICES**

<b>BUDGET</b>		<b>ACTUAL</b>	<b>VARIANCE WITH FINAL BUDGET</b>
<b>ORIGINAL</b>	<b>FINAL</b>		
		\$ —	
		—	
		—	
		—	
		1,376	
		1,484,084	
		—	
		5,414,662	
		—	
		3,656	
		1,231,912	
		<b>8,135,690</b>	
<b>\$ 255</b>	<b>\$ 255</b>	<b>223</b>	<b>\$ 32</b>
520	520	402	118
9,534,660	9,661,534	8,844,416	817,118
384,138	390,639	340,879	49,760
77,919	77,924	70,614	7,310
—	—	—	—
—	—	—	—
2,441	2,679	2,425	254
—	—	—	—
7,024	21,908	7,648	14,260
—	—	—	—
<b>\$ 10,006,957</b>	<b>\$ 10,155,459</b>	<b>9,266,607</b>	<b>\$ 888,852</b>
		<b>(1,130,917)</b>	
		—	
		59,877	
		(54,115)	
		<b>5,762</b>	
		<b>(1,125,155)</b>	
		(807,562)	
		1,151,167	
		<b>\$ (781,550)</b>	

# STATE OF OHIO

## STATEMENT OF NET POSITION PROPRIETARY FUNDS -- ENTERPRISE JUNE 30, 2016

(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
<b>ASSETS:</b>			
<b>CURRENT ASSETS:</b>			
Cash Equity with Treasurer.....	\$ 5,388	\$ 174,950	\$ —
Cash and Cash Equivalents.....	509,177	32,578	1,258
Collateral on Lent Securities.....	484	15,730	—
Restricted Assets:			
Cash Equity with Treasurer.....	—	54	—
Investments.....	—	57,032	—
Collateral on Lent Securities.....	—	84,671	—
Other Receivables.....	—	393	—
Deposit with Federal Government.....	—	—	538,564
Intergovernmental Receivable.....	—	—	24
Premiums and Assessments Receivable.....	34,788	—	30,076
Investment Trade Receivable.....	180,690	—	—
Interfund Receivable.....	58,336	1	—
Other Receivables.....	400,997	51,942	25,038
Other Assets.....	2,715	6,795	4,081
<b>TOTAL CURRENT ASSETS.....</b>	<b>1,192,575</b>	<b>424,146</b>	<b>599,041</b>
<b>NONCURRENT ASSETS:</b>			
Restricted Assets:			
Investments.....	—	484,847	—
Investments.....	24,814,943	—	—
Premiums and Assessments Receivable.....	716,550	—	—
Interfund Receivable.....	557,035	—	—
Other Assets.....	267	53	—
Capital Assets Being Depreciated, Net.....	41,581	36,838	—
Capital Assets Not Being Depreciated.....	116,303	—	—
<b>TOTAL NONCURRENT ASSETS.....</b>	<b>26,246,679</b>	<b>521,738</b>	<b>—</b>
<b>TOTAL ASSETS.....</b>	<b>27,439,254</b>	<b>945,884</b>	<b>599,041</b>
<b>DEFERRED OUTFLOWS OF RESOURCES.....</b>	<b>63,608</b>	<b>10,548</b>	<b>—</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES.....</b>	<b>27,502,862</b>	<b>956,432</b>	<b>599,041</b>
<b>LIABILITIES:</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts Payable.....	38,660	24,082	—
Accrued Liabilities.....	—	—	—
Obligations Under Securities Lending.....	484	100,401	—
Investment Trade Payable.....	387,057	—	—
Intergovernmental Payable.....	—	—	275,915
Prize Awards Payable.....	—	57,479	—
Interfund Payable.....	—	67	—
Unearned Revenue.....	513,089	2,458	—
Benefits Payable.....	1,636,037	—	537
Refund and Other Liabilities.....	483,131	75,766	6,609
<b>TOTAL CURRENT LIABILITIES.....</b>	<b>3,058,458</b>	<b>260,253</b>	<b>283,061</b>
<b>NONCURRENT LIABILITIES:</b>			
Prize Awards Payable.....	—	414,180	—
Interfund Payable.....	—	1,379	—
Benefits Payable.....	14,034,563	—	—
Refund and Other Liabilities.....	1,649,271	37,218	—
<b>TOTAL NONCURRENT LIABILITIES.....</b>	<b>15,683,834</b>	<b>452,777</b>	<b>—</b>
<b>TOTAL LIABILITIES.....</b>	<b>18,742,292</b>	<b>713,030</b>	<b>283,061</b>
<b>DEFERRED INFLOWS OF RESOURCES.....</b>	<b>6,685</b>	<b>1,465</b>	<b>—</b>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES.....</b>	<b>18,748,977</b>	<b>714,495</b>	<b>283,061</b>
<b>NET POSITION (DEFICITS):</b>			
Net Investment in Capital Assets.....	157,884	26,762	—
Restricted for Lottery Prizes.....	—	77,464	—
Unrestricted.....	8,596,001	137,711	315,980
<b>TOTAL NET POSITION (DEFICITS).....</b>	<b>\$ 8,753,885</b>	<b>\$ 241,937</b>	<b>\$ 315,980</b>

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

<b>NONMAJOR PROPRIETARY FUNDS</b>		<b>TOTAL</b>	
\$	41,130	\$	221,468
	33,473		576,486
	76		16,290
	—		54
	73,200		130,232
	—		84,671
	—		393
	—		538,564
	7,498		7,522
	—		64,864
	—		180,690
	1,588		59,925
	1,112		479,089
	—		13,591
	<u>158,077</u>		<u>2,373,839</u>
	264,857		749,704
	1,205		24,816,148
	—		716,550
	7,487		564,522
	6		326
	1,391		79,810
	—		116,303
	<u>274,946</u>		<u>27,043,363</u>
	<u>433,023</u>		<u>29,417,202</u>
	<u>20,204</u>		<u>94,360</u>
	<b><u>453,227</u></b>		<b><u>29,511,562</u></b>
	1,871		64,613
	4,144		4,144
	76		100,961
	—		387,057
	—		275,915
	—		57,479
	117		184
	993		516,540
	73,200		1,709,774
	1,621		567,127
	<u>82,022</u>		<u>3,683,794</u>
	—		414,180
	7,488		8,867
	224,000		14,258,563
	68,571		1,755,060
	<u>300,059</u>		<u>16,436,670</u>
	<u>382,081</u>		<u>20,120,464</u>
	<u>1,247</u>		<u>9,397</u>
	<b><u>383,328</u></b>		<b><u>20,129,861</u></b>
	1,391		186,037
	—		77,464
	68,508		9,118,200
<b>\$</b>	<b><u>69,899</u></b>	<b>\$</b>	<b><u>9,381,701</u></b>

# STATE OF OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
 PROPRIETARY FUNDS -- ENTERPRISE  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
<b>OPERATING REVENUES:</b>			
Charges for Sales and Services.....	\$ —	\$ 3,978,629	\$ 30,684
Premium and Assessment Income.....	1,439,143	—	1,106,731
Federal Government.....	—	—	11,846
Investment Income.....	—	—	—
Other.....	12,442	8,606	29,043
<b>TOTAL OPERATING REVENUES.....</b>	<b>1,451,585</b>	<b>3,987,235</b>	<b>1,178,304</b>
<b>OPERATING EXPENSES:</b>			
Costs of Sales and Services.....	—	—	—
Administration.....	61,552	135,096	—
Bonuses and Commissions.....	—	766,420	—
Prizes.....	—	1,932,585	—
Benefits and Claims.....	1,211,609	—	1,012,485
Depreciation.....	8,128	10,200	—
Other.....	2,041,411	212	8,667
<b>TOTAL OPERATING EXPENSES.....</b>	<b>3,322,700</b>	<b>2,844,513</b>	<b>1,021,152</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>(1,871,115)</b>	<b>1,142,722</b>	<b>157,152</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment Income.....	1,365,464	35,071	(360)
Interest Expense.....	—	(294)	—
Other.....	—	(22,113)	—
<b>TOTAL NONOPERATING REVENUES (EXPENSES).....</b>	<b>1,365,464</b>	<b>12,664</b>	<b>(360)</b>
<b>INCOME (LOSS) BEFORE GAIN (LOSS) AND TRANSFERS.....</b>	<b>(505,651)</b>	<b>1,155,386</b>	<b>156,792</b>
Gain on Extinguishment of Debt.....	—	—	502,586
Transfers-in.....	—	—	—
Transfers-out.....	(8,796)	(1,174,832)	(7,582)
<b>TOTAL GAIN (LOSS) AND TRANSFERS.....</b>	<b>(8,796)</b>	<b>(1,174,832)</b>	<b>495,004</b>
<b>NET INCOME (LOSS).....</b>	<b>(514,447)</b>	<b>(19,446)</b>	<b>651,796</b>
<b>NET POSITION (DEFICITS), JULY 1.....</b>	<b>9,268,332</b>	<b>261,383</b>	<b>(335,816)</b>
<b>NET POSITION (DEFICITS), JUNE 30.....</b>	<b>\$ 8,753,885</b>	<b>\$ 241,937</b>	<b>\$ 315,980</b>

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

<b>NONMAJOR PROPRIETARY FUNDS</b>		<b>TOTAL</b>	
\$	56,594	\$	4,065,907
	—		2,545,874
	—		11,846
	(1,240)		(1,240)
	46,041		96,132
	<b>101,395</b>		<b>6,718,519</b>
	72,512		72,512
	14,262		210,910
	—		766,420
	—		1,932,585
	59,212		2,283,306
	316		18,644
	—		2,050,290
	<b>146,302</b>		<b>7,334,667</b>
	<b>(44,907)</b>		<b>(616,148)</b>
	8		1,400,183
	—		(294)
	—		(22,113)
	<b>8</b>		<b>1,377,776</b>
	<b>(44,899)</b>		<b>761,628</b>
	—		502,586
	30,332		30,332
	—		(1,191,210)
	<b>30,332</b>		<b>(658,292)</b>
	<b>(14,567)</b>		<b>103,336</b>
	84,466		9,278,365
<b>\$</b>	<b>69,899</b>	<b>\$</b>	<b>9,381,701</b>

**STATE OF OHIO**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS -- ENTERPRISE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**  
(dollars in thousands)

	<b>MAJOR PROPRIETARY FUNDS</b>		
	<b>WORKERS' COMPENSATION</b>	<b>LOTTERY COMMISSION</b>	<b>UNEMPLOYMENT COMPENSATION</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash Received from Customers.....	\$ —	\$ 3,943,534	\$ —
Cash Received from Multi-State Lottery for Grand Prize Winner.....	—	128,806	—
Cash Received from Premiums and Assessments.....	1,681,299	—	1,117,685
Cash Received from Interfund Services Provided.....	57,846	—	—
Other Operating Cash Receipts.....	28,526	58,719	33,666
Cash Payments to Suppliers for Goods and Services.....	(63,332)	(75,923)	—
Cash Payments to Employees for Services.....	(196,053)	(30,910)	—
Cash Payments for Benefits and Claims.....	(1,754,292)	—	(904,640)
Cash Payments for Lottery Prizes.....	—	(2,106,527)	—
Cash Payments for Bonuses and Commissions.....	—	(766,420)	—
Cash Payments for Premium Reductions and Refunds.....	(496,628)	—	—
Cash Payments for Interfund Services Used.....	(22,611)	(6,923)	—
Other Operating Cash Payments.....	—	(211)	(94,486)
<b>NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES.....</b>	<b>(765,245)</b>	<b>1,144,145</b>	<b>152,225</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Federal Advance Payments .....	—	—	(200,000)
Transfers-in .....	—	—	—
Transfers-out .....	(8,796)	(1,174,832)	(7,582)
<b>NET CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES.....</b>	<b>(8,796)</b>	<b>(1,174,832)</b>	<b>(207,582)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Principal Payments on Bonds, Notes and Capital Leases.....	—	(6,550)	—
Acquisition and Construction of Capital Assets .....	(26,997)	(14,826)	—
Proceeds from Sales of Capital Assets .....	3,332	102	—
<b>NET CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(23,665)</b>	<b>(21,274)</b>	<b>—</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of Investments.....	(11,816,206)	(61,411)	(1,103,642)
Proceeds from the Sales and Maturities of Investments .....	11,698,441	127,628	1,159,707
Investment Income Received .....	684,847	4,370	—
Borrower Rebates and Agent Fees.....	(51,614)	(317)	—
<b>NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES.....</b>	<b>515,468</b>	<b>70,270</b>	<b>56,065</b>
<b>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS.....</b>	<b>(282,238)</b>	<b>18,309</b>	<b>708</b>
<b>CASH AND CASH EQUIVALENTS, JULY 1 .....</b>	<b>796,803</b>	<b>189,273</b>	<b>550</b>
<b>CASH AND CASH EQUIVALENTS, JUNE 30 .....</b>	<b>\$ 514,565</b>	<b>\$ 207,582</b>	<b>\$ 1,258</b>

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

<b>NONMAJOR PROPRIETARY FUNDS</b>		<b>TOTAL</b>	
\$	37,234	\$	3,980,768
	—		128,806
	—		2,798,984
	10,468		68,314
	8,434		129,345
	(8,165)		(147,420)
	(68,819)		(295,782)
	—		(2,658,932)
	—		(2,106,527)
	—		(766,420)
	—		(496,628)
	(3,746)		(33,280)
	(60,262)		(154,959)
	<b>(84,856)</b>		<b>446,269</b>
	—		(200,000)
	29,972		29,972
	—		(1,191,210)
	<b>29,972</b>		<b>(1,361,238)</b>
	—		(6,550)
	(294)		(42,117)
	23		3,457
	<b>(271)</b>		<b>(45,210)</b>
	(65,697)		(13,046,956)
	117,433		13,103,209
	8,890		698,107
	—		(51,931)
	<b>60,626</b>		<b>702,429</b>
	<b>5,471</b>		<b>(257,750)</b>
	69,132		1,055,758
<b>\$</b>	<b>74,603</b>	<b>\$</b>	<b>798,008</b>

(continued)

STATE OF OHIO  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS -- ENTERPRISE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(dollars in thousands)  
(continued)

	<b>MAJOR PROPRIETARY FUNDS</b>		
	<b>WORKERS' COMPENSATION</b>	<b>LOTTERY COMMISSION</b>	<b>UNEMPLOYMENT COMPENSATION</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating Income (Loss).....	\$ (1,871,115)	\$ 1,142,722	\$ 157,152
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Investment Income.....	—	—	—
Depreciation .....	8,128	10,200	—
Provision for Uncollectible Accounts.....	17,712	—	—
Decrease (Increase) in Assets:			
Deposit with Federal Government.....	—	—	(5,122)
Intergovernmental Receivable.....	—	—	392
Premiums and Assessments Receivable.....	2,070,404	—	(2,261)
Interfund Receivable.....	36,275	1,518	1,643
Other Receivables .....	(178,130)	12,424	2,961
Other Assets .....	(600)	5,739	166
Increase (Decrease) in Liabilities:			
Accounts Payable .....	17,434	15,039	—
Accrued Liabilities.....	—	—	—
Intergovernmental Payable.....	—	—	(74)
Prize Awards Payable.....	—	(68,661)	—
Interfund Payable.....	—	(39)	—
Unearned Revenue .....	512,952	1,078	—
Benefits Payable.....	(718,800)	—	(846)
Refund and Other Liabilities.....	(659,505)	24,125	(1,786)
<b>NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES.....</b>	<b>\$ (765,245)</b>	<b>\$ 1,144,145</b>	<b>\$ 152,225</b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>			
Change in Fair Value of Investments.....	\$ 731,967	\$ 18,551	\$ —
Gain on Extinguishment of Debt.....	—	—	502,586

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

<u>NONMAJOR PROPRIETARY FUNDS</u>	<u>TOTAL</u>
\$ (44,907)	\$ (616,148)
1,240	1,240
316	18,644
—	17,712
—	(5,122)
3,364	3,756
—	2,068,143
(360)	39,076
385	(162,360)
51	5,356
(1,176)	31,297
906	906
—	(74)
—	(68,661)
(12)	(51)
62	514,092
(45,600)	(765,246)
875	(636,291)
<u>\$ (84,856)</u>	<u>\$ 446,269</u>

\$ —	\$ 750,518
—	502,586

**STATE OF OHIO**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2016**  
(dollars in thousands)

	<u>PENSION TRUST</u>	<u>PRIVATE- PURPOSE TRUST</u>	<u>INVESTMENT TRUST</u>
	<u>STATE HIGHWAY PATROL RETIREMENT SYSTEM (as of 12/31/15)</u>	<u>VARIABLE COLLEGE SAVINGS PLAN</u>	<u>STAR OHIO</u>
<b>ASSETS:</b>			
Cash Equity with Treasurer.....	\$ —	\$ —	\$ —
Cash and Cash Equivalents.....	13,515	249,949	41,517
U.S. Government and Agency Obligations.....	13,479	—	704,993
Common and Preferred Stock.....	65,478	—	—
Corporate Bonds and Notes.....	20,694	—	589,035
Foreign Stocks and Bonds.....	4,057	—	—
Commercial Paper.....	—	—	1,308,612
Repurchase Agreements.....	—	—	157,450
Mutual Funds.....	491,727	9,103,659	1,974,862
Real Estate.....	31,438	—	—
Venture Capital.....	—	—	—
Direct Mortgage Loans.....	—	—	—
Partnership and Hedge Funds.....	166,865	—	—
State Treasury Asset Reserve of Ohio (STAR Ohio).....	—	—	—
Collateral on Lent Securities.....	—	—	—
Employer Contributions Receivable.....	1,417	—	—
Employee Contributions Receivable.....	1,202	—	—
Other Receivables.....	1,300	28,517	2,689
Other Assets.....	15	—	21
Capital Assets, Net.....	89	—	—
<b>TOTAL ASSETS.....</b>	<b>811,276</b>	<b>9,382,125</b>	<b>4,779,179</b>
<b>DEFERRED OUTFLOWS OF RESOURCES.....</b>	<b>33</b>	<b>—</b>	<b>—</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES.....</b>	<b>811,309</b>	<b>9,382,125</b>	<b>4,779,179</b>
<b>LIABILITIES:</b>			
Accounts Payable.....	692	—	—
Accrued Liabilities.....	4,350	3,003	109
Obligations Under Securities Lending.....	—	—	—
Intergovernmental Payable.....	—	—	—
Refund and Other Liabilities.....	610	29,823	318
<b>TOTAL LIABILITIES.....</b>	<b>5,652</b>	<b>32,826</b>	<b>427</b>
<b>DEFERRED INFLOWS OF RESOURCES.....</b>	<b>12</b>	<b>—</b>	<b>—</b>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES.....</b>	<b>5,664</b>	<b>32,826</b>	<b>427</b>
<b>NET POSITION (DEFICITS):</b>			
Restricted for:			
Employees' Pension Benefits.....	704,225	—	—
Employees' Postemployment Healthcare Benefits.....	101,420	—	—
Individuals, Organizations and Other Governments.....	—	9,349,299	—
Pool Participants.....	—	—	4,778,752
<b>TOTAL NET POSITION (DEFICITS).....</b>	<b>\$ 805,645</b>	<b>\$ 9,349,299</b>	<b>\$ 4,778,752</b>

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

AGENCY

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\$ 320,070  
136,683  
11,822,814  
41,261,079  
11,595,128  
43,509,082  
2,001,429  
450,000  
8,835,935  
22,097,192  
19,184,378  
7,313,657  
17,087,131  
72,413  
28,778  
—  
—  
—  
425,290  
—  

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**186,141,059**  

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**186,141,059**

—  
—  
28,778  
216,103  

---

185,896,178  

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**186,141,059**  

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**186,141,059**

—  
—  
—  
—  

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**\$ —**  

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# STATE OF OHIO

## STATEMENT OF CHANGES IN FIDUCIARY NET POSITION FIDUCIARY FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (dollars in thousands)

	<u>PENSION TRUST</u>	<u>PRIVATE- PURPOSE TRUST</u>	<u>INVESTMENT TRUST</u>
	<u>STATE HIGHWAY PATROL RETIREMENT SYSTEM (for the fiscal year ended 12/31/15)</u>	<u>VARIABLE COLLEGE SAVINGS PLAN</u>	<u>STAR OHIO</u>
<b>ADDITIONS:</b>			
Contributions from:			
Employer.....	\$ 26,964	\$ —	\$ —
Employees.....	12,711	—	—
Plan Participants.....	—	2,359,167	—
Other.....	4,913	—	—
<b>Total Contributions.....</b>	<b>44,588</b>	<b>2,359,167</b>	<b>—</b>
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments.....	(14,377)	(315,204)	—
Interest, Dividends and Other.....	14,512	342,464	13,744
<b>Total Investment Income.....</b>	<b>135</b>	<b>27,260</b>	<b>13,744</b>
Less: Investment Expense.....	5,247	35,845	2,907
<b>Net Investment Income.....</b>	<b>(5,112)</b>	<b>(8,585)</b>	<b>10,837</b>
Capital Share and Individual Account Transactions:			
Shares Sold.....	—	—	13,054,529
Reinvested Distributions.....	—	—	12,963
Shares Redeemed.....	—	—	(10,959,116)
<b>Net Capital Share and Individual Account Transactions.....</b>	<b>—</b>	<b>—</b>	<b>2,108,376</b>
<b>TOTAL ADDITIONS.....</b>	<b>39,476</b>	<b>2,350,582</b>	<b>2,119,213</b>
<b>DEDUCTIONS:</b>			
Pension Benefits Paid to Participants or Beneficiaries.....	65,828	—	—
Healthcare Benefits Paid to Participants or Beneficiaries....	13,759	—	—
Refunds of Employee Contributions.....	858	—	—
Administrative Expense.....	1,241	—	—
Transfers to Other Retirement Systems.....	161	—	—
Distributions to Shareholders and Plan Participants.....	—	2,183,969	10,837
<b>TOTAL DEDUCTIONS.....</b>	<b>81,847</b>	<b>2,183,969</b>	<b>10,837</b>
<b>CHANGE IN NET POSITION RESTRICTED FOR:</b>			
Employees' Pension Benefits.....	(35,842)	—	—
Employees' Postemployment Healthcare Benefits.....	(6,529)	—	—
Individuals, Organizations and Other Governments.....	—	166,613	—
Pool Participants.....	—	—	2,108,376
<b>TOTAL CHANGE IN NET POSITION.....</b>	<b>(42,371)</b>	<b>166,613</b>	<b>2,108,376</b>
<b>NET POSITION (DEFICITS), JULY 1 (as restated).....</b>	<b>848,016</b>	<b>9,182,686</b>	<b>2,670,376</b>
<b>NET POSITION (DEFICITS), JUNE 30.....</b>	<b>\$ 805,645</b>	<b>\$ 9,349,299</b>	<b>\$ 4,778,752</b>

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

# STATE OF OHIO

COMBINING STATEMENT OF NET POSITION  
DISCRETELY PRESENTED COMPONENT UNITS  
JUNE 30, 2016  
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	OHIO FACILITIES CONSTRUCTION COMMISSION	OHIO STATE UNIVERSITY	NONMAJOR COMPONENT UNITS
<b>ASSETS:</b>			
<b>CURRENT ASSETS:</b>			
Cash Equity with Treasurer.....	\$ 273,213	\$ —	\$ 12,448
Cash and Cash Equivalents.....	—	550,076	1,045,077
Investments.....	1,501	1,543,493	2,426,525
Collateral on Lent Securities.....	24,565	—	—
Restricted Assets:			
Cash and Cash Equivalents.....	—	—	150,308
Investments.....	—	—	186,044
Intergovernmental Receivable.....	—	5,466	43,965
Loans Receivable, Net.....	495	25,578	40,688
Receivable from Primary Government.....	—	1,757	25,064
Other Receivables.....	1	612,740	492,942
Inventories.....	—	38,208	105,085
Other Assets.....	—	54,108	84,466
<b>TOTAL CURRENT ASSETS.....</b>	<b>299,775</b>	<b>2,831,426</b>	<b>4,612,612</b>
<b>NONCURRENT ASSETS:</b>			
Restricted Assets:			
Cash and Cash Equivalents.....	—	802,707	242,111
Investments.....	—	3,754,299	2,245,406
Investments.....	—	—	2,172,715
Loans Receivable, Net.....	823	41,526	168,068
Other Receivables.....	—	65,546	149,286
Other Assets.....	—	—	1,739,269
Capital Assets Being Depreciated, Net.....	33,740	4,716,482	8,932,178
Capital Assets Not Being Depreciated.....	11,858	253,916	1,143,298
<b>TOTAL NONCURRENT ASSETS.....</b>	<b>46,421</b>	<b>9,634,476</b>	<b>16,792,331</b>
<b>TOTAL ASSETS.....</b>	<b>346,196</b>	<b>12,465,902</b>	<b>21,404,943</b>
<b>DEFERRED OUTFLOWS OF RESOURCES.....</b>	<b>—</b>	<b>698,249</b>	<b>883,451</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES.....</b>	<b>346,196</b>	<b>13,164,151</b>	<b>22,288,394</b>
<b>LIABILITIES:</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts Payable.....	1,608	385,520	356,015
Accrued Liabilities.....	128	106,812	407,219
Obligations Under Securities Lending.....	24,565	—	—
Intergovernmental Payable.....	315,472	—	2,526
Unearned Revenue.....	—	216,843	253,435
Refund and Other Liabilities.....	1,553	123,255	249,781
Bonds and Notes Payable.....	—	657,520	262,837
<b>TOTAL CURRENT LIABILITIES.....</b>	<b>343,326</b>	<b>1,489,950</b>	<b>1,531,813</b>
<b>NONCURRENT LIABILITIES:</b>			
Intergovernmental Payable.....	301,000	—	72,242
Unearned Revenue.....	—	—	12,269
Refund and Other Liabilities.....	222	3,269,913	4,745,999
Payable to Primary Government.....	—	—	27,708
Bonds and Notes Payable.....	—	2,726,739	7,515,148
<b>TOTAL NONCURRENT LIABILITIES.....</b>	<b>301,222</b>	<b>5,996,652</b>	<b>12,373,366</b>
<b>TOTAL LIABILITIES.....</b>	<b>644,548</b>	<b>7,486,602</b>	<b>13,905,179</b>
<b>DEFERRED INFLOWS OF RESOURCES.....</b>	<b>3,526,996</b>	<b>587,157</b>	<b>319,059</b>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES.....</b>	<b>4,171,544</b>	<b>8,073,759</b>	<b>14,224,238</b>
<b>NET POSITION (DEFICITS):</b>			
Net Investment in Capital Assets.....	45,597	2,382,715	5,354,826
Restricted for:			
Transportation.....	—	—	229,401
Community and Economic Development.....	—	—	13,223
Nonexpendable:			
Scholarships and Fellowships.....	—	—	361,614
Research.....	—	—	75,434
Endowments and Quasi-Endowments.....	—	1,370,064	1,178,513
Loans, Grants and Other College and University Purposes.....	—	—	597,982
Expendable:			
Scholarships and Fellowships.....	—	—	274,734
Research.....	—	—	152,347
Instructional Department Uses.....	—	—	155,038
Student and Public Services.....	—	—	69,329
Academic Support.....	—	—	140,321
Debt Service.....	—	—	24,043
Capital Purposes.....	—	(23,130)	142,701
Endowments and Quasi-Endowments.....	—	283,351	386,825
Current Operations.....	—	648,732	(3,911)
Loans, Grants and Other College and University Purposes.....	—	—	467,059
Unrestricted.....	(3,870,945)	428,660	(1,555,323)
<b>TOTAL NET POSITION (DEFICITS).....</b>	<b>\$ (3,825,348)</b>	<b>\$ 5,090,392</b>	<b>\$ 8,064,156</b>

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

**TOTAL**

\$ 285,661  
1,595,153  
3,971,519  
24,565  
  
150,308  
186,044  
49,431  
66,761  
26,821  
1,105,683  
143,293  
138,574  

---

**7,743,813**

1,044,818  
5,999,705  
2,172,715  
210,417  
214,832  
1,739,269  
13,682,400  
1,409,072  

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**26,473,228**  

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**34,217,041**  

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**1,581,700**  

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**35,798,741**

743,143  
514,159  
24,565  
317,998  
470,278  
374,589  
920,357  

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**3,365,089**

373,242  
12,269  
8,016,134  
27,708  
10,241,887  
18,671,240  

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**22,036,329**  

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**4,433,212**  

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**26,469,541**

7,783,138

229,401  
13,223

361,614  
75,434  
2,548,577  
597,982

274,734  
152,347  
155,038  
69,329  
140,321  
24,043  
119,571  
670,176  
644,821  
467,059  
(4,997,608)

**\$ 9,329,200**

**STATE OF OHIO**  
**COMBINING STATEMENT OF ACTIVITIES**  
**DISCRETELY PRESENTED COMPONENT UNITS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**  
(dollars in thousands)

	<b>MAJOR COMPONENT UNITS</b>		
	<b>OHIO FACILITIES CONSTRUCTION COMMISSION</b>	<b>OHIO STATE UNIVERSITY</b>	<b>NONMAJOR COMPONENT UNITS</b>
<b>EXPENSES:</b>			
Primary, Secondary and Other Education.....	\$ 344,183	\$ —	\$ —
Transportation.....	—	—	417,091
Community and Economic Development.....	33,997	—	892,570
Education and General:			
Instruction and Departmental Research.....	—	999,739	2,053,204
Separately Budgeted Research.....	—	470,556	370,933
Public Service.....	—	170,096	199,550
Academic Support.....	—	207,688	551,777
Student Services.....	—	103,784	337,027
Institutional Support.....	—	237,275	696,800
Operation and Maintenance of Plant.....	—	108,461	393,294
Scholarships and Fellowships.....	—	120,962	273,338
Auxiliary Enterprises.....	—	254,137	725,302
Hospitals.....	—	2,683,589	357,296
Interest on Long-Term Debt.....	—	95,495	319,703
Depreciation.....	1,733	358,326	569,383
Other.....	—	—	72,210
<b>TOTAL EXPENSES.....</b>	<b>379,913</b>	<b>5,810,108</b>	<b>8,229,478</b>
<b>PROGRAM REVENUES:</b>			
Charges for Services, Fees, Fines and Forfeitures.....	35,353	4,441,709	5,417,695
Operating Grants, Contributions and Restricted Investment Income.....	7,051	683,809	709,319
Capital Grants, Contributions and Restricted Investment Income.....	—	10,422	27,900
<b>TOTAL PROGRAM REVENUES.....</b>	<b>42,404</b>	<b>5,135,940</b>	<b>6,154,914</b>
<b>NET PROGRAM (EXPENSE) REVENUE .....</b>	<b>(337,509)</b>	<b>(674,168)</b>	<b>(2,074,564)</b>
<b>GENERAL REVENUES:</b>			
Unrestricted Investment Income.....	—	(10,376)	(79,164)
State Assistance.....	183,577	492,444	1,479,862
Other.....	890	225,646	494,032
<b>TOTAL GENERAL REVENUES.....</b>	<b>184,467</b>	<b>707,714</b>	<b>1,894,730</b>
<b>ADDITIONS (DEDUCTIONS) TO ENDOWMENTS AND PERMANENT FUND PRINCIPAL.....</b>	<b>—</b>	<b>64,537</b>	<b>46,138</b>
<b>GAIN (LOSS) ON EXTINGUISHMENT OF DEBT.....</b>	<b>—</b>	<b>—</b>	<b>(87)</b>
<b>CHANGE IN NET POSITION.....</b>	<b>(153,042)</b>	<b>98,083</b>	<b>(133,783)</b>
<b>NET POSITION (DEFICITS), JULY 1 (as restated).....</b>	<b>(3,672,306)</b>	<b>4,992,309</b>	<b>8,197,939</b>
<b>NET POSITION (DEFICITS), JUNE 30.....</b>	<b>\$ (3,825,348)</b>	<b>\$ 5,090,392</b>	<b>\$ 8,064,156</b>

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

**TOTAL**

\$ 344,183  
417,091  
926,567

3,052,943  
841,489  
369,646  
759,465  
440,811  
934,075  
501,755  
394,300  
979,439  
3,040,885  
415,198  
929,442  
72,210

**14,419,499**

9,894,757

1,400,179

38,322

**11,333,258**

**(3,086,241)**

(89,540)

2,155,883

720,568

**2,786,911**

110,675

(87)

(188,742)

9,517,942

**\$ 9,329,200**



## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Ohio, as of June 30, 2016, and for the year then ended, conform with generally accepted accounting principles (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are included in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. The State's significant accounting policies are as follows.

### A. Financial Reporting Entity

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

GASB Statement No. 14 (GASB 14), *The Financial Reporting Entity*, as amended by GASB Statement No. 39 (GASB 39), *Determining Whether Certain Organizations are Component Units* and GASB Statement No. 61 (GASB 61), *The Financial Reporting Entity: Omnibus*, defines financial accountability. The criteria for determining financial accountability include the following circumstances:

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

### 1. Blended Component Units

The Buckeye Tobacco Settlement Financing Authority (BTSFA) is a legally separate organization for which the State has financial accountability through voting majority and the State has the potential to receive a financial benefit. The BTSFA provides services entirely, or almost entirely, to the State or otherwise exclusively, or almost exclusively, for the benefit of the State. Therefore, the State reports this organization's balances and transactions as though they were part of the primary government using the blending method.

### 2. Fiduciary Component Units

The State Highway Patrol Retirement System is a legally separate organization that provides services entirely, or almost entirely, to the State or otherwise exclusively, or almost exclusively, for the benefit of the State. Therefore, the State reports this organization's balances and transactions separately in the fiduciary fund financial statements.

### 3. Discretely Presented Component Units

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

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

Ohio Facilities Construction Commission  
Ohio Air Quality Development Authority  
Ohio Capital Fund  
JobsOhio

The Ohio Turnpike and Infrastructure Commission has the potential to provide a financial benefit to the primary government.



**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

The Ohio Facilities Construction Commission, a governmental component unit, does not issue separately audited financial reports.

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

**4. Joint Ventures and Related Organizations**

As discussed in more detail in NOTE 19, the State participates in several joint ventures and has related organizations. The State does not include the financial activities of these organizations in its financial statements, in conformity with GASB 14, as amended by GASB 39 and GASB 61.

**B. Basis of Presentation**

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

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

For the government-wide financial statements, eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the State. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole, or in part, by fees charged to external parties for goods or services.

The Statement of Net Position reports all financial and capital resources using the economic resources measurement focus and the accrual basis of accounting. The State presents the statement in a format that displays *assets and deferred outflows of resources less liabilities and deferred inflows of resources equal net position*. The *net position* section is displayed in three components:



**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- The *Net Investment in Capital Assets* component consists of 1) capital assets, net of accumulated depreciation, and deferred outflows of resources that are attributable to the acquisition, construction, or improvements of those assets or related debt less 2) outstanding balances of any bonds or other borrowings and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt. The portion of debt and deferred inflows of resources attributable to significant unspent related debt proceeds at year-end is not included in the calculation of this net position component.
- The *Restricted Net Position* component represents the net position with constraints placed on its use that are either 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation. For component units with permanent endowments, restricted net position is displayed in two additional components — nonexpendable and expendable. Nonexpendable net position is for those endowments that are required to be retained in perpetuity.
- The *Unrestricted Net Position* component consists of the net position that does not meet the definition of the preceding two components.

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

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

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

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

Operating revenues for the State's proprietary funds mainly consist of charges for sales and services and premium and assessment income since these revenues result from exchange transactions associated with the principal activity of the respective enterprise fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Revenue from the federal government for the underfunded regular and extended unemployment benefits is also reported as operating revenues for the Unemployment Compensation Fund, since this source provides significant funding for the payment of unemployment benefits — the fund's principal activity. Investment income for the Tuition Trust Authority Fund is also reported as operating revenue, since this source provides significant funding for the payment of tuition benefits. Nonoperating revenues for the proprietary funds result from nonexchange transactions or ancillary activities; nonoperating revenues are primarily comprised of investment income and federal operating grants.

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



**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The State reports the following major governmental funds:

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

*Job, Family and Other Human Services Special Revenue Fund* — This fund accounts for public assistance programs primarily administered by the Ohio Department of Job and Family Services, which provides financial assistance, services, and job training to those individuals and families who do not have sufficient resources to meet their basic needs. The primary sources of revenue for this fund are licenses, permits and fees and the federal government.

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

The State reports the following major proprietary funds:

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

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

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

The State reports the following fiduciary fund types:

*Pension Trust Fund* — The State Highway Patrol Retirement System Pension Trust Fund accounts for resources that are required to be held in trust for members and beneficiaries of the defined benefit plan. The financial statements for the State Highway Patrol Retirement System Pension Trust Fund are presented for the fiscal year ended December 31, 2015.

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

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

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

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

The *Ohio Facilities Construction Commission Fund* primarily accounts for grants that provide assistance to local entities for the construction of school buildings. The fund also provides construction services for arts and sports facilities.

The *Ohio State University Fund* is a business-type activity that uses proprietary fund reporting. It reports the university's operations, including the University's health system, supercomputer center, agricultural research and development center, and other legally separate entities subject to the control of the university's board.



**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus and Basis of Accounting**

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

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

Nonexchange transactions, in which the State gives (or receives) value without directly receiving (or giving) equal value in exchange, include derived taxes, grants, and entitlements. The revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from nonexchange transactions are recognized in accordance with the requirements of GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions* and GASB 65, *Items Previously Reported as Assets and Liabilities*.

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

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

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

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

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

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

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

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



**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

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

**D. Budgetary Process**

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

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

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

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

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

- Improvements General Obligations
- Highway Improvements General Obligations
- Development General Obligations
- Highway General Obligations
- Public Improvements General Obligations
- Vietnam Conflict Compensation General Obligations
- Infrastructure Bank Revenue Bonds
- Buckeye Tobacco Settlement Financing Authority Revenue Bonds
- Lease Rental Special Obligations
- MARCS Certificates of Participation
- OAKS Certificates of Participation
- STARS Certificates of Participation
- TMS Certificates of Participation
- EDCS Certificates of Participation
- MARCS Project
- OAKS Project
- STARS Project
- TMS Project
- EDCS Project



**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

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

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

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

**E. Cash Equity with Treasurer and Cash and Cash Equivalents**

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

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

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

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

**F. Investments**

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

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

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

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



**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. Taxes Receivable**

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

**H. Intergovernmental Receivable**

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

**I. Inventories**

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

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

**J. Restricted Assets**

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

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

**K. Capital Assets**

*Primary Government*

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

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

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



**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

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

The State has established the following capitalization thresholds:

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

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

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

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

*Discretely Presented Component Unit Funds*

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

**L. Medicaid Claims Payable**

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



**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**M. Noncurrent Liabilities**

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

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

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

**N. Compensated Absences**

Employees of the State's primary government earn vacation leave, sick leave, and personal leave at various rates within limits specified under collective bargaining agreements or under law. Generally, employees accrue vacation leave at a rate of 3.1 hours every two weeks for the first four years of employment, up to a maximum rate of 9.2 hours every two weeks after 24 years of employment. Employees may accrue a maximum of three years vacation leave credit. At termination or retirement, the State pays employees, at their full rate, 100 percent of unused vacation leave, personal leave, and, in certain cases, compensatory time and 50 to 55 percent of unused sick leave.

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

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

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

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

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

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

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

**O. Pensions**

For purposes of measuring the net pension liability, Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.



**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**P. Fund Balance Classification; Budget Stabilization Fund; Net Position/Fund Balance Spending Order**

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

Nonspendable

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

Restricted

Fund balance amounts should be *restricted* when constraints placed on the use of resources are either 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or 2) imposed by law through constitutional provisions or enabling legislation.

Unrestricted

Committed

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

Assigned

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

Unassigned

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

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

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

**Q. Risk Management**

The State's primary government is self-insured for claims under its traditional healthcare plan and for vehicle liability while it has placed employee and public official fidelity bonding with a private insurer. The State self-funds tort liability although several agencies also choose to participate in private insurance programs. All State owned buildings are covered under a catastrophic property policy that covers both real and personal property losses. All other liability risk to State property is self-funded on a pay-as-you-go basis.



**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

While not the predominant participants, the State's primary government and its discretely presented component units participate in a public entity risk pool, which is accounted for in the Workers' Compensation Enterprise Fund, for the financing of their respective workers' compensation liabilities. These liabilities are reported in the governmental and proprietary funds under the "Interfund Payable" account. (See NOTE 7).

**R. Interfund Balances and Activities**

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

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

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

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

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

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

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

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

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

**S. Intra-Entity Balances and Activities**

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

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

**T. Derivatives Instruments**

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

The State reports its derivative instruments at fair value in the Statement of Net Position. Changes in fair value for investment derivatives are recorded as investment income in the Statement of Activities. Changes in fair value for effective hedging derivatives are reported as deferred outflows/inflows of resources in the Statement of Net Position and disclosed in NOTE 18.



**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**U. Use of Estimates**

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

**NOTE 2 RESTATEMENTS, CHANGES IN ACCOUNTING PRINCIPLES, EXTINGUISHMENTS OF DEBT AND SPECIAL ITEMS**

**A. Restatements**

Restatements of net position, as of June 30, 2016, for the primary government and discretely presented component units are presented in the following table (dollars in thousands).

**Government-Wide Financial Statements:**

	Governmental Activities	Total Discretely Presented Component Units
Net Position, as of June 30, 2015, As Previously Reported .....	\$ 19,317,816	\$ 9,563,238
<i>Implementation of a New Accounting Standard:</i>		
GASB Statement No. 68 (Fiscal Year Ended December 31, 2015).....	-	(41,054)
<i>Change in Reporting Entity:</i>		
Wright State University.....	-	2,435
<i>Correction of an Error:</i>		
Office of Loan Administration.....	636	-
Ohio Air Quality Development Authority.....	-	(8)
Cleveland State University.....	-	(6,225)
Clark State Community College.....	-	(444)
Total Changes in Net Position.....	636	(45,296)
Net Position, July 1, 2015, As Restated .....	<u>\$ 19,318,452</u>	<u>\$ 9,517,942</u>

**Governmental Fund and Fiduciary Fund Financial Statements:**

	General Fund	Pension Trust Fund
Fund Balance/Net Position, as of June 30, 2015, As Previously Reported .....	\$ 5,003,799	\$ 848,611
<i>Implementation of a New Accounting Standard:</i>		
GASB Statement No. 68 (Fiscal Year Ended December 31, 2015).....	-	(595)
<i>Correction of an Error:</i>		
Office of Loan Administration.....	636	-
Total Changes in Fund Balance/Net Position.....	636	(595)
Fund Balance/Net Position, July 1, 2015, As Restated .....	<u>\$ 5,004,435</u>	<u>\$ 848,016</u>

**B. Implementation of Recently Issued Accounting Pronouncements**

For the fiscal year ended June 30, 2016, the State implemented the provisions of

- Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*.
- Governmental Accounting Standards Board (GASB) Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*.



**NOTE 2 RESTATEMENTS, CHANGES IN ACCOUNTING PRINCIPLES,  
EXTINGUISHMENTS OF DEBT AND SPECIAL ITEMS (Continued)**

- Governmental Accounting Standards Board (GASB) Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.
- Governmental Accounting Standards Board (GASB) Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72 enhances comparability by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also enhances fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurement on a government's financial position.

GASB Statement No. 73 improves financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and nonemployer contributing entities. Part of the Statement was implemented for the fiscal year ending June 30, 2016 and part will be implemented for fiscal year ending June 30, 2017.

GASB Statement No.76, which supersedes GASB 55, establishes improved financial reporting by 1) raising the category of GASB Implementation Guides in the GAAP hierarchy; 2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and 3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature.

GASB Statement No.79 enhances comparability of financial statements by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement and with consistent application of an amortized cost-based measurement for financial reporting purposes. This Statement establishes additional note disclosure requirements to include information about any limitations or restrictions on participant withdrawals. Part of the Statement was implemented for the fiscal year ending June 30, 2016 and part will be implemented for fiscal year ending June 30, 2017.

**C. Recently Issued GASB Pronouncements**

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The provisions of GASB 74 are effective for financial statements for fiscal years beginning after June 15, 2016. The requirements of this Statement improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria. The new information will enhance the decision-usefulness of the financial reports of those OPEB plans, their value for assessing accountability, and their transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The provisions of GASB 75 are effective for fiscal years beginning after June 15, 2017. The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information. The consistency, comparability, and transparency of the information reported by employers and governmental nonemployer contributing entities about OPEB transactions will also be improved by the requirements of this Statement.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. The provisions of GASB 77 are effective for financial statements for periods beginning after December 15, 2015. The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and



**NOTE 2 RESTATEMENTS, CHANGES IN ACCOUNTING PRINCIPLES,  
EXTINGUISHMENTS OF DEBT AND SPECIAL ITEMS (Continued)**

magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand 1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and 2) the impact those abatements have on a government's financial position and economic condition.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The provisions of GASB 78 are effective for financial statements for fiscal years beginning after December 15, 2015. The requirements of this Statement establishes recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions provided to employees of state or local governmental employers associated with certain cost-sharing multiple-employer defined benefit pension plans.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units-An Amendment of GASB Statement No. 14*. The provisions of GASB 80 are effective for financial statements for fiscal years beginning after June 15, 2016. The requirements of this Statement clarify the financial statement presentation requirements for certain component units and requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The provisions of GASB 81 are effect for financial statements for fiscal years beginning after December 15, 2016. When receiving resources pursuant to an irrevocable split-interest agreement, a government must recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement and to recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party.

In March 2016, the GASB issued Statement No. 82, *Pension Issues-An Amendment of FASB Statements No. 67, No. 68, and No. 73*. The provisions of GASB 82 are effective for financial statements for fiscal years beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. This Statement addresses issues regarding 1) the presentation of payroll-related measures in required supplementary information, 2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and 3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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

**D. Extinguishments of Debt – Major Funds**

Extinguishments of debt reflected in the State's basic financial statements, as of June 30, 2016 (dollars in thousands) are as follows:

**Unemployment Compensation**

Gain on Extinguishment of Debt

The \$502.6 million gain on extinguishment of debt reported in the business-type activities relates to Unemployment Compensation. To assist the State in the repayment of outstanding advances owed to the federal government, the federal government implemented a reduction to the Federal Unemployment Tax Act (FUTA) credit it gives to employers. The additional tax paid by the employers and collected directly by the federal government as a result of the FUTA credit reduction is offset against the State's outstanding advance balance.

Voluntary Federal Advance Payments

In addition to the FUTA offset, the State made voluntary payments totaling \$200 million which reduced the outstanding advance balance to \$275.9 million as of June 30, 2016. The State paid off the outstanding balance in August 2016.



**NOTE 3 GAAP versus NON-GAAP BUDGETARY BASIS**

In the accompanying *Statement of Revenues, Expenditures and Changes in Fund Balances — Budget and Actual (Non-GAAP Budgetary Basis) — General Fund and Major Special Revenue Funds*, actual revenues, transfers-in, expenditures, encumbrances, and transfers-out reported on the non-GAAP budgetary basis do not equal those reported on the GAAP basis in the *Statement of Revenues, Expenditures and Changes in Fund Balances — Major Governmental Funds*.

This inequality results primarily from basis differences in the recognition of accruals, deferred resources, interfund transactions, and loan transactions, and from timing differences in the budgetary basis of accounting for encumbrances. On the non-GAAP budgetary basis, the State recognizes encumbrances as expenditures in the year encumbered, while on the modified accrual basis, the State recognizes expenditures when goods or services are received regardless of the year encumbered.

*Original Budget* amounts in the accompanying budgetary statements have been taken from the first complete appropriated budget for fiscal year 2016. An appropriated budget is the expenditure authority created by appropriation bills that are signed into law and related estimated revenues. The original budget also includes actual appropriation amounts automatically carried over from prior years by law, including the automatic rolling forward of appropriations to cover prior-year encumbrances.

*Final Budget* amounts represent original appropriations modified by authorized transfers, supplemental and amended appropriations, and other legally authorized legislative and executive changes applicable to fiscal year 2016, whenever signed into law or otherwise legally authorized.

For fiscal year 2016, no excess expenditures over appropriations were reported in individual funds.

A reconciliation of the fund balances reported under the GAAP basis and budgetary basis for the General Fund and the major special revenue fund is presented on the following page.



**NOTE 3 GAAP versus NON-GAAP BUDGETARY BASIS (Continued)**

**Primary Government**  
**Reconciliation of GAAP Basis Fund Balances to Non-GAAP Budgetary Basis Fund Balances**  
**For the General Fund and Major Special Revenue Fund**  
**As of June 30, 2016**  
*(dollars in thousands)*

	General	Job, Family & Other Human Services
Total Fund Balances — GAAP Basis .....	\$ 5,654,361	\$ 353,827
Less: Nonspendable Fund Balances.....	45,953	-
Less: Restricted Fund Balances.....	1,270,315	287,297
Less: Committed Fund Balances.....	820,878	66,810
Less: Assigned Fund Balances.....	2,653,290	-
Unassigned Fund Balances — GAAP Basis .....	<u>863,925</u>	<u>(280)</u>
<b>BASIS DIFFERENCES</b>		
Revenue Accruals/Adjustments:		
Cash Equity with Treasurer .....	(133,544)	(11,255)
Taxes Receivable .....	(1,370,920)	-
Intergovernmental Receivable .....	(669,950)	(188,464)
Loans Receivable, Net .....	(1,057,980)	-
Interfund Receivable .....	(2,847)	-
Receivables from Component Units.....	(2,587)	-
Other Receivables .....	(253,256)	(455,018)
Unearned Revenue .....	-	378,894
Total Revenue Accruals/Adjustments .....	<u>(3,491,084)</u>	<u>(275,843)</u>
Expenditure Accruals/Adjustments:		
Cash Equity with Treasurer .....	37,610	5,757
Inventories .....	(21,359)	-
Other Assets .....	(20)	-
Accounts Payable .....	289,458	151,097
Accrued Liabilities .....	126,735	20,435
Medicaid Claims Payable .....	980,186	-
Intergovernmental Payable .....	781,086	116,067
Interfund Payable .....	453,875	13,391
Payable to Component Units .....	18,958	2,014
Refund and Other Liabilities .....	804,899	5,942
Liability for Escheat Property .....	271,580	-
Total Expenditure Accruals/Adjustments .....	<u>3,743,008</u>	<u>314,703</u>
Deferred Inflows of Resources.....	<u>1,243,096</u>	<u>81,873</u>
Other Adjustments:		
Fund Balance Reclassifications:		
From Unassigned (Non-GAAP Budgetary Basis) to:		
Nonspendable .....	45,953	-
Restricted.....	1,270,315	287,297
Committed .....	820,878	66,810
Assigned.....	2,653,290	-
Cash and Investments Held Outside State Treasury .....	(1,321,627)	(3,383)
Other .....	(1)	-
Total Other Adjustments .....	<u>3,468,808</u>	<u>350,724</u>
Total Basis Differences .....	<u>4,963,828</u>	<u>471,457</u>
<b>TIMING DIFFERENCES</b>		
Encumbrances .....	<u>(1,005,500)</u>	<u>(1,252,727)</u>
Budgetary Fund Balances (Deficits) — Non-GAAP Basis .....	<u>\$ 4,822,253</u>	<u>\$ (781,550)</u>



## NOTE 4 DEPOSITS AND INVESTMENTS

### A. Legal Requirements

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

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

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

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

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



**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

- Bonds, notes, and other obligations of any state or political subdivision thereof;
- Obligations of a board of education, as authorized under Section 133.10, Ohio Revised Code; and
- Obligations of a political subdivision issued under Chapter 133, Ohio Revised Code.

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

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

**B. State-Sponsored Investment Pool**

The Treasurer of State is the investment advisor and administrator of the State Treasury Asset Reserve of Ohio (STAR Ohio), a statewide external investment pool authorized under Section 135.45, Ohio Revised Code. STAR Ohio issues a stand-alone financial report, copies of which may be obtained by making a written request to: Director of Investments, Treasurer of State, 30 East Broad Street, 9<sup>th</sup> Floor, Columbus, Ohio 43215, by calling 1-800-648-7827, or by accessing the Treasurer of State's website at [www.tos.ohio.gov](http://www.tos.ohio.gov).

**C. Deposit and Investment Risks**

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

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

**1. Custodial Credit Risk**

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

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

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



**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

The table below reports the carrying amount of deposits, as of June 30, 2016, held by the primary government, including fiduciary activities, and its major discretely presented component units and the extent of exposure to custodial credit risk.

<b>Primary Government (including Fiduciary Activities) and Major Discretely Presented Component Unit</b>					
<b>Deposits—Custodial Credit Risk</b>					
<b>As of June 30, 2016</b>					
<i>(dollars in thousands)</i>					
				<u>Uninsured Portion of Reported Bank Balance</u>	
	Carrying Amount	Bank Balance	Uncollateralized	Collateralized with Securities Held by the Pledging Institution's Trust Department or Agent but not in the Depositor- Government's Name	Collateralized with Securities Held by the Pledging Institution
<i>Primary Government</i> .....	\$ 962,231	\$ 869,501	\$ 12,393	\$ 76,449	\$ 17,853
<i>Major Discretely Presented Component Unit:</i>					
Ohio State University.....	1,352,783	1,403,806	-	-	1,345,614

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

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

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

The following table reports the fair value, as of June 30, 2016, of investments by type for the primary government, including fiduciary activities, and the extent of exposure to custodial credit risk (dollars in thousands).



**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

Primary Government (including Fiduciary Activities)  
Investments—Fair Value and Custodial Credit Risk  
As of June 30, 2016  
(dollars in thousands)

	Total Fair Value	Uninsured, Unregistered, and Held by the Counterparty's Trust Department or Agent but not in the State's Name
<i>Investments Subject to Custodial Credit Risk Exposure:</i>		
U.S. Government Obligations .....	\$ 15,211,593	\$ -
U.S. Government Obligations—Strips .....	1,092,726	611,703
U.S. Agency Obligations .....	5,665,142	-
U.S. Agency Obligations—Strips .....	265,106	-
Common and Preferred Stock .....	46,556,781	-
Corporate Bonds and Notes .....	18,798,267	-
Corporate Bonds and Notes—Strips .....	79	-
Municipal Obligations.....	650,912	-
Negotiable Certificates of Deposit .....	2,925	-
Commercial Paper .....	7,072,104	-
Repurchase Agreements .....	1,432,580	-
Mortgage and Asset-Backed Securities .....	7,940,774	-
International Investments:		
Foreign Stocks .....	34,988,917	-
Foreign Bonds .....	2,863,198	-
High-Yield and Emerging Markets Fixed Income .....	7,223,703	-
Securities Lending Collateral:		
Commercial Paper .....	26,720	-
Repurchase Agreements .....	102,295	-
Variable Rate Notes .....	925,267	-
		<u>\$ 611,703</u>
<i>Investments Not Subject to Custodial Credit Risk Exposure:</i>		
<i>Investments Held by Broker-Dealers under Securities Loans with Cash Collateral:</i>		
U.S. Government Obligations .....	856,695	
U.S. Government Obligations—Strips .....	76,692	
U.S. Agency Obligations .....	74,161	
U.S. Agency Obligations—Strips .....	2,331	
Corporate Bonds and Notes.....	22,792	
International Investments-Commingled Equity Funds .....	6,039,687	
Equity Mutual Funds .....	12,181,099	
Bond Mutual Funds .....	8,871,084	
Real Estate .....	24,370,239	
Venture Capital .....	19,184,378	
Partnerships and Hedge Funds .....	17,253,996	
Deposit with Federal Government .....	538,564	
Component Units' Equity in State Treasurer's Cash and Investment Pool .....	(310,226)	
Component Units' Equity in the State Treasury Asset Reserve of Ohio .....	(278,345)	
Total Investments — Primary Government .....	<u>\$ 239,702,236</u>	



**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

The following table reports investments with custodial credit risk exposure for the major discretely presented component units. The Ohio Facilities Construction Commission Component Unit Fund also participates in the State Treasurer’s Cash and Investment Pool. Risks associated with the Ohio Facilities Construction Commission’s share of the pool are included in the disclosures for the Primary Government.

Major Discretely Presented Component Units Investment Custodial Credit Risk As of June 30, 2016 (dollars in thousands)		
	Fair Value	Uninsured, Unregistered, and Held by the Counterparty but not in the Component Unit’s Name
<i>Ohio State University:</i>		
U.S. Government Obligations .....	\$ 181,524	\$ 181,524
U.S. Agency Obligations .....	114,737	114,737
Common and Preferred Stock .....	366,931	366,931
Corporate Bonds and Notes .....	987,221	987,221
Municipal Obligations .....	11,685	11,685
Negotiable Certificates of Deposit.....	377,323	377,323
Commercial Paper.....	40,746	40,746
Repurchase Agreements.....	2,200	2,200
International Investments:		
Foreign Stocks .....	112,199	112,199
Foreign Bonds .....	6,994	6,994
Securities Lending Collateral:		
Commercial Paper .....	521	521
Repurchase Agreements .....	7,317	7,317
Variable Rate Notes .....	17,774	17,774
Total Ohio State University.....		<u>\$ 2,227,172</u>

**2. Credit Risk**

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

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

- Commercial paper must carry ratings in the two highest categories by two nationally recognized rating agencies;
- Debt interests (other than commercial paper) must carry ratings in the three highest categories by two nationally recognized rating agencies. This requirement is met when either the debt interest or the issuer of the debt interest carries this rating; and
- For Registered Investment Companies (Mutual Funds), no-load money market mutual funds must carry a rating of the highest category by one nationally recognized rating agency.

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

- Commercial paper must have a short term debt rating of at least “A-1” or equivalent by all nationally recognized rating agencies that rate the issuer, with at least two agencies rating the issuer;



**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

- Bonds and notes of any State or political subdivision thereof must be rated in the three highest categories by Standard & Poor's;
- Banker acceptances must carry a minimum of "A+" for long-term debt ("AAA" for foreign issuers) by a majority of the nationally recognized rating agencies rating the issuer. For short-term debt, the rating must be at least "A-1" or equivalent by at least two nationally recognized rating agencies rating the issuer;
- Foreign debt, or the implicit rating of the issuer of the debt, must be rated in one of the three highest categories by at least two nationally recognized rating agencies; and
- Repurchase agreements must, in the case when issued by a counterparty that is not either: an Ohio financial institution that is a member of the Federal Reserve System, or a Federal Home Loan Bank, or a recognized government securities dealer, then such counterparty must have a short-term debt rating of at least A-1 by Standard & Poor's, or, if the counterparty is not explicitly rated A-1 by Standard & Poor's, then the counterparty must possess a guarantee from a Standard & Poor's-rated parent company.
- Money Market Mutual Funds must be rated "AAA" or "AAAm" by Standard & Poor's.

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

*Workers' Compensation Enterprise Fund*

The Fund requires investment-grade ratings by at least two nationally-recognized bond rating services for fixed income securities. If only one of the rating services rates a security, the rating must be investment grade.

*Variable College Savings Plan Private-Purpose Trust Fund*

The fixed income portfolio should consist primarily of domestic investment grade bonds and may be partially invested in below investment grade bonds. Any portion of the portfolio in below-investment grade securities should be invested in "BB" and "B" rated securities.

*STAR Ohio Investment Trust Fund*

Investment policies governing the STAR Ohio external investment pool require that all securities must be rated the equivalent of "A-1+" or "A-1" higher by Standard & Poor's rating agency. Mutual funds must be rated AAA or AAAM by Standard and Poor's.

*Retirement Systems Agency Fund*

For the Public Employees Retirement System, the percentage by market value of non-investment grade securities in the Fixed Income Asset Class will be within 15 percentage points of the percentage by market value of non-investment grade securities in the Fixed Income Aggregate Benchmark.

For the Ohio Police and Fire Pension Fund,

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

The Ohio Facilities Construction Commission Component Unit Fund also participates in the State Treasurer's Cash and Investment Pool. Risks associated with the Ohio Facilities Construction Commission's share of the pool are included in the disclosures for the Primary Government.



**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

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

**Primary Government (including Fiduciary Activities)  
Investment Credit Ratings  
As of June 30, 2016  
(dollars in thousands)**

Investment Type	Credit Rating					
	AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations .....	\$ 77,766	\$ 5,622,435	\$ 2,308	\$ 5,211	\$ -	\$ 1,661
U.S. Agency Obligations—Strips .....	246,170	17,119	-	-	-	-
Corporate Bonds and Notes .....	581,342	2,030,849	5,087,153	6,614,966	2,521,248	1,495,631
Corporate Bonds and Notes—Strips .....	73	-	-	-	-	-
Municipal Obligations.....	64,386	443,019	117,130	22,633	-	2,124
Negotiable Certificates of Deposit .....	-	-	-	-	-	-
Commercial Paper .....	1,443,309	1,248,917	4,290,062	-	-	-
Repurchase Agreements .....	200,000	256,900	775,000	-	-	-
Mortgage and Asset-Backed Securities .....	3,322,198	2,974,055	322,173	285,058	235,469	285,285
International Investments:						
Foreign Bonds.....	480,673	232,016	772,235	996,798	233,798	73,784
High-Yield & Emerging Markets Fixed Income .	29,068	28,562	892,225	1,875,966	1,817,357	1,486,344
Bond Mutual Funds .....	5,612,531	1,460,358	465,262	64,771	60,332	57,446
Securities Lending Collateral:						
Commercial Paper .....	-	-	26,720	-	-	-
Repurchase Agreements .....	-	-	72,295	30,000	-	-
Variable Rate Notes .....	-	494,145	431,122	-	-	-
Total Primary Government .....	<u>\$12,057,516</u>	<u>\$14,808,375</u>	<u>\$13,253,685</u>	<u>\$ 9,895,403</u>	<u>\$ 4,868,204</u>	<u>\$ 3,402,275</u>

Investment Type	Credit Rating					Total
	CCC/Caa	CC/Ca	C	D	Unrated	
U.S. Agency Obligations .....	\$ -	\$ -	\$ -	\$ -	\$ 29,922	\$ 5,739,303
U.S. Agency Obligations—Strips .....	-	-	-	-	4,148	267,437
Corporate Bonds and Notes .....	413,921	1,881	116	11,935	62,017	18,821,059
Corporate Bonds and Notes—Strips .....	-	-	-	-	6	79
Municipal Obligations.....	39	913	-	-	668	650,912
Negotiable Certificates of Deposit .....	-	-	-	-	2,925	2,925
Commercial Paper .....	-	-	-	-	89,816	7,072,104
Repurchase Agreements .....	-	-	-	-	200,680	1,432,580
Mortgage and Asset-Backed Securities .....	152,694	58,628	31,721	101,617	171,876	7,940,774
International Investments:						
Foreign Bonds.....	37,365	-	-	32	36,497	2,863,198
High-Yield & Emerging Markets Fixed Income .	543,889	21,346	1,993	5,500	521,453	7,223,703
Bond Mutual Funds .....	7,110	-	-	-	1,143,274	8,871,084
Securities Lending Collateral:						
Commercial Paper .....	-	-	-	-	-	26,720
Repurchase Agreements .....	-	-	-	-	-	102,295
Variable Rate Notes .....	-	-	-	-	-	925,267
Total Primary Government .....	<u>\$ 1,155,018</u>	<u>\$ 82,768</u>	<u>\$ 33,830</u>	<u>\$ 119,084</u>	<u>\$ 2,263,282</u>	<u>\$61,939,440</u>



**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

**Major Discretely Presented Component Units**

**Investment Credit Ratings**

**As of June 30, 2016**

*(dollars in thousands)*

	Credit Rating					
	AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
<i>Ohio State University:</i>						
U.S. Agency Obligations .....	\$ 289	\$ 110,868	\$ 2,518	\$ -	\$ -	\$ -
Corporate Bonds and Notes .....	60,992	211,662	359,356	291,321	22,258	8,313
Municipal Obligations .....	-	4,726	5,235	275	-	1,004
Negotiable Certificates of Deposit.....	-	-	-	-	-	-
Commercial Paper.....	-	-	-	-	-	-
Repurchase Agreements .....	-	-	-	-	-	-
International Investments-Foreign Bonds .....	2,512	2,731	-	1,255	-	-
Bond Mutual Funds .....	62,906	7,385	16,059	12,542	919	281
Securities Lending Collateral:						
Commercial Paper.....	521	-	-	-	-	-
Repurchase Agreements .....	-	-	-	-	-	-
Bond Mutual Funds .....	1,977	-	-	-	-	-
Variable Rate Notes .....	2,015	6,029	9,730	-	-	-
Total Ohio State University.....	\$ 131,212	\$ 343,401	\$ 392,898	\$ 305,393	\$ 23,177	\$ 9,598

	Credit Rating					Total
	CCC/Caa	CC/Ca	C	D	Unrated	
<i>Ohio State University (continued):</i>						
U.S. Agency Obligations .....	\$ -	\$ -	\$ -	\$ -	\$ 1,062	\$ 114,737
Corporate Bonds and Notes .....	238	-	-	-	33,081	987,221
Municipal Obligations .....	-	-	-	-	445	11,685
Negotiable Certificates of Deposit.....	-	-	-	-	377,323	377,323
Commercial Paper.....	-	-	-	-	40,746	40,746
Repurchase Agreements .....	-	-	-	-	2,200	2,200
International Investments-Foreign Bonds .....	-	-	-	-	496	6,994
Bond Mutual Funds .....	1	-	1,320	-	546	101,959
Securities Lending Collateral:						
Commercial Paper.....	-	-	-	-	-	521
Repurchase Agreements .....	-	-	-	-	7,317	7,317
Bond Mutual Funds .....	-	-	-	-	-	1,977
Variable Rate Notes .....	-	-	-	-	-	17,774
Total Ohio State University.....	\$ 239	\$ -	\$ 1,320	\$ -	\$ 463,216	\$ 1,670,454

	Credit Rating					
	AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
<i>Ohio Facilities Construction Commission:</i>						
Bond Mutual Funds .....	\$ 1,501	\$ -	\$ -	\$ -	\$ -	\$ -
Total Ohio Facilities Construction Commission.....	\$ 1,501	\$ -	\$ -	\$ -	\$ -	\$ -

	Credit Rating				
	CCC/Caa	CC/Ca	C	Unrated	Total
<i>Ohio Facilities Construction Commission (continued):</i>					
Bond Mutual Funds .....	\$ -	\$ -	\$ -	\$ -	\$ 1,501
Total Ohio Facilities Construction Commission.....	\$ -	\$ -	\$ -	\$ -	\$ 1,501



**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

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

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

**3. Concentration of Credit Risk**

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

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

- Investments in commercial paper may not exceed 40 percent of the State’s total average portfolio;
- Bankers acceptances cannot exceed ten percent of the State’s total average portfolio;
- Debt interest (other than commercial paper) shall not exceed 25 percent of the State’s total average portfolio, and when combined with commercial paper, the amount of a single issuer may not exceed five percent of the total average portfolio; and
- Debt interests in foreign nations may not exceed one percent of the State’s total average portfolio.

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

Investment Type	Maximum % of Total Average
U.S. Treasury .....	100
Federal Agency (fixed rate) .....	100
Federal Agency (callable) .....	55
Federal Agency (variable rate) .....	10
Repurchase Agreements .....	50
Bankers’ Acceptances .....	10
Commercial Paper .....	40
Corporate Notes .....	25
Foreign Notes .....	1
Certificates of Deposit .....	20
Municipal Obligations .....	20
STAR Ohio .....	25
Mutual Funds .....	100



**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

The investment policies of the Treasurer of State's Office also specify that commercial paper, when combined with investments in other corporate obligations of a single issuer, are further limited to no more than five percent of the total average portfolio. Bankers' Acceptances are further limited to no more than five percent of the total average portfolio in any single issuer. Mutual funds are limited in that the Treasurer's holdings in a single mutual fund cannot be more than ten percent of the total assets of that mutual fund, nor more than ten percent of the total average portfolio. Repurchase Agreements are limited in that any one counterparty may not exceed ten percent of the total average portfolio. Municipal obligations are limited to no more than 2.5 percent of the total average portfolio in any single issuer.

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

*Lottery Commission Enterprise Fund*

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

*State Highway Patrol Retirement System Pension Trust Fund*

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

*STAR Ohio Investment Trust Fund*

Investments in a single issuer are further limited to no more than five percent of the total average portfolio except as follows:

- U.S. Treasury obligations, limited at 100 percent;
- U.S. Agency obligations, limited to 100 percent with no single U.S. Agency exceeding 33 percent unless maturing in 30 days or less and rated AA- or higher;
- repurchase agreement counterparties, limited at a maximum of 25 percent for A-1 rated counterparties and at a maximum of 50 percent for A-1+ rated counterparties, with further limitations based on the maturity of the investment;
- mutual funds, limited at 100 percent; with no more than ten percent of the total average portfolio invested in any single mutual fund and limited to STAR Ohio representing no more than ten percent of the total assets under management of any single mutual fund;
- corporate obligations, limited to 25 percent, and when added to investments in commercial paper, no more than five percent invested with any single issuer;
- municipal bonds, limited at ten percent and limited to no more than 2.5 percent with any single issuer;
- commercial paper, limited to 40 percent, and when added to investments in other corporate obligations, no more than five percent invested with any single issuer; and
- bankers' acceptances, limited at ten percent, with no more than five percent invested with any single issuer.

*Retirement Systems Agency Fund*

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



**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

As of June 30, 2016, all investments meet the requirements of the State’s law and policies, when applicable. However, investments in certain issuers are at least five percent of investment balances, as follows (dollars in thousands):

Issuer	Amount	Percentage of Investment Balance
<i>STAR Ohio Investment Trust Fund:</i>		
Federal Home Loan Bank .....	\$ 455,370	8%
Federal Farm Credit Bank.....	299,738	5%
<i>Ohio Facilities Construction Commission Component Unit Fund:</i>		
Federal National Mortgage Association .....	\$ 22,116	7%
Federal Home Loan Bank .....	28,409	10%

**4. Interest Rate Risk**

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

For investments that are included in the treasury’s cash and investment pool, and reported as “Cash Equity with Treasurer” and other investment securities managed by the Treasurer of State’s Office, Chapter 135, Ohio Revised Code, requires that Bankers Acceptances must mature in two hundred seventy days or less.

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

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

*Workers’ Compensation Enterprise Fund*

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

*Lottery Commission Enterprise Fund*

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

*Variable College Savings Plan Private-Purpose Trust Fund*

Policy requires the fixed-income portfolio to be invested with duration characteristics that are within a range consistent with Barclay’s Aggregate Index ranges.

*STAR Ohio Investment Trust Fund*

Investment policies limit maturities of investments to a final stated maturity of 397 days or less, with a 762 day limit for floating rate U.S. Treasury and U.S. Agency obligations. Repurchase agreements are limited to maturities of 30 days and both commercial paper and bankers’ acceptances are limited to maturities of 270 days.

*Retirement Systems Agency Fund*

The Public Fixed Income Policy of the Ohio Public Employees Retirement System requires an average effective duration of all defined benefit and health care assets to be within 20 percent of the option-adjusted duration of the Public Fixed Income asset class.



**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

As of June 30, 2016, investments reported as “Cash Equity with Treasurer” have terms that make their fair values highly sensitive to the interest rate changes. The U.S. agency obligations investment type includes \$1.56 billion of investments with call dates during fiscal years 2017 through 2019 and maturity dates during fiscal years 2017 through 2021, while the Corporate Bonds and Notes investment type has \$245.4 million of investments with call dates during fiscal 2017 through 2021 and maturity dates during fiscal years 2017 through 2021.

In addition, several investments reported as “Investments” have terms that make their fair values highly sensitive to interest rate changes. U.S. agency obligations of \$337.2 million and corporate bonds of \$364.4 million have daily, monthly, and quarterly reset dates. For “Collateral on Lent Securities,” variable rate notes of \$654.6 million, \$181.2 million, and \$50 million have quarterly, monthly, and daily reset rates, respectively. Commercial paper of \$25.7 million has monthly reset dates.

The Lottery Commission Enterprise Fund has “Collateral on Lent Securities” with reset dates. Variable rate notes of \$30 million and \$9.5 million have quarterly and monthly reset dates, respectively. Commercial paper of \$1.1 million has monthly reset dates. Repurchase agreements of \$44.1 million have daily reset dates.

Also during fiscal year 2016, the Treasurer of State acted as the custodian of the Retirement Systems Agency Fund’s investments. These investments contain terms that make their fair values highly sensitive to interest rate changes. Specific information on the nature of the investments and their terms can be found in each respective retirement system’s Comprehensive Annual Financial Report.

The tables on the following page list the investment maturities of the investments for the primary government, including fiduciary activities, and its major discretely presented component units. All investments at June 30, 2016, meet the requirements of the State’s laws and policies, when applicable. The Ohio Facilities Construction Commission Component Unit Fund also participates in the State Treasurer’s Cash and Investment Pool. Risks associated with the Ohio Facilities Construction Commission’s share of the pool are included in the disclosures for the Primary Government.



**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

**Primary Government (including Fiduciary Activities)**

**Investments Subject to Interest Rate Risk**

**As of June 30, 2016**

*(dollars in thousands)*

Investment Type	Investment Maturities (in years)				Total
	Less than 1	1-5	6-10	More than 10	
U.S. Government Obligations .....	\$ 2,550,453	\$ 6,965,213	\$ 2,793,393	\$ 3,759,229	\$ 16,068,288
U.S. Government Obligations—Strips .....	345,296	460,261	128,844	235,017	1,169,418
U.S. Agency Obligations .....	2,074,992	2,744,220	178,159	741,932	5,739,303
U.S. Agency Obligations—Strips .....	44,228	152,241	60,287	10,681	267,437
Corporate Bonds and Notes .....	2,076,984	4,919,424	4,816,691	7,007,960	18,821,059
Corporate Bonds and Notes—Strips .....	-	3	-	76	79
Municipal Obligations.....	3,426	6,514	8,707	632,265	650,912
Negotiable Certificates of Deposit.....	407	2,518	-	-	2,925
Commercial Paper .....	7,072,104	-	-	-	7,072,104
Repurchase Agreements .....	1,432,580	-	-	-	1,432,580
Mortgage and Asset-Backed Securities .....	267,244	1,135,199	349,303	6,189,028	7,940,774
International Investments:					
Foreign Bonds .....	285,500	446,732	469,774	1,661,192	2,863,198
High-Yield & Emerging Markets Fixed Income.....	264,287	1,787,411	3,449,637	1,722,368	7,223,703
Bond Mutual Funds .....	6,628,427	145,128	1,441,958	655,571	8,871,084
Securities Lending Collateral:					
Commercial Paper .....	26,720	-	-	-	26,720
Repurchase Agreements .....	102,295	-	-	-	102,295
Variable Rate Notes.....	925,267	-	-	-	925,267
<b>Total Primary Government .....</b>	<b>\$ 24,100,210</b>	<b>\$ 18,764,864</b>	<b>\$ 13,696,753</b>	<b>\$ 22,615,319</b>	<b>\$ 79,177,146</b>

**Major Discretely Presented Component Units**

**Investments Subject to Interest Rate Risk**

**As of June 30, 2016**

*(dollars in thousands)*

Ohio State University:	Investment Maturities (in years)				Total
	Less than 1	1-5	6-10	More than 10	
U.S. Government Obligations .....	\$ 18,829	\$ 157,702	\$ 779	\$ 4,214	\$ 181,524
U.S. Agency Obligations .....	14,980	62,852	15,136	21,769	114,737
Corporate Bonds and Notes .....	271,251	637,495	35,072	43,403	987,221
Municipal Obligations .....	3,237	7,739	-	709	11,685
Negotiable Certificates of Deposit.....	377,323	-	-	-	377,323
Commercial Paper.....	40,746	-	-	-	40,746
Repurchase Agreements .....	2,200	-	-	-	2,200
International Investments-Foreign Bonds .....	1,711	5,093	-	190	6,994
Bond Mutual Funds .....	(1,010)	66,153	27,138	9,678	101,959
Securities Lending Collateral:.....					
Commercial Paper.....	521	-	-	-	521
Repurchase Agreements .....	7,317	-	-	-	7,317
Bond Mutual Funds .....	1,977	-	-	-	1,977
Variable Rate Notes .....	17,774	-	-	-	17,774
<b>Total Ohio State University.....</b>	<b>\$ 756,856</b>	<b>\$ 937,034</b>	<b>\$ 78,125</b>	<b>\$ 79,963</b>	<b>\$ 1,851,978</b>

  

Ohio Facilities Construction Commission:	Investment Maturities (in years)				Total
	Less than 1	1-5	6-10	More than 10	
Bond Mutual Funds .....	\$ 1,501	\$ -	\$ -	\$ -	\$ 1,501
<b>Total Ohio Facilities Construction Commission.....</b>	<b>\$ 1,501</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,501</b>

**5. Foreign Currency Risk**

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



**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

As of June, 30, 2016, investments denominated in the currency of foreign nations, as detailed in the following tables for the primary government, including fiduciary activities, and the Ohio State University major discretely presented component unit, meet the requirements of the State's laws and policies, when applicable.

**Primary Government (including Fiduciary Activities)  
International Investments—Foreign Currency Risk  
As of June 30, 2016  
(dollars in thousands)**

	Stocks	Bonds	High-Yield & Emerging Markets Fixed Income	Commingled International Equity	Total
Australian Dollar .....	\$ 860,462	\$ 343	\$ -	\$ 114,013	\$ 974,818
Bermudian Dollar .....	-	-	-	955	955
Brazilian Real .....	400,249	(2,201)	175,575	36,994	610,617
British Pound .....	2,959,939	5,674	28,886	539,920	3,534,419
Canadian Dollar .....	874,428	56	(64)	151,103	1,025,523
Caymanian Dollar .....	-	-	-	29	29
Chilean Peso .....	86,918	-	269	6,186	93,373
Chinese Renminbi .....	992	(2,834)	1,184	105,992	105,334
Colombian Peso .....	1,933	(145)	136,401	2,416	140,605
Czech Koruna .....	7,819	-	-	792	8,611
Danish Krone .....	395,211	-	-	30,974	426,185
Dominican Peso .....	-	-	12,231	-	12,231
Egyptian Pound .....	19,268	-	-	797	20,065
Euro .....	4,405,521	(6,316)	148,439	509,101	5,056,745
Ghana Cedi .....	-	-	16,522	-	16,522
Hong Kong Dollar .....	1,917,240	-	-	117,201	2,034,441
Hungarian Forint .....	42,527	421	39,925	1,304	84,177
Indian Rupee .....	678,961	3,300	120,078	41,867	844,206
Indonesian Rupiah .....	145,422	(911)	208,386	13,584	366,481
Israeli Shekel .....	25,968	-	-	12,124	38,092
Japanese Yen .....	3,416,554	3,384	-	366,519	3,786,457
Kenya Shilling .....	1,897	-	9,893	-	11,790
Macau Pataca .....	-	-	-	1,566	1,566
Malaysian Ringgit .....	96,785	333	137,075	14,898	249,091
Manx Pound .....	-	-	-	344	344
Mexican Peso .....	173,496	(6,210)	338,396	21,130	526,812
Moroccan Dirham .....	751	-	-	-	751
New Zealand Dollar .....	105,506	23	-	2,978	108,507
Nigerian Naira .....	9,358	-	-	-	9,358
Norwegian Krone .....	100,093	(14)	-	10,075	110,154
Omani Rial .....	1,808	-	-	-	1,808
Peruvian New Sol .....	293	538	27,047	1,684	29,562
Philippines Peso .....	73,567	-	11,843	10,221	95,631
Polish Zloty .....	56,831	(308)	170,528	5,639	232,690
Qatari Rial .....	15,933	-	-	4,468	20,401
Romanian Leu .....	-	966	41,090	-	42,056
Russian Ruble .....	89,335	(452)	113,649	18,686	221,218
Singapore Dollar .....	241,094	-	-	20,984	262,078
South African Rand .....	490,457	(1,740)	197,354	34,322	720,393
South Korean Won .....	1,159,673	81	13	73,114	1,232,881
Swedish Krona .....	407,174	-	394	45,987	453,555
Swiss Franc .....	1,488,586	-	1,160	151,197	1,640,943
Taiwan Dollar .....	667,784	-	-	60,478	728,262
Thailand Baht .....	217,632	269	68,745	11,269	297,915
Tunisian Dinar .....	626	-	-	-	626
Turkish Lira .....	137,327	(253)	214,956	12,565	364,595
Uganda Shilling .....	-	-	8,125	-	8,125
United Arab Emirates Dirham .....	27,769	-	-	4,417	32,186
Uruguayan Peso .....	-	-	40,782	-	40,782
Vietnamese Dong .....	529	-	-	-	529
Zimbabwean Dollar .....	-	-	8,734	-	8,734
Investments Held in Foreign Currency .....	\$ 21,803,716	\$ (5,996)	\$ 2,277,616	\$ 2,557,893	\$ 26,633,229
Foreign Investments Held in U.S. Dollars .....					24,482,276
Total Foreign Investments-Primary Government, including Fiduciary Activities .....					\$ 51,115,505



**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

Major Discretely Presented Component Unit  
International Investments—Foreign Currency Risk  
As of June 30, 2016  
(dollars in thousands)

*Ohio State University:*

Currency	Stocks	Bonds	Total
Australian Dollar .....	\$ 1,005	\$ -	\$ 1,005
Brazilian Real .....	315	-	315
British Pound .....	22,789	190	22,979
Canadian Dollar .....	7,474	-	7,474
Danish Krone .....	1,110	-	1,110
Euro .....	35,254	1,597	36,851
Hong Kong Dollar .....	5,104	-	5,104
Japanese Yen .....	19,823	-	19,823
Norwegian Krone .....	1,529	-	1,529
Swedish Krona .....	1,723	-	1,723
Swiss Franc .....	16,073	-	16,073
Investments Held in Foreign Currency .....	<u>\$ 112,199</u>	<u>\$ 1,787</u>	<u>\$ 113,986</u>
Foreign Investments Held in U.S. Dollars .....			<u>5,207</u>
Total Foreign Investments - Ohio State University .....			<u>\$ 119,193</u>

The State’s laws and investment policies include provisions to limit the exposure to this type of risk. According to Chapter 135, Ohio Revised Code, investments managed by the Treasurer of State’s Office, and reported as “Cash Equity with Treasurer”, are limited to the debt of nations diplomatically recognized by the United States and that are backed by the full faith and credit of that foreign nation, and provided that all denomination of principal and interest be in U.S. dollars.

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

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

*Retirement Systems Agency Fund*

For the Ohio Public Employees Retirement System, non-U.S. dollar-based securities are limited to 25 percent of the total Fixed Income assets. Additionally, no more than 40 percent of the Fixed Income assets may be from non-U.S. issuers.

**D. Securities Lending Transactions**

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

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

Consequently, as of June 30, 2016, the State had no credit exposure since the amount the State owed to the borrowers at least equaled or exceeded the amount borrowers owed to the State.

The State invests cash collateral in short-term obligations, which have a weighted average maturity of 32 days or less while the weighted average maturity of securities loans is 8 days or less.



**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.

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

During fiscal year 2016, the State had not experienced any losses due to credit or market risk on securities lending activities.

In fiscal year 2016, the Treasurer of State lent U.S. government and agency obligations and corporate notes in exchange for cash collateral.

**E. Investment Derivatives**

As of June 30, 2016, the State reports the following investment derivatives in its financial statements (dollars in thousands):

	Notional	Fair Value at 6/30/2016		Increase (Decrease) in Fair Value	
		Amount	Reported as	Amount	Reported as
<b>Governmental Activities:</b>					
<b>Investment Derivatives:</b>					
Pay-fixed interest rate swaps	\$ 102,650	\$ (14,343)	Other Noncurrent Liability	\$ (3,146)	Operating Restricted Investment Loss - Primary, Secondary and Other Education Function
<b>Fiduciary Funds—Agency:</b>					
<b>Investment Derivatives:</b>					
Credit default swaps	33,011	(767)	Investments	(1,979)	Investment Income
Equity swaps	1,057,047	7,093	Investments	25,669	Investment Income
Foreign exchange forward currency contracts	10,402,465	91,212	Investments	115,050	Investment Income
Futures contracts	(22,022)	1,157	Investments	5,116	Investment Income
Interest rate swap	4,323,584	(2,412)	Investments	(2,370)	Investment Income
Options	2,815,560	(3,307)	Investments	(7,837)	Investment Income
Total return swaps	1,878,663	1,290	Investments	(8,335)	Investment Income
Warrants	285,128	1,929	Investments	(1,280)	Investment Income

For governmental activities, the pay-fixed swaps included in the table above do not meet the criteria for hedging derivatives as of June 30, 2016, and are reported as investment derivatives. The decreases in the fair values for fiscal year 2016 of \$3.1 million are reported as operating restricted investment losses for the primary, secondary and other education function in the Statement of Activities.

The credit quality ratings of JPMorgan Chase, the counterparty, are Aa3/A+/AA- as of June 30, 2016. The State was not exposed to credit risk because these swaps had negative fair values at June 30, 2016. However, should interest rates change and the fair values of the swaps become positive, the State would be exposed to credit risk in the amount of the derivative’s positive fair value.

Each swap counterparty is required to post collateral to a third party when their respective credit rating, as determined by specified nationally recognized credit rating agencies, falls below the trigger level defined in the swap agreement and based on the fair value of the swap. This arrangement protects the State by mitigating the credit risk, and therefore termination risk, inherent in the swap. Collateral on all swaps must be in the form of cash or U.S. government securities held by a third-party custodian. Net payments are made on the same date, as specified in the agreements.



**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

These swaps, maturing March 15, 2025, are associated with Common Schools Bonds, Series 2005A and Series 2005B. The underlying index is a variable rate based on 62 percent of the ten year LIBOR. The combination of the variable-rate bonds and a floating-to-fixed swap creates a low-cost, long-term synthetic fixed-rate debt that protects the State from rising interest rates.

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

**F. Fair Value Disclosures**

The State categorizes fair value measurements of its investments within the fair value hierarchy shown in the table on the following page:



**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

Primary Government (including Fiduciary Activities)  
Investments—Fair Value Disclosures

As of June 30, 2016  
(dollars in thousands)

	Fair Value at June 30, 2016	Amount of Fair Value Measured Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments measured by Fair Value Level</b>				
U.S. Government Obligations .....	\$ 10,218,218	\$ 4,277,296	\$ 5,940,922	\$ -
U.S. Government Obligations—Strips .....	1,056,050	793,317	262,733	-
U.S. Agency Obligations .....	5,206,962	23,955	5,183,007	-
U.S. Agency Obligations—Strips .....	256,584	-	256,584	-
Common and Preferred Stock .....	29,529,748	29,524,838	4,910	-
Corporate Bonds and Notes .....	11,875,219	14,569	11,840,837	19,813
Corporate Bonds and Notes—Strips .....	79	-	79	-
Municipal Obligations.....	608,664	3,459	605,205	-
Negotiable Certificates of Deposit .....	2,925	1,691	1,234	-
Commercial Paper .....	2,000,020	420,320	1,579,700	-
Repurchase Agreements .....	207,580	10,680	196,900	-
Mortgage and Asset-Backed Securities .....	3,497,003	-	3,482,389	14,614
International Investments:				
Foreign Stocks .....	18,817,500	16,696,496	2,121,004	-
Foreign Bonds .....	1,581,788	-	1,470,829	110,959
Equity Securities .....	63,632	63,632	-	-
High-Yield and Emerging Markets Fixed Income .....	1,760,231	-	1,760,231	-
Securities Lending Collateral:				
Variable Rate Notes .....	925,267	-	925,267	-
Equity Mutual Funds .....	9,394,615	9,381,615	13,000	-
Bond Mutual Funds .....	3,632,489	3,572,871	-	59,618
Real Estate .....	9,294,316	1,266,135	-	8,028,181
Venture Capital .....	1,451,925	657,221	-	794,704
	<u>\$ 111,380,815</u>	<u>\$ 66,708,095</u>	<u>\$ 35,644,831</u>	<u>\$ 9,027,889</u>
<b>Investment Derivative Instruments</b>				
Pay-fixed Interest Rate Swaps .....	\$ (14,343)	\$ -	\$ (14,343)	\$ -
Credit Default Swaps .....	(767)	-	(767)	-
Equity Swaps .....	7,093	-	7,093	-
Foreign Exchange Forward Currency Contracts ...	89,139	-	89,139	-
Futures Contracts .....	1,157	1,157	-	-
Interest Rate Swap .....	(2,412)	-	(2,412)	-
Options.....	(3,307)	(1,889)	(1,418)	-
Warrants .....	1,929	-	-	1,929
	<u>\$ 78,489</u>	<u>\$ (732)</u>	<u>\$ 77,292</u>	<u>\$ 1,929</u>



**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

**Primary Government (including Fiduciary Activities)  
Investments—Fair Value Disclosures  
As of June 30, 2016  
(dollars in thousands)**

	Net Asset Value at June 30, 2016
<b>Investments measured at the Net Asset Value</b>	
Common and Preferred Stock .....	\$ 72,322
International Investments:	
Commingled Equity Funds .....	3,543,889
Equity Mutual Funds .....	431,849
Bond Mutual Funds .....	1,558,932
Real Estate .....	5,269,009
Venture Capital .....	7,847,790
Partnerships and Hedge Funds .....	3,636,303
	<u>\$ 22,360,094</u>

For investments held by the Treasurer of State, \$6.75 billion classified in Level 2 was valued using either matrix pricing, or, in the case of variable rate notes, were valued by discounting the current and future coupons using a yield calculation or scale based on the characteristics of the security. For matrix pricing, inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications were used. Interactive Data pricing used by the Treasurer’s office also monitors market indicators, and industry and economic events. The Ohio Lottery Commission’s structured investments are included in the Treasurer of State’s Level 2 investments noted above. Investments in the amount of \$103.7 million, classified in Level 3, were bonds for which there is no secondary market, and were therefore, valued at the original principal.

For investments held by the STAR Ohio investment pool, \$2.38 billion classified in Level 1 was valued using the daily redemption value as reported by the underlying fund, while the \$3.33 classified in Level 2 was valued using market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids and offers. Market indicators and industry and economic events were also monitored, to see if further market data was needed.

Investments held by the Department of Commerce in the amount of \$611.7 million for escheat property classified in Level 1, were valued using quoted prices for identical securities in an active market.

For investments held by independently audited organizations of the primary government, more information regarding investment valuations can be found in the organizations’ stand-alone financial reports, with the exception of the Ohio Public Employees Retirement System, and the Ohio Police and Fire Pension Fund, who will implement the fair value hierarchy disclosures in their December 31, 2016, financial reports. The stand-alone financial reports for the independently audited organizations included in the table above may be found as follows:

- STAR Ohio investment pool at the Treasurer of State’s Office, at <http://www.tos.ohio.gov/>
- Development Services Agency-Office of Loan Administration, at <http://development.ohio.gov/>
- Buckeye Tobacco Settlement Financing Authority, at <http://obm.ohio.gov/BondsInvestors/tobacco.aspx>
- Southern Ohio Agricultural and Community Development Foundation, at <http://www.soacdf.net/>
- Bureau of Workers’ Compensation/Industrial Commission of Ohio, at <https://www.bwc.ohio.gov/>
- Tuition Trust Authority, at <https://www.collegeadvantage.com/>
- State Highway Patrol Retirement System, at <http://www.statepatrol.ohio.gov/>
- State Teachers Retirement System, at <https://www.strsoh.org/>
- School Employees Retirement System, at <https://www.ohsers.org/>



**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

The fair value investment hierarchy for Ohio State University, a major discretely presented component unit, is reported in the table below:

<b>Major Discretely Presented Component Units</b>				
<b>Investments-Fair Value Disclosures</b>				
<b>As of June 30, 2016</b>				
<i>(dollars in thousands)</i>				
<i>Ohio State University</i>	Fair Value at June 30, 2016	<b>Amount of Fair Value Measured Using:</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Investments Measured by Fair Value Level</b>				
U.S. Government Obligations .....	\$ 181,524	\$ -	\$ 181,524	\$ -
U.S. Agency Obligations .....	114,737	-	114,737	-
Common and Preferred Stock .....	366,931	366,931	-	-
Corporate Bonds and Notes .....	987,221	-	983,702	3,519
Municipal Obligations.....	11,685	-	11,685	-
Negotiable Certificates of Deposit .....	377,323	377,323	-	-
Commercial Paper .....	40,746	-	40,746	-
Repurchase Agreements .....	2,200	-	2,200	-
International Investments:				
Foreign Stocks .....	112,199	112,199	-	-
Foreign Bonds .....	6,994	-	6,994	-
Securities Lending Collateral:				
Commercial Paper .....	521	-	521	-
Repurchase Agreements .....	7,317	-	7,317	-
Variable Rate Notes .....	17,774	-	17,199	575
Bond Mutual Funds.....	1,977	-	1,977	-
Equity Mutual Funds .....	105,279	105,279	-	-
Bond Mutual Funds .....	101,959	101,959	-	-
Real Estate .....	140,539	15,182	-	125,357
Partnerships and Hedge Funds .....	36,707	-	-	36,707
Life Insurance .....	3,120	-	-	3,120
	<u>\$ 2,616,753</u>	<u>\$ 1,078,873</u>	<u>\$ 1,368,602</u>	<u>\$ 169,278</u>
	Net Asset Value at June 30, 2016			
<b>Investments measured at the Net Asset Value Level</b>				
Equity Mutual Funds .....	\$ 158,935			
Real Estate .....	530,765			
Partnerships and Hedge Funds .....	1,991,339			
	<u>\$ 2,681,039</u>			

More information on Ohio State University's fair value investment valuations can be found in its audited stand-alone financial report at <https://www.osu.edu/>.

The Ohio Facilities Construction Commission's investments in the amount of \$1.5 million were classified in Level 1 based on their valuation using the market approach.



**NOTE 5 RECEIVABLES**

**A. Taxes Receivable – Primary Government**

Current taxes receivable are expected to be collected in the next fiscal year while noncurrent taxes receivable are not expected to be collected until more than one year from the balance sheet date. As of June 30, 2016, approximately \$71 million of the net taxes receivable balance is also reported as deferred inflows of resources on the governmental funds' balance sheet, all of which is reported in the General Fund.

Refund liabilities for income taxes, totaling approximately \$804.7 million are reported as "Refund and Other Liabilities" for governmental activities on the Statement of Net Position and in the General Fund on the governmental funds' Balance Sheet.

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

	Governmental Activities		
	General	Nonmajor Governmental Funds	Total Primary Government
Current-Due Within One Year:			
Income Taxes .....	\$ 264,981	\$ -	\$ 264,981
Sales Taxes .....	521,674	-	521,674
Motor Vehicle Fuel Taxes .....	102,132	63,210	165,342
Commercial Activity Taxes .....	392,123	14,805	406,928
Public Utility Taxes .....	79,888	-	79,888
Casino Taxes .....	-	4,186	4,186
	<u>1,360,798</u>	<u>82,201</u>	<u>1,442,999</u>
Noncurrent-Due in More Than One Year:			
Income Taxes .....	10,122	-	10,122
Taxes Receivable, Net .....	<u>\$1,370,920</u>	<u>\$ 82,201</u>	<u>\$ 1,453,121</u>

**B. Intergovernmental Receivable – Primary Government**

The intergovernmental receivable balance reported for the primary government, all of which is expected to be collected within the next fiscal year, consists of the following, as of June 30, 2016 (dollars in thousands):

	From Nonexchange Programs		From Sales of Goods and Services		Total Primary Government
	Federal Government	Local Government	Other State Government	Local Government	
<b>Governmental Activities:</b>					
Major Governmental Funds:					
General .....	\$ 669,950	\$ -	\$ -	\$ -	\$ 669,950
Job, Family and Other Human .....	175,650	12,814	-	-	188,464
Nonmajor Governmental Funds .....	<u>386,042</u>	<u>97,294</u>	-	<u>11,136</u>	<u>494,472</u>
Total Governmental Activities .....	<u>1,231,642</u>	<u>110,108</u>	-	<u>11,136</u>	<u>1,352,886</u>
<b>Business-Type Activities:</b>					
Major Proprietary Funds:					
Unemployment Compensation .....	-	-	24	-	24
Nonmajor Proprietary Funds .....	-	-	-	<u>7,498</u>	<u>7,498</u>
Total Business-Type Activities .....	-	-	<u>24</u>	<u>7,498</u>	<u>7,522</u>
Intergovernmental Receivable .....	<u>\$1,231,642</u>	<u>\$ 110,108</u>	<u>\$ 24</u>	<u>\$ 18,634</u>	<u>\$1,360,408</u>



**NOTE 5 RECEIVABLES (Continued)**

**C. Loans Receivable**

Loans receivable for the primary government, as of June 30, 2016, are detailed in the following table (dollars in thousands):

<b>Primary Government - Loans Receivable</b>			
Loan Program	Governmental Activities		
	General	Nonmajor Governmental Funds	Total Primary Government
Economic Development Office of Loan Administration.....	\$ 298,813	\$ -	\$ 298,813
Local Infrastructure Improvements .....	514,039	-	514,039
Housing Finance .....	243,129	-	243,129
Highway, Transit, & Aviation Infrastructure Bank.....	-	95,304	95,304
Third Frontier Program Loans.....	-	18,870	18,870
Wayne Trace Local School District .....	1,999	-	1,999
Rail Development .....	-	2,633	2,633
Capital Access Loan Program.....	-	6,802	6,802
OhioMeansJobs Workforce Development Revolving Loan Program.....	-	378	378
Loans Receivable, Net .....	<u>1,057,980</u>	<u>123,987</u>	<u>1,181,967</u>
Current-Due Within One Year .....	121,602	13,497	135,099
Noncurrent-Due in More Than One Year .....	936,378	110,490	1,046,868
Loans Receivable, Net .....	<u>\$ 1,057,980</u>	<u>\$ 123,987</u>	<u>\$ 1,181,967</u>

The "Loans Receivable" balance reported in the major discretely presented component units, as of June 30, 2016, is comprised of student loans and other miscellaneous loans.



**NOTE 5 RECEIVABLES (Continued)**

**D. Other Receivables**

The other receivables balances reported for the primary government, as of June 30, 2016, consist of the following (dollars in thousands):

<b>Primary Government - Other Receivables</b>					
Governmental Activities					
Major Governmental Funds					
Types of Receivables	General	Job, Family & Other Human Services	Buckeye Tobacco Settlement Financing Authority Revenue Bonds	Nonmajor Governmental Funds	Total
Manufacturers' Rebates .....	\$ 199,589	\$ 334,556	\$ -	\$ 4,691	\$ 538,836
Tobacco Settlement .....	-	-	472,202	34,100	506,302
Health Facility Bed Assessments .....	-	109,481	-	-	109,481
Interest .....	19,075	-	-	72	19,147
Accounts .....	11,535	10,981	-	2,618	25,134
Miscellaneous .....	23,057	-	-	-	23,057
Other Receivables, Net.....	<u>253,256</u>	<u>455,018</u>	<u>472,202</u>	<u>41,481</u>	<u>1,221,957</u>
Current-Due Within One Year .....	253,256	455,018	-	7,381	715,655
Noncurrent-Due in More Than One Year.....	-	-	472,202	34,100	506,302
Other Receivables, Net.....	<u>\$ 253,256</u>	<u>\$ 455,018</u>	<u>\$ 472,202</u>	<u>\$ 41,481</u>	<u>\$ 1,221,957</u>
Business-Type Activities					
Major Proprietary Funds					
Types of Receivables	Workers' Compensation	Lottery Commission	Unemployment Compensation	Nonmajor Proprietary Funds	Total
Accounts.....	\$ 267,559	\$ -	\$ 45,161	\$ 23	\$ 312,743
Interest and Dividends (including restricted portion).....	134,594	393	-	1,089	136,076
Lottery Sales Agents.....	-	52,434	-	-	52,434
Other Receivables, Gross.....	402,153	52,827	45,161	1,112	501,253
Estimated Uncollectible.....	(1,156)	(492)	(20,123)	-	(21,771)
Other Receivables, Net-Due Within One Year.....	<u>\$ 400,997</u>	<u>\$ 52,335</u>	<u>\$ 25,038</u>	<u>\$ 1,112</u>	<u>\$ 479,482</u>
Total Primary Government.....					<u>\$ 1,701,439</u>

The "Other Receivables" balance reported in the fiduciary funds as of June 30, 2016, is comprised of interest due of approximately \$4.1 million and investment trade receivables of \$28.3 million.

In the major discretely presented component units, the "Other Receivables" balance reported, as of June 30, 2016, is comprised of accounts receivable, interest receivable, pledges receivable, unbilled charges receivable, grants receivable, and other miscellaneous receivables.



**NOTE 6 PAYABLES**

**A. Accrued Liabilities**

Details on accrued liabilities for the primary government, as of June 30, 2016, follow (dollars in thousands):

<b>Primary Government - Accrued Liabilities</b>				
	Wages and Employee Benefits	Accrued Interest	Total Accrued Liabilities	
<b>Governmental Activities:</b>				
Major Governmental Funds:				
General.....	\$ 126,735	\$ -	\$ 126,735	
Job, Family and Other Human Services.....	20,435	-	20,435	
Nonmajor Governmental Funds.....	72,298	-	72,298	
	<u>219,468</u>	<u>-</u>	<u>219,468</u>	
Reconciliation of fund level statements to government- wide statements due to basis differences.....	-	159,977	159,977	
Total Governmental Activities.....	<u>219,468</u>	<u>159,977</u>	<u>379,445</u>	
<b>Business-Type Activities:</b>				
Nonmajor Proprietary Funds.....	4,144	-	4,144	
Total Primary Government.....	<u>\$ 223,612</u>	<u>\$ 159,977</u>	<u>\$ 383,589</u>	
<b>Fiduciary Activities:</b>				
State Highway Patrol Retirement System Pension Trust (12/31/2015).....	\$ 3,543	\$ 807	\$ -	\$ 4,350
Variable College Savings Plan Private-Purpose Trust.....	-	-	3,003	3,003
STAR Ohio Investment Trust.....	-	-	109	109
Total Fiduciary Activities.....	<u>\$ 3,543</u>	<u>\$ 807</u>	<u>\$ 3,112</u>	<u>\$ 7,462</u>

The "Accrued Liabilities" balance reported in the major discretely presented component units, as of June 30, 2016, is comprised largely of payables similar to those of the primary government, such as wages and employee benefits, self-insurance, and accrued interest.



**NOTE 6 PAYABLES (Continued)**

**B. Intergovernmental Payable**

The intergovernmental payable balances for the primary government, as of June 30, 2016, are comprised of the following (dollars in thousands).

<b>Primary Government - Intergovernmental Payable</b>					
	Local Government				
	Shared				
	Revenue and				
	Local				
	Permissive	Subsidies	Federal		
	Taxes	and Other	Government	Other States	Total
<b>Governmental Activities:</b>					
Major Governmental Funds:					
General .....	\$ 648,770	\$101,402	\$ 30,914	\$ -	\$ 781,086
Job, Family and Other Human Services .	-	116,067	-	-	116,067
Nonmajor Governmental Funds .....	89,224	110,533	-	-	199,757
Total Governmental Activities .....	<u>737,994</u>	<u>328,002</u>	<u>30,914</u>	<u>-</u>	<u>1,096,910</u>
<b>Business-Type Activities:</b>					
Major Proprietary Funds:					
Unemployment Compensation .....	-	-	275,915	-	275,915
Total Business-Type Activities .....	<u>-</u>	<u>-</u>	<u>275,915</u>	<u>-</u>	<u>275,915</u>
Total Primary Government.....					<u>\$ 1,372,825</u>
<b>Fiduciary Activities:</b>					
Holding and Distribution Agency Fund .....	\$ -	\$ 736	\$ 2,033	\$ 2,403	\$ 5,172
Payroll Withholding and Fringe Benefits Agency Fund .....	-	29,301	-	-	29,301
Other Agency Fund .....	170,035	11,595	-	-	181,630
Total Fiduciary Activities .....	<u>\$ 170,035</u>	<u>\$ 41,632</u>	<u>\$ 2,033</u>	<u>\$ 2,403</u>	<u>\$ 216,103</u>

As of June 30, 2016, the Ohio Facilities Construction Commission, a major discretely presented component unit fund, reported an intergovernmental payable balance totaling approximately \$606.5 million for long-term funding contracts the Commission has with local school districts. In the government-wide Statement of Net Position, the intergovernmental payable balance for the Commission is included with "Other Noncurrent Liabilities." The contracts commit the State to cover the costs of construction of facilities of the school districts once the districts have met certain eligibility requirements.



**NOTE 6 PAYABLES (Continued)**

**C. Refund and Other Liabilities**

Refund and other liabilities for the primary government, as of June 30, 2016, consist of the balances, as follows (dollars in thousands):

<b>Primary Government - Refund and Other Liabilities</b>						
			Personal Income Tax Estimated Refund Claims	Other	Total	
<b>Governmental Activities:</b>						
Major Governmental Funds:						
General .....			\$ 804,897	\$ 2	\$ 804,899	
Job, Family and Other Human Services .....			-	5,942	5,942	
Nonmajor Governmental Funds .....			-	695	695	
Total Governmental Activities .....			<u>\$ 804,897</u>	<u>\$ 6,639</u>	<u>\$ 811,536</u>	
	Reserve for Compensation Adjustment	Net Pension Liability	Refund and Security Deposits	Compensated Absences	Other	Total
<b>Business-Type Activities:</b>						
Major Proprietary Funds:						
Workers' Compensation .....	\$ 1,822,600	\$ 187,038	\$ -	\$ 25,245	\$ 97,519	\$ 2,132,402
Lottery Commission .....	-	27,660	67,723	3,590	14,011	112,984
Unemployment Compensation .....	-	-	6,609	-	-	6,609
Nonmajor Proprietary Funds .....	-	60,826	38	9,328	-	70,192
	<u>1,822,600</u>	<u>275,524</u>	<u>74,370</u>	<u>38,163</u>	<u>111,530</u>	<u>2,322,187</u>
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-wide financial statements .....	(1,822,600)	(275,524)	-	(38,163)	(71,377)	(2,207,664)
Total Business-Type Activities .....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,370</u>	<u>\$ -</u>	<u>\$ 40,153</u>	<u>\$ 114,523</u>
Total Primary Government .....						<u>\$ 926,059</u>
	Child Support Collections	Refund and Security Deposits	Payroll Withholdings	Retirement Systems' Assets	Other	Total
<b>Fiduciary Activities:</b>						
State Highway Patrol Retirement						
System Pension Trust (12/31/2015).....	\$ -	\$ -	\$ -	\$ -	\$ 610	\$ 610
Variable College Savings Plan						
Private-Purpose Trust.....	-	-	-	-	29,823	29,823
STAR Ohio Investment Trust .....	-	-	-	-	318	318
Agency Funds:						
Holding and Distribution .....	-	22,260	-	-	-	22,260
Centralized Child Support Collections.....	66,659	-	-	-	-	66,659
Retirement Systems .....	-	-	-	185,155,392	-	185,155,392
Payroll Withholding and Fringe Benefits ...	-	-	109,540	-	-	109,540
Other .....	-	-	-	-	542,327	542,327
Total Fiduciary Activities .....	<u>\$ 66,659</u>	<u>\$ 22,260</u>	<u>\$ 109,540</u>	<u>\$ 185,155,392</u>	<u>\$ 573,078</u>	<u>\$ 185,926,929</u>

In the major discretely presented component units, the "Refunds and Other Liabilities" balance reported, as of June 30, 2016, is comprised largely of payables similar to the primary government, such as refund and security deposits, compensated absences, capital leases, and other miscellaneous payables.



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

**A. Interfund Balances**

Interfund balances, as of June 30, 2016, consist of the following (in thousands):

Due from	Due To				Total Primary Government
	Governmental Activities			Total	
	Major Governmental Funds	Nonmajor Governmental Funds	General		
<b>Governmental Activities</b>					
Major Governmental Funds:					
Buckeye Tobacco Settlement Financing Authority Revenue Bonds.....	\$ 2,847	\$ -	\$ -	\$ 2,847	\$ 2,847
Nonmajor Governmental Funds .....	-	1,357	-	1,357	1,357
Total Governmental Activities .....	<u>2,847</u>	<u>1,357</u>	<u>-</u>	<u>4,204</u>	<u>4,204</u>
Total Primary Government .....	<u>\$ 2,847</u>	<u>\$ 1,357</u>	<u>\$ -</u>	<u>\$ 4,204</u>	<u>\$ 4,204</u>
<b>Business-Type Activities</b>					
Due from	Major Proprietary Funds			Total	Total Primary Government
	Workers' Compensation	Lottery Commission	Nonmajor Proprietary Funds		
Major Governmental Funds:					
General .....	\$ 444,800	\$ -	\$ 9,075	\$ 453,875	\$ 453,875
Job, Family and Other Human Services .....	13,391	-	-	13,391	13,391
Buckeye Tobacco Settlement Financing Authority Revenue Bonds.....	-	-	-	-	2,847
Nonmajor Governmental Funds .....	148,129	1	-	148,130	149,487
Total Governmental Activities .....	<u>606,320</u>	<u>1</u>	<u>9,075</u>	<u>615,396</u>	<u>619,600</u>
Business-Type Activities:					
Major Proprietary Funds:					
Lottery Commission .....	1,446	-	-	1,446	1,446
Nonmajor Proprietary Funds .....	7,605	-	-	7,605	7,605
Total Business-Type Activities .....	<u>9,051</u>	<u>-</u>	<u>-</u>	<u>9,051</u>	<u>9,051</u>
Total Primary Government .....	<u>\$ 615,371</u>	<u>\$ 1</u>	<u>\$ 9,075</u>	<u>\$ 624,447</u>	<u>\$ 628,651</u>

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

The State's primary government is permitted to pay its workers' compensation liability on a terminal-funding (pay-as-you-go) basis. As a result, the Workers' Compensation Enterprise Fund recognized \$615.4 million as an interfund receivable for the unbilled premium due for the primary government's share of the Bureau's actuarially determined liability for compensation. In the Statement of Net Position, the State includes the liability in the internal balance reported for governmental activities.



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

**B. Interfund Transfers**

Interfund transfers, for the fiscal year ended of June 30, 2016, consist of the following (dollars in thousands):

Transferred from	Transferred to			
	Governmental Activities			
	Major Governmental Funds			
	General	Job, Family & Other Human Services	Nonmajor Governmental Funds	Total
<b>Major Governmental Funds:</b>				
General .....	\$ -	\$ 48,714	\$ 2,037,734	\$ 2,086,448
Job, Family and Other Human Services .....	-	-	42,499	42,499
Buckeye Tobacco Settlement Financing				
Authority Revenue Bonds.....	13,973	-	1,127	15,100
Nonmajor Governmental Funds .....	257,530	-	158,917	416,447
<b>Total Governmental Activities .....</b>	<b>271,503</b>	<b>48,714</b>	<b>2,240,277</b>	<b>2,560,494</b>
<b>Major Proprietary Funds:</b>				
Workers' Compensation .....	8,796	-	-	8,796
Lottery Commission .....	1,435	-	1,173,397	1,174,832
Unemployment Compensation .....	4,890	2,692	-	7,582
<b>Total Business-Type Activities .....</b>	<b>15,121</b>	<b>2,692</b>	<b>1,173,397</b>	<b>1,191,210</b>
<b>Total Primary Government .....</b>	<b>\$ 286,624</b>	<b>\$ 51,406</b>	<b>\$ 3,413,674</b>	<b>\$ 3,751,704</b>
			<b>Business-Type Activities</b>	
			<b>Nonmajor Proprietary Funds</b>	<b>Total Primary Government</b>
<b>Transferred from</b>				
<b>Major Governmental Funds:</b>				
General .....			\$ 30,332	\$ 2,116,780
Job, Family and Other Human Services .....			-	42,499
Buckeye Tobacco Settlement Financing.....				
Authority Revenue Bonds.....			-	15,100
Nonmajor Governmental Funds .....			-	416,447
<b>Total Governmental Activities .....</b>			<b>30,332</b>	<b>2,590,826</b>
<b>Major Proprietary Funds:</b>				
Workers' Compensation .....			-	8,796
Lottery Commission .....			-	1,174,832
Unemployment Compensation .....			-	7,582
<b>Total Business-Type Activities .....</b>			<b>-</b>	<b>1,191,210</b>
<b>Total Primary Government .....</b>			<b>\$ 30,332</b>	<b>\$ 3,782,036</b>

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



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

**C. Discretely Presented Component Units**

For fiscal year 2016, the discretely presented component units reported \$2.16 billion in state assistance revenue from the primary government in the Statement of Activities.

Included in "Primary, Secondary, and Other Education" expenses reported for the governmental activities, is the funding that the primary government provided to the Ohio Facilities Construction Commission for capital construction at local school districts. The primary government also transferred bond proceeds to the Ohio Facilities Construction Commission to pay the State's share of the cost of rebuilding elementary and secondary school facilities across the State.

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

Details of balances and activity reported in the government-wide financial statements between the primary government and its discretely presented component units are summarized below.

<b>Primary Government</b> <i>(dollars in thousands)</i>							
Program Expenses for State Assistance to Component Units							
	Receivable from the Component Units	Payable to the Component Units	Primary, Secondary, and Other Education Function	Higher Education Support Function	Transportation Function	Community and Economic Development Function	Total State Assistance to the Component Units
Major Governmental Funds:							
General .....	\$ 2,587	\$ 18,958	\$ 149,245	\$ 1,808,753	\$ 2,751	\$ 34,332	\$ 1,995,081
Job, Family and Other Human .....	-	2,014	-	-	-	-	-
Nonmajor Governmental Funds .....	28,744	5,900	-	160,802	-	-	160,802
Total Governmental Activities .....	<u>\$ 31,331</u>	<u>\$ 26,872</u>	<u>\$ 149,245</u>	<u>\$ 1,969,555</u>	<u>\$ 2,751</u>	<u>\$ 34,332</u>	<u>\$ 2,155,883</u>

<b>Discretely Presented Component Units</b> <i>(dollars in thousands)</i>			
	Receivable from the Primary Government	Payable to the Primary Government	Total State Assistance from the Primary Government
Major Discretely Presented Component Units:			
Ohio Facilities Construction Commission .....	\$ -	\$ -	\$ 183,577
Ohio State University .....	1,757	-	492,444
Nonmajor Discretely Presented Component Units .....	25,064	27,708	1,479,862
Total Discretely Presented Component Units .....	<u>\$ 26,821</u>	<u>\$ 27,708</u>	<u>\$ 2,155,883</u>



**NOTE 8 CAPITAL ASSETS**

**A. Primary Government**

Capital asset activity, for the year ended June 30, 2016, reported for the primary government was as follows (dollars in thousands):

	<b>Primary Government</b>			
	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
<b>Governmental Activities:</b>				
Capital Assets Not Being Depreciated:				
Land .....	\$ 2,323,700	\$ 37,031	\$ (1,872)	\$ 2,358,859
Buildings .....	62,464	-	-	62,464
Land Improvements .....	1,416	23	-	1,439
Construction-in-Progress .....	1,714,845	832,673	(350,026)	2,197,492
Infrastructure:				
Highway Network:				
General Subsystem .....	8,594,583	37,568	(2,014)	8,630,137
Priority Subsystem .....	8,469,414	166,168	(1,146)	8,634,436
Bridge Network .....	2,849,116	33,661	(44,513)	2,838,264
Total Capital Assets Not Being Depreciated.....	<u>24,015,538</u>	<u>1,107,124</u>	<u>(399,571)</u>	<u>24,723,091</u>
Other Capital Assets:				
Buildings .....	3,666,201	130,757	(60,718)	3,736,240
Land Improvements .....	469,859	31,407	(13,116)	488,150
Machinery and Equipment .....	1,423,608	169,979	(87,315)	1,506,272
Vehicles .....	386,630	77,133	(41,475)	422,288
Infrastructure:				
Parks, Recreation and Natural Resources Network.....	111,647	41,102	(588)	152,161
Total Other Capital Assets at Historical Cost.....	<u>6,057,945</u>	<u>450,378</u>	<u>(203,212)</u>	<u>6,305,111</u>
Less Accumulated Depreciation for:				
Buildings .....	2,172,453	105,222	(24,640)	2,253,035
Land Improvements .....	310,085	17,735	(7,399)	320,421
Machinery and Equipment .....	773,871	233,502	(36,846)	970,527
Vehicles .....	228,112	41,234	(33,975)	235,371
Infrastructure:				
Parks, Recreation and Natural Resources Network.....	31,622	4,079	(116)	35,585
Total Accumulated Depreciation .....	<u>3,516,143</u>	<u>401,772</u>	<u>(102,976)</u>	<u>3,814,939</u>
Other Capital Assets, Net .....	<u>2,541,802</u>	<u>48,606</u>	<u>(100,236)</u>	<u>2,490,172</u>
Governmental Activities - Capital Assets, Net.....	<u>\$ 26,557,340</u>	<u>\$ 1,155,730</u>	<u>\$ (499,807)</u>	<u>\$ 27,213,263</u>
<b>Business-Type Activities:</b>				
Capital Assets Not Being Depreciated:				
Land .....	\$ 11,994	\$ -	\$ (2,528)	\$ 9,466
Construction-In Progress.....	83,672	23,165	-	106,837
Total Capital Assets Not Being Depreciated.....	<u>95,666</u>	<u>23,165</u>	<u>(2,528)</u>	<u>116,303</u>
Other Capital Assets:				
Buildings .....	209,372	38	-	209,410
Land Improvements .....	66	-	(66)	-
Machinery and Equipment .....	175,210	21,623	(9,567)	187,266
Vehicles .....	3,070	756	(469)	3,357
Total Other Capital Assets at Historical Cost.....	<u>387,718</u>	<u>22,417</u>	<u>(10,102)</u>	<u>400,033</u>
Less Accumulated Depreciation for:				
Buildings .....	166,499	6,964	-	173,463
Land Improvements .....	60	1	(61)	-
Machinery and Equipment .....	142,526	9,980	(7,453)	145,053
Vehicles .....	1,740	372	(405)	1,707
Total Accumulated Depreciation .....	<u>310,825</u>	<u>17,317</u>	<u>(7,919)</u>	<u>320,223</u>
Other Capital Assets, Net .....	<u>76,893</u>	<u>5,100</u>	<u>(2,183)</u>	<u>79,810</u>
Business-Type Activities - Capital Assets, Net.....	<u>\$ 172,559</u>	<u>\$ 28,265</u>	<u>\$ (4,711)</u>	<u>\$ 196,113</u>



**NOTE 8 CAPITAL ASSETS (Continued)**

For fiscal year 2016, the State charged depreciation expense to the following functions (dollars in thousands):

	<b>Depreciation Expense</b>
<b>Governmental Activities:</b>	
Primary, Secondary and Other Education.....	\$ 4,933
Higher Education Support.....	5
Public Assistance and Medicaid.....	141,647
Health and Human Services.....	14,777
Justice and Public Protection.....	89,060
Environmental Protection and Natural Resources.....	16,398
Transportation.....	66,841
General Government.....	66,971
Community and Economic Development.....	7,323
Total Depreciation Expense for Governmental Activities.....	<u>407,955</u>
Gains (Losses) on Capital Asset Disposals Included in Depreciation.....	(6,183)
Fiscal Year 2016 Increases to Accumulated Depreciation.....	<u>\$ 401,772</u>
<b>Business-Type Activities:</b>	
Workers' Compensation.....	\$ 8,128
Lottery Commission.....	10,200
Tuition Trust Authority.....	17
Office of Auditor of State.....	299
Total Depreciation Expense for Business-Type Activities.....	<u>18,644</u>
Gains (Losses) on Capital Asset Disposals Included in Depreciation.....	(1,327)
Fiscal year 2016 Increase to Accumulated Depreciation.....	<u>\$ 17,317</u>

As of June 30, 2016, the State considered the following governmental capital asset balances as being temporarily impaired and removed from service (dollars in thousands).

	<b>Net Book Value</b>
<b>Governmental Activities:</b>	
Temporarily Impaired Assets Removed from Service:	
Buildings.....	\$ 13,198
Land Improvements.....	225
Total.....	<u>\$ 13,423</u>



**NOTE 8 CAPITAL ASSETS (Continued)**

**B. Major Discretely Presented Component Units**

Capital asset activity, for the year ended June 30, 2016, reported for major discretely presented component unit funds with significant capital asset balance was as follows (dollars in thousands):

	Major Discretely Presented Component Units			
	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
<b>Ohio State University:</b>				
Capital Assets Not Being Depreciated:				
Land .....	\$ 97,759	\$ 24,200	\$ (15,502)	\$ 106,457
Construction-in-Progress .....	332,928	(203,882)	-	129,046
Patents and Trademarks.....	18,413	-	-	18,413
Total Capital Assets Not Being Depreciated.....	449,100	(179,682)	(15,502)	253,916
Other Capital Assets:				
Buildings .....	5,656,310	468,161	(12,595)	6,111,876
Land Improvements .....	738,660	83,334	(1,429)	820,565
Machinery, Equipment and Vehicles .....	1,367,648	93,048	(36,216)	1,424,480
Library Books and Publications .....	177,753	6,165	(529)	183,389
Total Other Capital Assets at Historical Cost.....	7,940,371	650,708	(50,769)	8,540,310
Less Accumulated Depreciation for:				
Buildings .....	2,199,657	216,407	(7,046)	2,409,018
Land Improvements .....	249,040	26,459	(7)	275,492
Machinery, Equipment and Vehicles .....	904,010	111,083	(33,233)	981,860
Library Books and Publications .....	153,611	4,377	(530)	157,458
Total Accumulated Depreciation .....	3,506,318	358,326	(40,816)	3,823,828
Other Capital Assets, Net .....	4,434,053	292,382	(9,953)	4,716,482
Total Capital Assets, Net .....	\$ 4,883,153	\$ 112,700	\$ (25,455)	\$ 4,970,398

The decrease in construction in progress in fiscal year 2016 represents the amount of capital expenditures for new projects, net of assets placed in service.

For fiscal year 2016, Ohio State University reported approximately \$358.3 million in depreciation expense.

**NOTE 9 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS**

All part-time and full-time employees and elected officials of the State, including its component units (unless otherwise excluded in Ohio Revised Code), are eligible to be covered by one of the following retirement plans:

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

**A. Ohio Public Employees Retirement System (OPERS)**

**Pension Benefits**

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

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



**NOTE 9 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS  
(Continued)**

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

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

Senate Bill 343 was enacted into law with an effective date of January 7, 2013. The pension changes included in the bill modify the retirement eligibility criteria and benefits to provide for longer life expectancies of members. The pension plan design changes also include updated benefits to the disability program, which addresses eligibility for members to return to work. Other changes include updated provisions such as the cost of purchasing service credit and the impact of retiring early with a reduced retirement benefit.

In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. Members eligible to retire under the law in effect prior to Senate Bill 343 or who will be eligible to retire no later than five years after January 7, 2013, comprise Transition Group A. Members with 20 years of service credit prior to January 7, 2013, or who will be eligible to retire no later than 10 years after January 7, 2013, are included in Transition Group B. Those members who are not in either Group A or B or were hired after January 7, 2013, are in Transition Group C.

Members in Transition Groups A and B are eligible to retire at age 55 with 25 years of credited service, or at or after age 60 with five years of credited service. Members in Transition Group C are eligible to retire at age 57 with 25 years of service credit or at age 62 with 5 years of service credit. Regular employees retiring before meeting certain age and service credit eligibility requirements receive a percentage reduction in benefit amounts. Law enforcement employees in Transition Groups A and B may retire at age 52 with 15 or more years of credited service, while members in Transition Group C may retire at age 56 with 15 or more years of credited service.

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

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

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



**NOTE 9 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS  
(Continued)**

receipt of the entire account balance, or various combinations of these options. Participants direct the investment of their accounts by selecting from professionally managed OPERS investment options.

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

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

Contribution rates for fiscal year 2016, which are the same for the defined benefit, defined contribution, and combined plans, were as follows:

	Contribution Rates	
	Employee Share	Employer Share
<u>Regular Employees:</u>		
July 1, 2015 through June 30, 2016.....	10.00%	14.00%
<u>Law Enforcement Employees:</u>		
July 1, 2015 through June 30, 2016.....	13.00%	18.10%

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

At June 30, 2016, the State reports a liability of \$3.56 billion for its proportionate share of the net pension liability for the traditional plan and an asset for its proportionate share of the net pension asset of \$9.3 million for the Combined Plan. Ohio State University discretely presented component unit reports liabilities of \$1.56 billion, for its proportionate share of the net pension liability for the traditional plan. The net pension asset/liability was measured as of December 31, 2015. The Plan's total pension asset/liability used to calculate the Plan's net pension asset/liability was determined by an actuarial valuation as of December 31, 2015. The State's proportion of the net pension asset/liability is determined by a measure of the State's proportionate relationship of employer contributions made to OPERS to the total contributions made to OPERS by all employers and non-employer contributing entities to the plan. At December 31, 2015, the State's proportion was 20.65 percent for the traditional plan based on employer contributions of \$308.5 million, as compared to the December 31, 2014, proportion of 20.73 percent. For the combined plan, the State's proportion at December 31, 2015, was 19.64 percent based on employer contributions of \$8.6 million, as compared to the December 31, 2014, proportion of 20.23 percent. The proportion for the traditional plan for Ohio State University discretely presented component unit was 9 percent based on employer contributions totaling \$178.3 million at December 31, 2015, compared to 8.8 percent for the previous fiscal year. For purposes of measuring the net pension liability/asset, Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions, and pension expense, information about the fiduciary net position of the system and additions to and deductions from the fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, deductions are recorded when the liability is incurred and revenues are recognized when earned. Refunds are payable three months after termination of the member's employment.



**NOTE 9 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS  
(Continued)**

For the year ended June 30, 2016, the State recognized pension expense of \$500.4 million for the traditional plan, and \$4.8 million for the combined plan. Ohio State University discretely presented component unit, recognized \$278.5 million. At June 30, 2016, the State reports Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

	Primary Government	Ohio State University
<b>Traditional Plan</b>		
Deferred Outflow of Resources:		
Differences Between Expected and Actual Experience .....	\$ -	\$ 317
Net Difference between Projected and Actual Earnings		
on Pension Plan Investments .....	1,039,533	461,637
Differences Between Employers' Contributions and		
Proportionate Share of Contributions .....	9,019	-
Change in Employers' Proportionate Share .....	225	1,343
Contributions Subsequent to the Measurement Date .....	136,079	88,058
Total .....	<u>\$ 1,184,856</u>	<u>\$ 551,355</u>
Deferred Inflow of Resources:		
Differences Between Employers' Contributions and		
Proportionate Share of Contributions .....	\$ (903)	\$ -
Change in Employers' Proportionate Share .....	(11,693)	(40)
Differences Between Expected and Actual Experience .....	(69,118)	(33,260)
Total .....	<u>\$ (81,714)</u>	<u>\$ (33,300)</u>
<b>Combined Plan</b>		
Deferred Outflow of Resources:		
Change in Employers' Proportionate Share .....	\$ 226	
Net Difference between Projected and Actual Earnings		
on Pension Plan Investments .....	3,882	
Differences Between Employers' Contributions and		
Proportionate Share of Contributions .....	23	
Contributions Subsequent to the Measurement Date .....	3,690	
Total .....	<u>\$ 7,821</u>	
Deferred Inflow of Resources:		
Differences Between Employers' Contributions and		
Proportionate Share of Contributions .....	(3)	
Differences Between Expected and Actual Experience .....	(4,184)	
Total .....	<u>\$ (4,187)</u>	

Deferred Outflows of Resources of \$136.1 million related to pensions resulting from State contributions subsequent to the measurement date for the traditional plan will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Deferred Outflows of Resources of \$3.7 million for the combined plan will be recognized as an increase to the net pension asset in the year ended June 30, 2017. Ohio State University discretely presented component unit, will recognize \$88.1 million as a reduction of its net pension liability.

Other amounts reported as Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions will be recognized in pension expense as follows:



**NOTE 9 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS  
(Continued)**

Traditional Plan	Primary Government	Ohio State University
Year Ended June 30:		
2017.....	\$ 224,469	\$ 101,402
2018.....	241,403	108,593
2019.....	266,173	117,169
2020.....	235,074	104,301
2021.....	(14)	(383)
Thereafter.....	(42)	(1,085)

Combined Plan	Primary Government
Year Ended June 30:	
2017.....	\$ 502
2018.....	502
2019.....	501
2020.....	375
2021.....	(499)
Thereafter.....	(1,437)

**Actuarial Assumptions:**

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	Traditional Plan	Combined Plan
Wage Inflation.....	3.75	3.75 Percent
Salary Increases (including wage inflation).....	4.25-10.05	4.25-8.05 Percent
Investment Rate of Return.....	8.00	8.00 Percent
COLA or Ad Hoc COLA.....	3.00	3.00 Percent
Actuarial Cost Method.....	Individual Entry Age	

Mortality rates were based on the RP-2000 Combined Mortality Table for males or females, as appropriate, projected 20 years based on Projection Scale AA.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study dated December 31, 2010.

An estimate range for investment return assumption is developed and based on the target allocation adopted by the OPERS Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Weighted, Average Long- Term Expected Real Rate of Return*
Fixed Income.....	23.00%	2.31%
Domestic Equity.....	20.70%	5.84%
Real Estate.....	10.00%	4.25%
Private Equity.....	10.00%	9.25%
International Equities.....	18.30%	7.40%
Other Investments.....	18.00%	4.59%
Total Fund.....	100.00%	5.27%

\*Arithmetic.



**NOTE 9 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS  
(Continued)**

Discount Rate - The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at statutory contribution rates. In each period of the projection, employer contributions were assumed to be applied first to the service cost of all members, with any remaining amount included in projected employer contributions for current members. Therefore, the long-term expected rate of return of 8 percent was applied to all periods of projected benefit payments to determine the total pension liability as of December 31, 2015.

Sensitivity of the State's proportionate share of the Net Pension Liability to changes in the Discount Rate – The following table represents the net pension liability as of December 31, 2015, calculated using the current period discount rate assumption of 8 percent. Also shown is what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7 percent) or one percentage point higher (9 percent) than the current assumption:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
<b>Traditional Plan</b>			
Net Pension Liability:			
Primary Government .....	\$ 5,674,338	\$ 3,561,458	\$ 1,779,387
Ohio State University .....	2,486,407	1,556,155	771,771
<b>Combined Plan</b>			
Net Pension Liability:			
Primary Government .....	\$ (192)	\$ (9,355)	\$ (16,612)

**Other Postemployment Benefits (OPEB)**

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

In order to qualify for post-employment healthcare coverage, age-and-service retirees under the defined benefit and combined plans must have twenty years of qualifying Ohio service credit with a minimum age of 60, or 30 years of qualifying service at any age. An OPERS retiree, who is re-employed in an OPERS covered job must enroll in the employers health care plan if offered. The retiree may continue participation in the OPER health care plan, after the two month forfeiture period, as secondary coverage. Healthcare coverage for disability benefit recipients and qualified survivor benefit recipients is available. The healthcare coverage provided by OPERS meets the definition of an OPEB as described in GASB Statement 45.

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

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

Employer contribution rates are expressed as a percentage of covered payroll of active members. For fiscal year 2016, state employers contributed at a rate of 14 percent of covered payroll and law enforcement employers



**NOTE 9 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS  
(Continued)**

contributed at 18.1 percent. These are the maximum contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB plan.

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

	Employer Share	
	Defined Benefit Plan	Combined Plan
July 1, 2015 through June 30, 2016.....	2.00%	2.00%

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

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012. The changes were implemented in a phased-in manner from 2013, and continuing through 2018. With the passage of pension legislation under Senate Bill 343 and the approved healthcare changes, OPERS has continued efforts in 2015 to implement pension changes provided by the legislation.

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

	2016	2015	2014
<u>Primary Government:</u>			
Regular Employees .....	\$ 44,519	\$ 51,394	\$ 38,693
Law Enforcement Employees.....	616	608	447
Total .....	<u>\$ 45,135</u>	<u>\$ 52,002</u>	<u>\$ 39,140</u>
<u>Major Discretely Presented Component Units:</u>			
Ohio State University.....	\$ 24,104	\$ 23,400	\$ 17,016

Members of the defined contribution plan may access a Retiree Medical Account upon retirement. During fiscal year 2016, employers' paid four percent of their share into members' accounts. Currently, an employee's interest in the medical account for qualifying healthcare expenses vests on the basis of length of service, with 100 percent vesting attained after five years of credited service for employees hired prior to July 1, 2015. Members who elect the member-directed plan after July 1, 2015, will vest at 15 years of service at a rate of 10 percent each year starting with the sixth year of participation. Employers make no further contributions to a member's medical account after retirement, nor do employers have any further obligation to provide postemployment healthcare benefits.

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

	2016	2015	2014
Primary Government.....	\$ 3,886	\$ 1,684	\$ 1,208
<u>Major Discretely Presented Component Units:</u>			
Ohio State University.....	\$ 2,904	\$ 1,026	\$ 736

The number of active contributing participants for the primary government was 65,276 as of June 30, 2016.



**NOTE 9 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS  
(Continued)**

**Early Retirement Incentives (ERI)**

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

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

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

As of June 30, 2016, the State had no significant liability balances relative to existing ERI agreements with state employees covered by OPERS. During fiscal year 2016, the State did not incur any significant expenditures/expenses related to ERI agreements.

**B. State Teachers Retirement System of Ohio (STRS)**

**Pension Benefits**

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

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

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

Participants in the defined benefit plan may retire after 30 years of credited service regardless of age or age 55 or after 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 "formula benefit" calculation. Beginning August 1, 2015, eligibility requirements for an unreduced benefit changed, and are based on the final average salary based on the five highest years of earning, and by multiplying 2.2 percent times the number of years of service credit. The annual retirement allowance for July 1, 2015, and earlier, is based on years of credited service and the final average salary, which is the average of the member's three highest salary years. The annual allowance is determined by multiplying the final average salary by 2.2 percent for the first 30 years of credited service. Each year over 30 years is incrementally increased by .1 percent, starting at 2.5 percent for the 31<sup>st</sup> year of contributing service up to a maximum allowance of 100 percent of final average salary. Upon reaching 35 years of Ohio service, the first 31 years of Ohio contributing service are multiplied by 2.5 percent, and each year over 31 years is incrementally increased by .1 percent starting at 2.6 percent for the 32<sup>nd</sup> year.



**NOTE 9 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS  
(Continued)**

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

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

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

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

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

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

Contribution rates for fiscal year 2016 were 14 percent for employers and 13 percent for employees for the defined benefit, defined contribution, and combined plans. For the defined benefit and combined plans, all employer contributions are used to fund pension obligations. For the defined contribution plan, 9.5 percent of the employer’s share is deposited into individual employee accounts, while 4.5 percent is paid to the defined benefit plan.

At June 30, 2016, the State reports a liability of \$107.5 million for its proportionate share of the net pension liability, as compared to \$99.4 million at June 30, 2015. Ohio State University discretely presented component unit reports a liability of \$1.24 billion for its proportionate share, as compared to \$1.1 billion at June 30, 2015. The net pension liability was measured as of June 30, 2015. The Plan’s total pension liability used to calculate the Plan’s net pension liability was determined by an actuarial valuation as of July 1, 2015. The State’s proportion of the net pension liability is determined by a measure of the State’s proportionate relationship of employer contributions made to STRS to the total contributions made to STRS by all employers and non-employer contributing entities to the plan. At June 30, 2015, the State’s proportion was 0.389 percent based on employer contributions totaling \$5.7 million as compared to the State’s proportion at June 30, 2014, of 0.409 percent. Ohio State University had a proportionate share of 4.5 percent based on employer contributions of \$67 million, as compared to 4.4 percent for June 30, 2014.

For purposes of measuring the net pension liability, deferred inflows and outflows of resources related to pensions, and pension expense, information about the fiduciary net position of the system and additions to and deductions from the fiduciary net position have been determined on the same basis as they are reported by STRS. For this purpose, benefit payments (including refunds of member contributions) are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.



**NOTE 9 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS  
(Continued)**

For the year ended June 30, 2016, the State recognized pension expense of \$6.6 million and Ohio State University discretely presented component unit recognized \$78 million.

At June 30, 2016, the State and Ohio State University report Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources (dollars in thousands):

	Primary Government	Ohio State University
<b>Deferred Outflows of Resources</b>		
Differences Between Expected and Actual Experience.....	\$ 4,936	\$ 56,459
Change in Employer Proportionate Share of NPL.....	-	789
Employer Contributions Subsequent to Measurement Date.....	5,588	67,106
Total.....	<u>\$ 10,524</u>	<u>\$ 124,354</u>
<b>Deferred Inflows of Resources</b>		
Change in Employer Proportionate Share of NPL.....	\$ (3,840)	\$ -
Net Difference Between Projected and Actual Earnings on Pension Plan Investments.....	(8,399)	(89,069)
Total.....	<u>\$ (12,239)</u>	<u>\$ (89,069)</u>

Deferred Outflows of Resources of \$5.6 million related to pensions resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Ohio State University discretely presented component unit will recognize \$67.1 million as a reduction of its net pension liability. Other amounts reported as Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions will be recognized in pension expense as follows:

	Primary Government	Ohio State University
<b>YEAR ENDED JUNE 30:</b>		
2017.....	\$ (2,916)	\$ (19,694)
2018.....	(2,916)	(19,694)
2019.....	(2,916)	(19,694)
2020.....	1,445	27,261

**Actuarial Assumptions:**

The Total Pension Liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age
Inflation	2.75 percent
Salary Increases	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of pension plan investment expense, including inflation
COLA or Ad Hoc COLA	2.00 percent simple applied as follows: members retired before August 1, 2013, two percent per year; members retiring August 1, 2013 or later, two percent COLA commences on the fifth anniversary of the retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table for males or females, as appropriate, with adjustments based on Projection 2022-Scale AA.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study dated July 1, 2012.



**NOTE 9 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS  
(Continued)**

An estimate range for investment return assumption is developed and based on the target allocation adopted by the STRS Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity.....	31%	8.00%
International Equity.....	26%	7.85%
Alternatives.....	14%	8.00%
Fixed Income.....	18%	3.75%
Real Estate.....	10%	6.75%
Liquidity Reserves.....	1%	3.00%
Total Fund.....	100%	7.61%

\*10-year annualized geometric nominal returns, which include the real rate of return and inflation, and does not include investment expenses.

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at statutory contribution rates. Only employer contributions that are intended to fund benefits of current plan members and beneficiaries are included. Projected employer contributions that are intended to fund the costs of future plan members and beneficiaries, and projected contributions from future plan members, are not included. In each period of the projection, employer contributions are assumed to be applied first to the service cost of all members, with any remaining amount included in projected employer contributions for current members. Therefore, the long-term expected rate of return of 7.75 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015.

Sensitivity of the State's proportionate share of the Net Pension Liability to changes in the Discount Rate – The following table represents the net pension liability as of the June 30, 2015, measurement date, calculated using the current period discount rate assumption of 7.75 percent. Also shown is what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent) or one percentage point higher (8.75 percent) than the current assumption:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Primary Government.....	\$ 149,356	\$ 107,522	\$ 72,145
Ohio State University Discretely Presented Component Unit.....	1,720,329	1,238,470	830,987

**Other Postemployment Benefits (OPEB)**

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

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

Under Ohio law, funding for the post-employment healthcare may be deducted from employer contributions. Of the 14 percent employer contribution rate, no covered payroll was allocable to postemployment healthcare for



**NOTE 9 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS  
(Continued)**

fiscal years 2015 and 2016. This action will reduce the amortization period for the pension fund. The Board has authority to direct part of the employer contribution back to the Health Care Fund in the future. The 14 percent employer contribution rate is the maximum rate established under Ohio law.

As of June 30, 2015 (the most recent information available), net position available for future healthcare benefits was \$3.4 billion. Employer contributions required and made for the last three fiscal years for the defined benefit and the defined benefit portion of the combined plans were as follows (dollars in thousands):

	2016	2015	2014
Primary Government.....	\$ -	\$ -	\$ 414
<i>Major Discretely Presented Component Unit:</i>			
Ohio State University.....	\$ -	\$ -	\$ 3,387

The number of eligible benefit recipients for STRS as a whole was 175,569 as of June 30, 2015 (the most recent information available); a breakout of the number of eligible recipients for the primary government and its component units, as of June 30, 2016, is unavailable.

**C. State Highway Patrol Retirement System (SHPRS)  
Pension Benefits**

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

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, 1900 Polaris Parkway, Suite 201, Columbus, Ohio 43240-4037, or by calling (614) 431-0781. A copy of the Comprehensive Annual Financial Report for the year ended December 31, 2015, may also be found at SHPRS's website: <https://www.ohprs.org>.

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

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

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

All investments are reported at fair value. Fair value is "the amount that the plan can reasonably expect to receive for an investment in a current sale, between a willing buyer and a willing seller – that is, other than in a forced or liquidation sale.

Securities traded on a national exchange are valued at the last reported sales price at the current exchange rate. The fair value of real estate and private equity investments are based on information provided by the Fund's managers or by independent appraisals. For actuarial purposes, assets are valued with a method that amortizes the difference between actual and assumed return over a closed, four-year period.



**NOTE 9 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS  
(Continued)**

Employees are eligible for pension and healthcare benefits upon reaching both an age and service requirement. Employees with at least 15 years of service credit, but less than 20 years of service credit, may retire at age 55. Employees with at least 20 years of service credit, but less than 25 years of service credit may retire at age 52 or age 48 with reduced benefits. Employees with more than 25 years of service may retire at age 48. Membership data for SHPRS is presented in the table below:

**Membership Data as of December 31, 2015**

Active Members.....	1,621
Retirees Receiving Benefits.....	1,548
Retirees not Receiving Benefits.....	10
	3,179

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

The SHPRS Board sets employee contribution rates and cost-of-living adjustment rates. Employee contribution rates may range between ten and 14 percent and cost-of-living adjustments range between zero and three percent. The Board may set the cost-of-living adjustments annually, but in no case shall it exceed three percent. The cost-of-living adjustment eligibility is 60 years of age, or age 53 for members retired prior to January 2013.

The employer and employee contribution rates, as of December 31, 2015, were 26.5 percent and 12.5 percent, respectively.

During calendar year 2015, all of the employees' contributions funded pension benefits while 22.5 percent of the employer's contributions funded pension benefits. The difference in the total employer rates charged and the employer rates applicable to the funding of pension benefits is applied to the funding of postemployment healthcare benefits.

The State's net pension liability was measured as of December 31, 2015, and the Plan's total pension liability used to calculate the Plan's net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability at December 31, 2015, was determined using the following actuarial assumptions, applied to all periods included in the measurement: an investment rate of return of 7.75 percent compounded annually, projected salary increase of 3.5 percent attributable to inflation and additional projected salary increases ranging from 0.3 percent to ten percent attributable to seniority and merit, and price inflation of 2.75 percent annually. Mortality rates were based on the RP-2014 Healthy Annuitant mortality tables for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for females was then established to be 2012. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumes employer contribution rates allocated to pensions will be 24.5 percent in 2016 and 26.5 percent for each year thereafter, and employee contribution rates of 12.5 percent in each year. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members and beneficiaries. Therefore, the long-term expected rate of return of 7.75 percent was applied to all periods of projected benefit payments to determine the total pension liability as of December 31, 2015.



**NOTE 9 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS  
(Continued)**

An estimate range for investment return assumptions is developed and based on the target allocation adopted by the SHPRS' Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Cash .....	1.0%	-0.1%
Domestic Equity - Large Cap .....	25.0%	5.5%
Domestic Equity - Small Cap .....	5.0%	6.3%
International Equity .....	15.0%	6.3%
Emerging Markets .....	8.0%	8.4%
Domestic Corporate Fixed Income .....	10.0%	1.1%
Domestic Government Fixed Income .....	3.0%	0.4%
Treasury Inflation Protected Securities .....	0.0%	0.9%
High Yield Bonds .....	3.0%	2.7%
Real Estate .....	0.0%	4.1%
Private Equity .....	10.0%	8.4%
Hedge Funds .....	10.0%	3.5%
Other Alternatives .....	10.0%	3.8%
Total Fund .....	100.0%	

\*Long-Term expected rates of return as shown were calculated geometrically.

Regarding sensitivity of the State's proportionate share of the Net Pension Liability to changes in the Discount Rate, the following table (dollars in thousands) represents the net pension liability as of December 31, 2015, calculated using the current period discount rate assumption of 7.75 percent, a decrease from the discount rate of eight percent used in the previous fiscal year. Also shown is what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current assumption.

1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
\$ 530,721	\$ 406,839	\$ 304,216

Detailed information about SHPRS' pension plan fiduciary net position is available in the separately issued SHPRS financial report. The pension plan's fiduciary net position has been determined on the same basis used by the pension plan. SHPRS uses the accrual basis of accounting, under which expenses are recorded when incurred and revenues are recorded when earned and measurable. Member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded at the trade date.

The Schedule of Changes in Net Pension Liability is presented below (dollars in thousands).



**NOTE 9 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS  
(Continued)**

Fiscal year ending December 31, 2015

Total Pension Liability:	
Service Cost .....	\$ 17,805
Interest on the Total Pension Liability .....	81,577
Difference Between Expected and Actual Experience .....	(6,366)
Assumption Changes .....	40,773
Benefit Payments .....	(66,213)
Refunds .....	(858)
Net Change in Total Pension Liability .....	66,718
Total Pension Liability - Beginning .....	1,044,346
Total Pension Liability - Ending (a) .....	<u>\$ 1,111,064</u>
Plan Fiduciary Net Position:	
Employer Contributions .....	\$ 22,895
Employee Contributions .....	13,686
Pension Plan Net Investment Income .....	(5,702)
Benefit Payments .....	(66,213)
Refunds .....	(858)
Pension Plan Administrative Expense .....	(1,084)
Other .....	839
Net Change in Plan Fiduciary Net Position .....	(36,437)
Plan Fiduciary Net Position - Beginning .....	740,662
Plan Fiduciary Net Position - Ending (b) .....	<u>\$ 704,225</u>
Net Pension Liability - Ending (a) - (b) .....	\$ 406,839
Plan Fiduciary Net Position as a Percentage	
of Total Pension Liability .....	63.4%
Covered Employee Payroll* .....	99,983
Net Pension Liability as a Percentage	
of Covered Employee Payroll .....	406.9%
Notes to Schedule: .....	N/A

\*Includes members of the DROP.

For the year ended June 30, 2016, the State recognized pension expense of \$47.2 million. The amount of employer contributions from the State for the calendar year ended December 31, 2015, totaled \$22.9 million. At June 30, 2016, the State reports Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

**Deferred Outflows of Resources**

Net Difference Between Projected and Actual	
Earnings on Pension Plan Investments .....	\$ 58,106
Changes of Assumptions .....	32,999
Contributions Subsequent to Measurement Date .....	11,611
Total .....	<u>\$ 102,716</u>

**Deferred Inflows of Resources**

Difference Between Projected and Actual Experience .....	\$ (5,152)
Total .....	<u>\$ (5,152)</u>

Deferred Outflows of Resources of \$11.6 million related to pensions resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions will be recognized in pension expense as follows:



**NOTE 9 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS  
(Continued)**

Year Ended June 30:

2017.....	\$	21,681
2018.....		21,681
2019.....		21,681
2020.....		19,306
2021.....		1,604

**Other Postemployment Benefits (OPEB)**

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

During calendar year 2015, 4 percent of the employer’s contributions funded healthcare benefits. Active members do not make contributions to the OPEB plan. The cost of retiree healthcare benefits is recognized as claims are incurred and premiums are paid. The number of active contributing plan participants, as of December 31, 2015, was 1,621.

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

Annual Required Contribution (ARC)	\$	25,887
Interest on Net OPEB Obligation		7,457
Adjustment to ARC		(5,917)
Annual OPEB Cost		<u>27,427</u>
Contributions Made		<u>(5,209)</u>
Increase (Decrease) in Net OPEB Obligation		22,218
Net OPEB Obligation, Beginning of Year		<u>149,130</u>
Net OPEB Obligation, End of Year	\$	<u><u>171,348</u></u>

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

For the Year Ended December 31,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015.....	\$ 27,427	18.9%	\$ 171,348
2014.....	26,002	19.1%	149,131
2013.....	25,520	16.1%	128,101

As of December 31, 2015, the most recent actuarial valuation, the plan was 25.8 percent funded. The actuarial accrued liability was \$412.4 million, and the actuarial value of assets was \$106.6 million, resulting in an unfunded actuarial liability (UAAL) of \$305.8 million. The covered payroll (annual payroll of active employees covered by the plan) was \$100 million, and the ratio of the UAAL to the covered payroll was 305.8 percent.

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



**NOTE 9 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS  
(Continued)**

SHPRS Schedule of Funding Progress Last Three Calendar Years – OPEB (dollars in thousands)						
(A)	(B)	(C)	(D)	(E)	(F)	(G)
Valuation Year	Actuarial Accrued Liability (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liability (UAAL) (B)-(C)	Ratio of Assets to AAL (C)/(B)	Active Member Payroll	UAAL as Percentage of Active Member Payroll (D)/(F)
2015	\$ 412,352	\$ 106,550	\$ 305,802	25.8%	\$ 99,983	305.9%
2014	376,683	103,813	272,870	27.6%	99,212	275.0%
2013	438,562	102,084	336,478	23.3%	98,520	341.5%

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

Healthcare benefits are advance funded by the employer using the entry-age, normal actuarial cost method for the Schedule of Funding Progress for the actuarial valuation, dated December 31, 2015, for OPEB. Assumptions used in preparing the Schedule of Funding Progress and in determining the annual required contribution include: a five percent rate of return on investments; projected salary increase of four percent attributable to inflation and additional projected salary increases ranging from 3.8 percent to 13.8 percent a year attributable to seniority and merit; and an annual healthcare cost increase of nine percent annually, reduced by declining percentages ranging from 8.25 percent to four percent through 2030 and later. There are no cost-of-living adjustments for OPEB benefits. Maximum contribution rates were not considered in the projection of actuarially accrued liabilities for OPEB benefits.

The unfunded actuarial accrued liability is being amortized using the level-percentage of projected payroll method over an open period of 31 years.

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

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

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



**NOTE 9 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS  
(Continued)**

Ohio law requires that employee contributions be made to the ARP in an amount equal to those that would otherwise have been required by the retirement system that applies to the employee's position. For the fiscal year ended June 30, 2016, these contribution rates are ten percent for OPERS and 13 percent for STRS. Employees may also voluntarily make additional contributions to the ARP.

For the year ended June 30, 2016, each public institution of higher education was required to contribute 0.77 percent of a participating employee's salary to OPERS in cases when the employee would have otherwise been enrolled in OPERS.

Ohio law also requires each public institution of higher education to contribute 4.5 percent of a participating employee's gross salary, for the year ended June 30, 2016, to STRS in cases when the employee would have otherwise been enrolled in STRS.

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

The ARP vesting of all contributions made on behalf of participants is based on the employer's vesting requirements. The contributions are directed to one of the investment management companies as chosen by the participants. The ARP does not provide disability benefits, annual cost-of-living adjustments, postretirement healthcare benefits, or death benefits. Benefits are entirely dependent on the sum of the contributions and related investment income generated by each participant's choice of investment options.

For the State's major discretely presented component units, employer and employee contributions required and made for the year ended June 30, 2016, for the ARP follow (dollars in thousands):

<u>Major Component Unit:</u>	<u>OPERS</u>	<u>STRS</u>
Ohio State University:		
Employer Contributions .....	\$ 28,124	\$ 25,299
Employee Contributions .....	21,258	34,620

**NOTE 10 GENERAL OBLIGATION BONDS**

At various times since 1921, Ohio voters, by 20 constitutional amendments (the last adopted May 2014 for a ten-year extension of the local government infrastructure program adopted in 2005), have authorized the incurrence of general obligation debt for the construction and improvement of common school and higher education facilities, highways, local infrastructure improvements, research and development of coal technology, natural resources, research and development support for high-tech business, business site development, and veterans compensation. Issuances for highway capital improvements, natural resources, and conservation are, in part, used for acquisition, construction or improvement of capital assets. In practice, general obligation bonds are retired over periods of 10 to 25 years.

A 1999 constitutional amendment provided for the issuance of Common School Capital Facilities Bonds and Higher Education Capital Facilities Bonds. As of June 30, 2016, the General Assembly had authorized the issuance of \$5.17 billion in Common Schools Capital Facilities Bonds, of which \$4.47 billion has been issued. As of June 30, 2016, the General Assembly had also authorized the issuance of \$4.02 billion in Higher Education Capital Facilities Bonds, of which \$3.22 billion has been issued.



**NOTE 10 GENERAL OBLIGATION BONDS (Continued)**

Through the approval of the November 1995 amendment, voters authorized the issuance of Highway Capital Improvements Bonds in amounts up to \$220 million in any fiscal year (plus any prior fiscal years' principal amounts not issued under the new authorization), with no more than \$1.2 billion outstanding at any time. As of June 30, 2016, the General Assembly has authorized the issuance of approximately \$3.43 billion in Highway Capital Improvements Bonds, of which \$2.92 billion has been issued.

Constitutional amendments in 1995, 2005, and 2014 allowed for the issuance of \$5.63 billion of general obligation bonds for infrastructure improvements (Infrastructure Bonds). In 2014, the annual issuance limitation increased from \$150 million to \$175 million in the first five fiscal years and will rise to \$200 million in each following fiscal year thereafter (plus any obligations unissued from previous fiscal years). As of June 30, 2016, the General Assembly had authorized \$4.08 billion of these bonds to be sold (excluding any amounts for unaccreted discount on capital appreciation bonds at issuance), of which \$3.6 billion had been issued (net of \$214 million in unaccreted discounts at issuance).

Coal Research and Development Bonds and Parks, Recreation, and Natural Resources Bonds may be issued as long as the outstanding principal amounts do not exceed \$100 and \$200 million, respectively. As of June 30, 2016, the General Assembly had authorized the issuance of \$258 million in Coal Research and Development Bonds, of which \$234 million had been issued. Legislative authorizations for the issuance of Natural Resources Capital Facilities Bonds totaled \$458 million, as of June 30, 2016, of which \$418 million had been issued.

Constitutional amendments in 2000 and 2008 allowed for outstanding Conservation Projects Bonds of up to \$400 million. No more than \$50 million may be issued during a fiscal year. As of June 30, 2016, the General Assembly had authorized the issuance of approximately \$600 million in Conservation Projects Bonds of which \$400 million had been issued.

Through approval of the May 2010 and November 2005 amendments, voters authorized the issuance of \$1.2 billion of Third Frontier Research and Development Bonds. Obligations that may be issued are limited to \$175 million in any fiscal year (plus any obligations unissued from previous fiscal years). As of June 30, 2016, the General Assembly had authorized the issuance of \$1.2 billion in Third Frontier Research and Development Bonds, of which \$761 million had been issued.

The issuance of \$150 million of Site Development Bonds were also authorized through the approval of the November 2005 amendment. Not more than \$30 million may be issued in each of the first three years, beginning with fiscal year 2006, and not more than \$15 million may be issued in any of the subsequent fiscal years. The General Assembly had authorized the issuance of \$150 million in Site Development Bonds as of June 30, 2016, of which all \$150 million had been issued.

A 2009 constitutional amendment provided for the issuance of up to \$200 million in Veterans Compensation Bonds. No obligations may be issued after December 31, 2013. As of June 30, 2016, the General Assembly had authorized all \$200 million in Veterans' Compensation Bonds, of which \$83.9 million had been issued.

General obligation bonds outstanding and future general obligation debt service requirements, as of June 30, 2016, are presented in the table on the following page. For the variable-rate bonds, using the assumption that current interest rates remain the same over their term, the interest and net swap payment amounts are based on rates as of June 30, 2016. As rates vary, variable-rate bond interest payments and net swap payments vary.



**NOTE 10 GENERAL OBLIGATION BONDS (Continued)**

**Primary Government-Governmental Activities  
Summary of General Obligation Bonds  
and Future Funding Requirements  
As of June 30, 2016  
(dollars in thousands)**

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Common Schools Capital Facilities .....	2004-16	2.5%-5.5%	2035	\$ 3,031,231	\$ 700,000
Higher Education Capital Facilities .....	2006-16	2.0%-5.3%	2036	2,281,805	795,000
Highway Capital Improvements .....	2007-16	1.3%-5.0%	2031	1,003,902	506,590
Infrastructure Improvements .....	2002-16	2.0%-5.5%	2036	1,922,401	482,014
Coal Research and Development .....	2010-16	1.5%-5.0%	2026	40,933	24,000
Natural Resources Capital Facilities .....	2007-16	3.0%-5.0%	2030	161,151	39,870
Conservation Projects .....	2007-16	2.0%-5.0%	2031	245,308	200,000
Third Frontier Research and Development .....	2007-16	1.1%-5.5%	2026	461,225	439,000
Site Development .....	2010-14	2.5%-4.6%	2023	75,805	-
Veterans' Compensation .....	2011-14	1.2%-4.9%	2027	59,395	116,090
Total General Obligation Bonds .....				<u>\$ 9,283,156</u>	<u>\$ 3,302,564</u>

**Future Funding of Current Interest and Capital Appreciation Bonds:**

Year Ending June 30,	Principal	Interest	Total
2017.....	\$ 725,080	\$ 357,063	\$ 1,082,143
2018.....	691,110	328,002	1,019,112
2019.....	715,715	297,361	1,013,076
2020.....	717,675	265,271	982,946
2021.....	706,105	232,792	938,897
2022-2026.....	2,609,050	733,357	3,342,407
2027-2031.....	1,359,655	295,177	1,654,832
2032-2036.....	505,985	50,784	556,769
Total Current Interest and Capital Appreciation Bonds .....	<u>\$ 8,030,375</u>	<u>\$ 2,559,807</u>	<u>\$ 10,590,182</u>

**Future Funding of Variable-Rate Bonds:**

Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2017.....	\$ 70,600	\$ 7,179	\$ 8,501	\$ 86,280
2018.....	63,450	5,706	7,727	76,883
2019.....	46,335	4,616	6,915	57,866
2020.....	50,465	3,774	6,073	60,312
2021.....	52,305	3,164	4,834	60,303
2022-2026.....	179,855	6,387	8,477	194,719
Total Variable-Rate Bonds.....	<u>\$ 463,010</u>	<u>\$ 30,826</u>	<u>\$ 42,527</u>	<u>\$ 536,363</u>
Total General Obligation Bonds .....	\$ 8,493,385			
Unamortized Premium/(Discount), Net.....	789,771			
Total.....	<u>\$ 9,283,156</u>			

For the year ended June 30, 2016, NOTE 15 summarizes changes in general obligation bonds.



**NOTE 10 GENERAL OBLIGATION BONDS (Continued)**

**Hedging Derivatives**

As of June 30, 2016, approximately \$285.3 million of Infrastructure Improvement Bonds and Common Schools Bonds have associated cash flow hedges with a fair value of (\$37.1) million. The value of these bonds is reported as part of the Bonds and Notes Payable section and the negative fair value of the cash flow hedges is reported in the Other Noncurrent Liabilities section on the Statement of Net Position. The fair value decreased \$2.4 million during fiscal year 2016. This decrease is reported on the Statement of Net Position as part of Deferred Outflows of Resources. Fair value of the cash flow hedges is determined using the zero-coupon method. For information on the State's Deferred Outflows of Resources and Deferred Inflows of Resources, see NOTE 18.

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

<b>Hedging Derivatives</b>							
<b>As of June 30, 2016</b>							
<i>(dollars in thousands)</i>							
Issue	Type of Cash Flow Hedge	Notional Amount	Underlying Index	Counterparty's Swap Rate at 06/30/2016	State's Swap Rate at 06/30/2016	Effective Date	Termination (Maturity) Date
Infrastructure Improvements, Series 2001B	Pay-fixed interest rate swap	\$50,000	SIFMA Index	0.41%	4.63%	11/29/2001	8/1/2021
Objective: Convert Series 2001B variable-rate bonds into a synthetic fixed rate to minimize exposure to changing interest rates							
Embedded Option: JPMorgan Chase may elect to terminate its portion of the swap if the SIFMA index averages 7 percent or higher over a 180-day period.							
Credit Quality Ratings of Counterparty:		50% Aa3/A+/AA- JPMorgan Chase; 50% Aa2/AA-/AA Wells Fargo					
Infrastructure Improvements, Refunding Series 2004A	Pay-fixed interest rate swap	\$53,340	LIBOR (See terms below)	0.54%	3.51%	3/3/2004	2/1/2023
Objective: Convert Series 2004A variable-rate bonds into a synthetic fixed rate to minimize exposure to changing interest rates							
Credit Quality Ratings of Counterparty:		Aa2/AA-/AA Wells Fargo					
Terms: 63% of 1-month LIBOR + 25 basis points							
Common Schools, Series 2003D	Pay-fixed interest rate swap	\$67,000	LIBOR (see terms below)	0.55%	3.41%	9/14/2007	3/15/2024
Objective: Convert Series 2003D variable-rate bonds into a synthetic fixed rate to minimize exposure to changing interest rates							
Credit Quality Ratings of Counterparty:		50% Aa3/A+/AA- JPMorgan Chase; 50% Aa2/AA-/AA Wells Fargo					
Terms: 65% of 1-month LIBOR + 25 basis points							
Common Schools, Series 2006B	Pay-fixed interest rate swap	\$57,495	LIBOR (see terms below)	0.55%	3.20%	11/21/2014	6/15/2026
Objective: Convert Series 2006B variable-rate bonds into a synthetic fixed rate to minimize exposure to changing interest rates							
Credit Quality Ratings of Counterparty:		A1/AA-/AA US Bank National Association					
Terms: 65% of 1-month LIBOR + 25 basis points							
Common Schools, Series 2006C	Pay-fixed interest rate swap	\$57,495	LIBOR (see terms below)	0.55%	3.20%	6/15/2006	6/15/2026
Objective: Convert Series 2006C variable-rate bonds into a synthetic fixed rate to minimize exposure to changing interest rates							
Credit Quality Ratings of Counterparty:		Aa3/AA-/AA Royal Bank of Canada					
Terms: 65% of 1-month LIBOR + 25 basis points							

The State was not exposed to credit risk because these swaps had negative fair values at June 30, 2016. However, should interest rates change and the fair values of the swaps become positive, the State would be exposed to credit risk in the amount of the derivative's positive fair value.



**NOTE 10 GENERAL OBLIGATION BONDS (Continued)**

Each swap counterparty is required to post collateral to a third party when their respective credit rating, as determined by specified nationally recognized credit rating agencies, falls below the trigger level defined in the swap agreement. This arrangement protects the State by mitigating credit risk, and therefore termination risk, inherent in the swap. Collateral on all swaps must be in the form of cash or U.S. government securities and held by a third-party custodian. Net payments are made on the same date, as specified in the agreements.

The combination of the variable-rate bonds and a floating-to-fixed swap creates a low-cost, long-term synthetic fixed-rate debt that protects the State from rising interest rates.

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

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

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

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

**Advance Refundings**

During fiscal year 2016, there were seven advance refundings of general obligations bonds. Details on the advanced refundings are presented in the table on the following page.

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

In prior years, the State defeased certain bond issues by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the various trust accounts' assets and liabilities for the defeased bonds are not included in the State's financial statements. For these prior year defeasances, Conservation Bonds of \$20.4 million, and Infrastructure Improvement Bonds of \$169.8 million are considered defeased and no longer outstanding as of June 30, 2016.



**NOTE 10 GENERAL OBLIGATION BONDS (Continued)**

**Primary Government — Governmental Activities**

**General Obligation Bonds**

**Details of Advance Refundings**

**For the Year Ended June 30, 2016**

(dollars in thousands)

Refunding Bond Issue	Date of Refunding	Amount of Refunding Bonds Issued	True Interest Cost Rates of Refunding Bonds	Carrying Amount of Bonds Refunded (in substance)	Refunding Bond Proceeds Placed in Escrow	Reduction (Increase) in Debt Service Payments	Economic Gain / (Loss) Resulting from Refunding
Infrastructure, Series 2015C.....	9/29/2015	\$ 50,390	2.15%	\$ 54,575	\$ 59,514	5,788/13 yrs	\$ 4,950
Conservation, Series 2016A.....	3/9/2016	20,930	1.59%	22,565	26,146	2,068/10 yrs	1,799
Common Schools, Series 2016A .....	3/9/2016	138,225	1.57%	143,240	172,302	11,040/10 yrs	9,311
Infrastructure, Series 2016A.....	3/9/2016	96,430	1.91%	108,315	122,216	19,533/13 yrs	16,881
Higher Education, Series 2016A.....	6/2/2016	69,400	1.40%	70,625	86,154	3,937/10 yrs	3,207
Natural Resources, Series U.....	6/2/2016	13,715	1.39%	13,585	16,608	739/9 yrs	611
Third Frontier, Series 2016 B.....	6/2/2016	22,105	1.20%	22,615	25,553	1,161/7 yrs	941
Total .....		<u>\$ 411,195</u>		<u>\$ 435,520</u>	<u>\$ 508,493</u>		<u>\$ 37,700</u>

**NOTE 11 REVENUE BONDS AND NOTES**

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

The Treasurer of State and the Buckeye Tobacco Settlement Financing Authority (BTSFA) issue revenue bonds and notes for the primary government. The Treasurer of State issues bonds and notes on behalf of the Ohio Department of Transportation. The Ohio State University issues revenue bonds and notes as a major discretely presented component unit.

**A. Primary Government**

The Treasurer of State, since fiscal year 1998, has issued a total of \$2.15 billion in State Infrastructure Bank Bonds for various transportation construction projects financed by the Department of Transportation. The State has pledged federal highway receipts and loan repayments received under the State Infrastructure Bank Loan Program as the primary source of moneys for meeting the principal and interest requirements on the bonds.

Issuances for the State Infrastructure Bank are, in part, used for the acquisition, construction, or improvement of capital assets. Total pledged federal highway receipts and loan repayments through the maturity of the bonds in 2025 are estimated at approximately \$753.3 million. For fiscal year 2016, principal and interest payments on the revenue bonds was \$179.8 million and pledged receipts was \$176.9 million.

BTSFA is authorized by the Ohio General Assembly to issue and to sell obligations, the aggregate principle amount of which shall not exceed \$6 billion, exclusive of obligations issued to refund, renew, or advance refund other obligations issued or incurred. On October 29, 2007, BTSFA successfully securitized 100 percent of the projected tobacco settlement receipts for the next 45 years through the issuance of five series of asset-backed revenue bonds, aggregating in the amount of \$5.53 billion. The future tobacco settlement receipts, including related investment earnings and net of specified operating and enforcement expenses, have been pledged to repay the bonds, which are payable through 2052. Annual principal and interest payments on the bonds will require 100 percent of the net tobacco settlement receipts. As of June 30, 2016, the total principal and interest payments remaining to be paid on the bonds were \$17.22 billion. Principal and interest paid and total net tobacco settlement receipts for fiscal year 2016 were \$329.4 million and \$299.1 million, respectively. In the event that the assets of BTSFA have been exhausted, no amounts will thereafter be paid on the bonds. After the bonds and any related operating expenses have been fully paid, any remaining tobacco settlement receipts will become



**NOTE 11 REVENUE BONDS AND NOTES (Continued)**

payable to the State. The bonds include fixed rate serial bonds, fixed rate current interest turbo term bonds, and capital appreciation turbo term bonds which will convert to fixed rate current interest turbo term bonds. They were issued to fund long-lived capital projects at state-supported institutions of higher education and to pay the State's share of the cost of rebuilding elementary and secondary school facilities across the State. Additional information on these bonds can be found in BTSFA's stand-alone financial report.

Revenue bonds and notes outstanding and future bond service requirements for the primary government, as of June 30, 2016, are presented in the following tables.

**Primary Government-Governmental Activities  
Summary of Revenue Bonds and Notes  
As of June 30, 2016  
(dollars in thousands)**

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Treasurer of State: State Infrastructure Bank .....	2006-15	2.0%-6.0%	2025	\$ 691,214
Buckeye Tobacco Settlement Financing Authority.....	2008	4.9%-7.5%	2052	5,570,668
Total Revenue Bonds and Notes.....				<u>\$ 6,261,882</u>

**Primary Government-Governmental Activities  
Future Funding Requirements for Revenue Bonds and Notes  
As of June 30, 2016  
(dollars in thousands)**

Year Ending June 30,	Principal	Interest	Total
2017.....	\$ 325,895	\$ 322,137	\$ 648,032
2018.....	200,525	305,939	506,464
2019.....	210,835	295,127	505,962
2020.....	220,060	284,723	504,783
2021.....	200,115	274,565	474,680
2022-2026.....	765,335	1,240,481	2,005,816
2027-2031.....	584,335	1,057,946	1,642,281
2032-2036.....	631,065	881,268	1,512,333
2037-2041.....	898,095	667,251	1,565,346
2042-2046.....	1,308,830	346,402	1,655,232
2047-2051.....	503,956	3,034,792	3,538,748
2052.....	128,183	3,289,117	3,417,300
	<u>5,977,229</u>	<u>11,999,748</u>	<u>17,976,977</u>
Unamortized Premium/(Discount), Net.....	284,653	-	284,653
Total .....	<u>\$ 6,261,882</u>	<u>\$ 11,999,748</u>	<u>\$ 18,261,630</u>

For the year ended June 30, 2016, NOTE 15 summarizes changes in revenue bonds and notes.

In prior years, the Treasurer of State defeased certain bond issues by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the various trust accounts' assets and liabilities for the defeased bonds are not included in the State's financial statements. For these prior year defeasances, Economic Development Bonds of \$118.2 million, Revitalization Bonds of \$35.1 million and State Infrastructure Bonds of \$62.5 million are considered defeased and no longer outstanding as of June 30, 2016.



**NOTE 11 REVENUE BONDS AND NOTES (Continued)**

**B. Major Discretely Presented Component Units**

Future bond service requirements for revenue bonds and notes reported for the major discretely presented component units, as of June 30, 2016, are shown in the following table.

Year Ending June 30,	Ohio State University		
	Principal	Interest	Total
2017.....	\$ 657,520	\$ 122,747	\$ 780,267
2018.....	62,624	117,456	180,080
2019.....	48,478	115,116	163,594
2020.....	35,513	113,246	148,759
2021.....	34,028	111,606	145,634
2022-2026.....	195,793	531,954	727,747
2027-2031.....	170,211	490,186	660,397
2032-2036.....	116,031	461,015	577,046
2037-2041.....	785,746	402,856	1,188,602
2042-2046.....	84,150	245,427	329,577
2047-2051.....	350,000	177,247	527,247
2052-2056.....	-	170,600	170,600
2057-2061.....	250,000	125,060	375,060
2062-2066.....	-	120,000	120,000
2067-2071.....	-	120,000	120,000
2072-2076.....	-	120,000	120,000
2077-2081.....	-	120,000	120,000
2082-2086.....	-	120,000	120,000
2087-2091.....	-	120,000	120,000
2092-2096.....	-	120,000	120,000
2097-2101.....	-	120,000	120,000
2102-2106.....	-	120,000	120,000
2107-2111.....	500,000	120,000	620,000
	<u>3,290,094</u>	<u>4,384,516</u>	<u>7,674,610</u>
Unamortized Premium/(Discount), Net....	94,165	-	94,165
Total .....	<u>\$ 3,384,259</u>	<u>\$ 4,384,516</u>	<u>\$ 7,768,775</u>

The bonds and notes of 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 and note agreements. The proceeds of the bonds and notes are used for the construction of educational and student resident facilities and auxiliary facilities such as dining halls, hospitals, parking facilities, bookstores and athletic facilities. The State is not obligated for the debt of its discretely presented component units.

**NOTE 12 SPECIAL OBLIGATION BONDS**

Under the authority of Chapter 154, Ohio Revised Code, the Treasurer of State is the issuer of special obligation bonds that finance the cost of capital facilities for state-supported institutions of higher education, mental health and developmental disabilities institutions, parks and recreation, cultural and sports facilities, correctional facilities, office buildings for state departments and agencies, transportation, and, in some cases, related facilities for local governments. These issuances are, in part, used for acquisition, construction, or improvement of capital assets.



**NOTE 12 SPECIAL OBLIGATION BONDS (Continued)**

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 the special obligation bonds. The lease rental payments are reported in the fund financial statements as interfund transfers.

Special obligation bonds outstanding, bonds authorized but unissued, and future debt service requirements, as of June 30, 2016, are presented in the following tables.

**Primary Government-Governmental Activities  
Summary of Special Obligation Bonds  
As of June 30, 2016  
(dollars in thousands)**

	Fiscal Years		Maturing Through Fiscal Year	Outstanding Balance	Authorized but Unissued
	Issued	Interest Rates			
Treasurer of State Lease Rental Bonds.....	2001-16	1.2%-5.6%	2036	\$ 1,930,592	\$ 1,103,325
<b>Total Special Obligation Bonds.....</b>				<b>\$ 1,930,592</b>	<b>\$ 1,103,325</b>

**Future Funding of Special Obligation Bonds:**

Year Ending June 30,	Principal	Interest	Total
2017.....	\$ 216,720	\$ 77,592	\$ 294,312
2018.....	212,410	69,478	281,888
2019.....	187,245	60,703	247,948
2020.....	162,480	52,976	215,456
2021.....	154,475	45,641	200,116
2022-2026.....	559,065	132,563	691,628
2027-2031.....	210,955	43,307	254,262
2032-2036.....	65,770	7,007	72,777
	1,769,120	489,267	2,258,387
Unamortized Premium/(Discount), Net.....	161,472	-	161,472
<b>Total .....</b>	<b>\$ 1,930,592</b>	<b>\$ 489,267</b>	<b>\$ 2,419,859</b>

For the year ended June 30, 2016, NOTE 15 summarizes changes in special obligation bonds.

During fiscal year 2016, Treasurer of State Lease Rental had three current/advance refunding issues. Details on advanced refunding for fiscal year 2016 are presented in the following table.

**Primary Government — Governmental Activities  
Special Obligation Bonds  
Details of Advance Refundings  
For the Year Ended June 30, 2016  
(dollars in thousands)**

Refunding Bond Issue	Date of Refunding	Amount of Refunding Bonds Issued	True Interest Cost Rates of Refunding Bonds	Carrying Amount of Bonds Refunded (in substance)	Refunding Bond Proceeds Placed in Escrow	Reduction (Increase) in Debt Service Payments	Economic Gain / (Loss) Resulting from Refunding
Treasurer of State Lease Rental Bonds:							
Adult Correctional Facilities 2016 Series A.....	5/25/2016	\$ 20,565	2.03%	\$ 22,515	\$ 25,178	\$ 2,939/13 yrs	\$ 2,584
Administrative Facilities 2016 Series A.....	5/25/2016	31,095	2.03%	34,270	38,111	4,260/13 yrs	3,724
Parks and Recreation Facilities 2016 Series B.....	6/28/2016	10,415	1.61%	10,875	12,708	762/10 yrs	714
<b>Total .....</b>		<b>\$ 62,075</b>		<b>\$ 67,660</b>	<b>\$ 75,997</b>		<b>\$ 7,022</b>



**NOTE 12 SPECIAL OBLIGATION BONDS (Continued)**

These refunded amounts are considered defeased and no longer outstanding. The various trust accounts' assets and liabilities for the defeased bonds are not included in the State's financial statements.

In prior years, the Treasurer of State defeased certain bond issues by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the various trust accounts' assets and liabilities for the defeased bonds are not included in the State's financial statements. For these prior year defeasances, \$88.2 million of lease rental special obligations bonds are considered defeased and no longer outstanding as of June 30, 2016.

**NOTE 13 CERTIFICATES OF PARTICIPATION**

As of June 30, 2016, approximately \$194.9 million in certificate of participation (COP) obligations were reported in governmental activities.

In fiscal year 2015, the Ohio Department of Administrative Services participated in the issuance of \$33.6 million of COP obligations to finance the cost of acquisition of the Enterprise Data Center Solutions (EDCS).

Beginning in fiscal year 2013, the Ohio Department of Administrative Services participated in the issuance of \$72 million of COP obligations to finance the upgrade of the Ohio Multi-Agency Radio Communications System (MARCS).

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

Beginning in fiscal year 2008, the Ohio Department of Administrative Services participated in the issuance of \$58.1 million of COP obligations to finance the cost of acquisition of the State Taxation Accounting and Revenue System (STARS).

In fiscal year 2015, the Ohio Treasurer of State's Office participated in the issuance of \$8.8 million of COP obligations to finance the cost of acquisition of the Treasury Management System (TMS).

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

Obligations outstanding and future commitments for the primary government under COP financing arrangements, as of June 30, 2016, are presented in the following tables.



**NOTE 13 CERTIFICATES OF PARTICIPATION (Continued)**

**Primary Government — Governmental Activities**  
**Summary of Certificate of Participation Obligations**  
**As of June 30, 2016**  
*(dollars in thousands)*

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
<b>Department of Administrative Services:</b>				
Enterprise Data Center Solutions (EDCS).....	2015	2.0%-5.0%	2025	\$ 35,171
Multi-Agency Radio Communications System (MARCS) .....	2013-15	3.0%-5.0%	2028	69,904
Ohio Administrative Knowledge System (OAKS) .....	2014	4.0%-5.0%	2019	47,507
State Taxation Accounting and Revenue System (STARS).....	2008-15	4.1%-5.0%	2025	33,098
<b>Treasurer of State:</b>				
Treasury Management Systems (TMS).....	2015	5.0%	2025	9,219
Total Certificates of Participation .....				<u>\$ 194,899</u>

Future Commitments for Certificate of Participation Obligations:

Year Ending June 30,	Principal	Interest	Total
2017.....	\$ 34,190	\$ 7,525	\$ 41,715
2018.....	26,145	6,153	32,298
2019.....	27,450	4,949	32,399
2020.....	10,440	4,084	14,524
2021.....	10,965	3,557	14,522
2022-2026.....	55,780	9,069	64,849
2027-2031.....	12,975	556	13,531
	<u>177,945</u>	<u>35,893</u>	<u>213,838</u>
Unamortized Premium, Net.....	16,954	-	16,954
Total .....	<u>\$ 194,899</u>	<u>\$ 35,893</u>	<u>\$ 230,792</u>

For the year ended June 30, 2016, NOTE 15 summarizes changes in COP obligations.

**NOTE 14 OTHER NONCURRENT LIABILITIES**

As of June 30, 2016, in addition to bonds, notes, and certificates of participation obligations discussed in NOTES 10 through 13, the State reports the following noncurrent liabilities in its financial statements (dollars in thousands):



**NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)**

<b>Non-Current Liabilities</b>	
<b>Governmental Activities:</b>	
Compensated Absences .....	\$ 444,805
Net Pension Liability .....	3,800,346
Net OPEB Obligation .....	171,348
Capital Leases Payable .....	8,806
Derivatives .....	51,403
Pollution Remediation Liabilities .....	5,890
Infrastructure, Capital Assets .....	195,762
Litigation Liabilities .....	6,100
Estimated Claims Payable .....	1,700
Liability for Escheat Property .....	271,580
<b>Total Governmental Activities .....</b>	<b>4,957,740</b>
<b>Business-Type Activities:</b>	
Compensated Absences .....	38,163
Net Pension Liability .....	275,524
Capital Leases Payable .....	10,077
Workers' Compensation:	
Benefits Payable .....	15,670,600
Other .....	1,883,900
Prize Awards Payable .....	471,659
Tuition Benefits Payable .....	297,200
<b>Total Business-Type Activities .....</b>	<b>18,647,123</b>
<b>Total Primary Government .....</b>	<b>\$ 23,604,863</b>

For the year ended June 30, 2016, NOTE 15 summarizes the changes in other noncurrent liabilities. Explanations of certain significant noncurrent liability balances reported in the financial statements follow:

**A. Compensated Absences**

For the primary government, the compensated absences liability, as of June 30, 2016, was \$483 million, of which \$444.8 million is allocable to governmental activities and \$38.2 million is allocable to business-type activities.

As of June 30, 2016, major discretely presented component units reported a total of \$171.3 million in compensated absences liabilities, as detailed by major discretely presented component unit in NOTE 15.

**B. Net Pension Liability and Net OPEB Obligation**

The State recognizes a net pension liability in the amount of \$4.08 billion, as of June 30, 2016, for the primary government of which \$3.8 billion is allocable to governmental activities and \$275.5 million is allocable to business-type activities. The net pension liability represents the State's proportionate share of the difference between the total pension liability and the fiduciary net position for OPERS, STRS, and SHPRS.

For the primary government, the State recognizes a net OPEB obligation in the amount of \$171.3 million as of June 2016. The net OPEB obligation represents the cumulative difference between the annual OPEB cost and the employer's contributions to the SHPRS. The SHPRS is a blended component unit reported as a fiduciary pension trust fund. See NOTE 9 for further details.

**C. Lease Agreements**

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



**NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)**

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

Operating leases (leases on assets not recorded in the Statement of Net Position) contain various renewable options as well as some purchase options. Any escalation clauses, sublease rentals, and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures or expenses of the related funds when paid or incurred. The primary government's total operating lease expenditures/expenses for fiscal year 2016 were approximately \$89.6 million. Fiscal year 2017 future minimum lease commitments for operating leases judged to be noncancelable, as of June 30, 2016, were \$4 million.

Assets acquired through capital leasing are valued at the lower of fair value or the present value of the future minimum lease payments at the lease's inception. Capital leases are used for the acquisition of capital assets. Future minimum lease commitments for capital leases judged to be noncancelable, as of June 30, 2016, are below (dollars in thousands):

Year Ending June 30,	Capital Leases		
	Governmental Activities	Business- Type Activities	Total
2017.....	\$ 2,253	\$ 3,800	\$ 6,053
2018.....	2,094	-	2,094
2019.....	1,845	-	1,845
2020.....	1,405	6,277	7,682
2021.....	1,083	-	1,083
2022.....	658	-	658
Total Minimum Lease Payments.....	9,338	10,077	19,415
Amount for Interest.....	(532)	-	(532)
Present Value of Net Minimum Lease Payments.....	<u>\$ 8,806</u>	<u>\$ 10,077</u>	<u>\$ 18,883</u>

As of June 30, 2016, the primary government had the following capital assets under capital leases (dollars in thousands):

	Capital Assets		
	Governmental Activities	Business- Type Activities	Total
Equipment .....	\$ 9,115	\$ 108,815	\$ 117,930
Vehicles .....	11,136	-	11,136
Total .....	<u>\$ 20,251</u>	<u>\$ 108,815</u>	<u>\$ 129,066</u>

Amortization expense for the proprietary funds within the Statement of Activities is included with depreciation expense. Capital leases are reported under the "Refund and Other Liabilities" account in the proprietary and discretely presented component unit funds.

Future minimum lease commitments for capital leases judged to be noncancelable and capital assets under capital leases for the major discretely presented component unit funds, as of June 30, 2016, are presented in the table below (dollars in thousands):



**NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)**

**Capital Leases**

Major Discretely Presented Component Units	
Year Ending June 30,	Ohio State University
2017.....	\$ 1,788
2018.....	690
2019.....	625
2020.....	560
2021.....	560
2022-2026.....	560
Total Minimum Lease Payments.....	4,783
Amount for Interest.....	(236)
Present Value of Net Minimum Lease Payments.....	\$ 4,547
Equipment & Vehicles.....	\$ 13,338
Total .....	\$ 13,338

**D. Derivatives**

For governmental activities, the State has reported \$(51.4) million of investment and hedging derivatives as of June 30, 2016. Additional information regarding the State's derivatives is included in NOTE 4, NOTE 10, and NOTE 18.

**E. Pollution Remediation Liabilities**

The State recognizes a liability for pollution remediation in the amount of \$5.9 million, as of June 30, 2016. This represents the cost to the State to the extent that is probable for future clean up and reclamation of polluted sites within the State. See NOTE 20 for further detail.

**F. Infrastructure, Capital Assets**

The State records a liability for the Portsmouth Bypass Highway. This road infrastructure construction in progress cost is being incurred by the developer, but not yet reimbursed by the State. Reimbursement payments will commence in State Fiscal Year 2019. As of June 30, 2016, the liability totaled approximately \$195.8 million.

**G. Litigation Liabilities**

In instances when the unfavorable outcome of a pending litigation has been assessed to be probable, liabilities are recorded in the financial statements. As of June 30, 2016, \$6.1 million in liabilities was reported in Noncurrent, Other Liabilities, Due in One Year. For more information on the State's loss contingencies arising from pending litigation, see NOTE 20.

**H. Estimated Claims Payable**

The State reported \$1.7 million in estimated claims for defaulted loans under the Ohio Enterprise Bond Programs at the Development Services Agency, Office of Loan Administration, as of June 30, 2016. The program is included in governmental activities and is accounted for in the nonmajor governmental funds. See NOTE 16 for additional information.



**NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)**

The following table reflects the Ohio Enterprise Bond Fund future debt service obligations as of June 30, 2016 (dollars in thousands):

Year Ending June 30,	Principal Due
2017.....	\$ 500
2018.....	522
2019.....	541
2020.....	137
Total .....	<u>\$ 1,700</u>

**I. Liability for Escheat Property**

The State records a liability for escheat property to the extent that it is probable that the escheat property will be reclaimed and paid to claimants. As of June 30, 2016, the liability totaled approximately \$271.6 million.

**J. Worker’s Compensation**

*Benefits Payable*

As discussed in NOTE 21, the Worker’s Compensation Enterprise Fund provides benefits to employees for losses sustained from job-related injury, disease, or death. The Bureau has computed a reserve for compensation, as of June 30, 2016, in the amount of approximately \$15.67 billion. The reserve, which includes estimates for reported claims and claims incurred but not reported, is included in the “Benefits Payable” balance reported for the enterprise fund.

**K. Prize Awards Payable**

Future installment payments for the prize awards payable are reported at present value based upon interest rates that the Treasurer of State provides to the Lottery Commission Enterprise Fund. The interest rates, ranging from 2 to 8 percent, represent the expected long-term rate of return on the assets restricted for the payment of prize awards. Once established for a particular prize award, the interest rate does not fluctuate with changes in the expected long-term rate of return. The difference between the present value and gross amount of the obligations is amortized into income over the terms of the obligations using the interest method. The State reduces prize liabilities by an estimate of the amount of the prize that will ultimately be unclaimed. As of June 30, 2016, this payable totals \$471.7 million.

Future payments of prize awards, stated at present value, as of June 30, 2016, follow (dollars in thousands):

Year Ending June 30,	
2017.....	\$ 76,250
2018.....	67,714
2019.....	61,145
2020.....	52,559
2021.....	47,260
2022-2026.....	155,962
2027-2031.....	91,867
2032-2036.....	35,129
2037-2041.....	4,483
2042-2046.....	500
	<u>592,869</u>
Unamortized Discount .....	(121,210)
Net Prize Liability .....	<u>\$ 471,659</u>



**NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)**

**L. Tuition Benefits Payable**

The actuarial present value of future tuition benefits payable from the Tuition Trust Authority Enterprise Fund was approximately \$297.2 million, as of June 30, 2016. The valuation method reflects the present value of estimated

tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition increases in state universities and state community colleges and termination of participant contracts under the plan.

The following assumptions were used in the actuarial determination of tuition benefits payable: 4.5 percent rate of return, compounded annually, on the investment of current and future assets, a tuition inflation assumption equal to the maximum amount of tuition and mandatory fee increases permitted by the State of Ohio biennial budget of 5.5 percent.

As of June 30, 2016, the market value of actuarial net position available for the payment of the tuition benefits payable was \$338.1 million.

**M. Other Liabilities**

The Workers' Compensation Enterprise Fund reports approximately \$1.88 billion in other noncurrent liabilities, as of June 30, 2016, of which 1) \$1.82 billion is comprised of the compensation adjustment expenses liability for estimated future expenses to be incurred in the settlement of claims, as discussed further in NOTE 21, 2) \$35.4 million relates to transition credit liabilities, 3) \$4.5 million is contingent liabilities, and 4) \$21.4 million consists of other miscellaneous liabilities.



**NOTE 15 CHANGES IN NONCURRENT LIABILITIES**

**A. Primary Government**

Changes in noncurrent liabilities, for the year ended June 30, 2016, are presented for the primary government in the following table.

**Primary Government  
Changes in Noncurrent Liabilities  
For the Fiscal Year Ended June 30, 2016  
(dollars in thousands)**

<b>Governmental Activities:</b>	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Amount Due Within One Year
<b>Bonds and Notes Payable:</b>					
General Obligation Bonds (NOTE 10) .....	\$ 9,149,056	\$ 1,470,997	\$ 1,336,897	\$ 9,283,156	\$ 801,491
Revenue Bonds and Notes (NOTE 11) .....	6,409,774	44,785	192,677	6,261,882	164,158
Special Obligation Bonds (NOTE 12) .....	1,906,844	345,999	322,251	1,930,592	242,690
Total Bonds and Notes Payable .....	<u>17,465,674</u>	<u>1,861,781</u>	<u>1,851,825</u>	<u>17,475,630</u>	<u>1,208,339</u>
Certificates of Participation (NOTE 13) .....	231,837	-	36,938	194,899	34,724
<b>Other Noncurrent Liabilities (NOTE 14):</b>					
Compensated Absences .....	421,817	333,661	310,673	444,805	52,264
Net Pension Liability.....	2,703,806	1,096,540	-	3,800,346	-
Net OPEB Obligation .....	149,131	27,426	5,209	171,348	-
Capital Leases Payable .....	2,072	6,734	-	8,806	2,057
Derivatives.....	45,873	5,530	-	51,403	-
Pollution Remediation Liabilities .....	1,568	4,913	591	5,890	330
Infrastructure, Capital Assets.....	-	195,762	-	195,762	-
Litigation Liabilities.....	-	6,100	-	6,100	6,100
Estimated Claims Payable .....	2,186	-	486	1,700	500
Liability for Escheat Property .....	236,773	108,545	73,738	271,580	81,945
Total Other Noncurrent Liabilities .....	<u>3,563,226</u>	<u>1,785,211</u>	<u>390,697</u>	<u>4,957,740</u>	<u>143,196</u>
<b>Total Noncurrent Liabilities .....</b>	<b><u>\$ 21,260,737</u></b>	<b><u>\$ 3,646,992</u></b>	<b><u>\$ 2,279,460</u></b>	<b><u>\$ 22,628,269</u></b>	<b><u>\$ 1,386,259</u></b>
<b>Business-Type Activities:</b>					
<b>Other Noncurrent Liabilities (NOTE 14):</b>					
Compensated Absences .....	\$ 37,338	\$ 26,522	\$ 25,697	\$ 38,163	\$ 3,498
Net Pension Liability.....	195,669	79,855	-	275,524	-
Capital Leases Payable .....	13,094	3,533	6,550	10,077	3,800
<b>Workers' Compensation:</b>					
Benefits Payable .....	16,389,400	1,232,134	1,950,934	15,670,600	1,636,038
<b>Other:</b>					
Adjustment Expenses Liability .....	1,805,604	(29,134)	(46,130)	1,822,600	384,004
Premium Payment Security Deposits .....	86,088	-	86,088	-	-
Miscellaneous .....	419,733	84,525	442,958	61,300	61,300
<b>Unemployment Compensation:</b>					
Intergovernmental Payable .....	978,459	-	978,459	-	-
Prize Awards Payable .....	518,232	35,483	82,056	471,659	57,480
Tuition Benefits Payable .....	342,800	-	45,600	297,200	73,200
Total Other Noncurrent Liabilities .....	<u>20,786,417</u>	<u>1,432,918</u>	<u>3,572,212</u>	<u>18,647,123</u>	<u>2,219,320</u>
<b>Total Noncurrent Liabilities .....</b>	<b><u>\$ 20,786,417</u></b>	<b><u>\$ 1,432,918</u></b>	<b><u>\$ 3,572,212</u></b>	<b><u>\$ 18,647,123</u></b>	<b><u>\$ 2,219,320</u></b>

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



**NOTE 15 CHANGES IN NONCURRENT LIABILITIES (Continued)**

For fiscal year 2016, the State's primary government included interest expense on its debt issues in the following governmental functions rather than reporting it separately as interest expense. The related borrowings are essential to the creation or continuing existence of the programs they finance and accordingly, such expense is not reported separately on the Statement of Activities under the expense category for interest on long-term debt. The various state subsidy programs supported by the borrowings provide direct state assistance to local governments for their respective capital and construction or research projects.

	<i>(in 000s)</i>
<b>Governmental Activities:</b>	
Primary, Secondary and Other Education .....	\$ 374,305
Higher Education Support .....	150,600
Health and Human Services.....	2,056
Environmental Protection and Natural Resources .....	1,207
Transportation.....	35,414
Community and Economic Development.....	104,077
	<u>667,659</u>
Total Interest Expense Charged to Governmental Functions .....	<u>\$ 667,659</u>

**B. Major Discretely Presented Component Units**

Changes in noncurrent liabilities, for the year ended June 30, 2016, are presented in the following table for the State's major discretely presented component units.

**Major Discretely Presented Component Units  
Changes in Noncurrent Liabilities  
For the Fiscal Year Ended June 30, 2016  
(dollars in thousands)**

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Amount Due Within One Year
<i>Ohio Facilities Construction Commission</i>					
Intergovernmental Payable .....	\$ 545,781	\$ 339,150	\$ 278,485	\$ 606,446	\$ 305,447
Compensated Absences* .....	842	183	751	274	52
Net Pension Liability* .....	5,058	-	5,058	-	-
Total .....	<u>\$ 551,681</u>	<u>\$ 339,333</u>	<u>\$ 284,294</u>	<u>\$ 606,720</u>	<u>\$ 305,499</u>
<i>Ohio State University:</i>					
Compensated Absences* .....	\$ 166,356	\$ 15,794	\$ 11,138	\$ 171,012	\$ 11,138
Capital Leases Payable* (NOTE 14).....	6,394	-	1,847	4,547	1,709
Net Pension Liability* .....	2,130,728	664,264	-	2,794,992	-
Other Liabilities* .....	350,108	439,798	394,878	395,028	82,819
Revenue Bonds & Notes Payable (NOTE 11) .....	2,851,984	635,620	103,345	3,384,259	657,520
Total .....	<u>\$ 5,505,570</u>	<u>\$ 1,755,476</u>	<u>\$ 511,208</u>	<u>\$ 6,749,838</u>	<u>\$ 753,186</u>

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

**NOTE 16 CONDUIT DEBT**

The State of Ohio, by action of the General Assembly, created various financing authorities for the expressed purpose of making available to non-profit and, in some cases, for profit private entities, lower cost sources of capital financing for facilities and projects found to be for a public purpose. Fees are assessed to recover related processing and application costs incurred. The authorities' debt instruments represent a limited obligation payable solely from payments made by the borrowing entities. Most of the bonds are secured by the property financed. Upon repayment of the bonds, ownership of acquired property transfers to the entity served by the bond issuance. This debt is not deemed to constitute debt of the State or a pledge of the faith and credit of the State. Accordingly, these bonds are not reflected in the accompanying financial statements.



**NOTE 16 CONDUIT DEBT (Continued)**

Ohio Enterprise Bond Fund bonds are issued through the Treasurer of State for the purpose of financing eligible projects of private industry organizations. The actual bonds are sold through private placement. These bonds are not general obligations of the State of Ohio or of any political subdivision and are not payable from any tax source; therefore, the rights of the holders of the bonds for payments of amounts due are limited solely to the pledged receipts deposited into the Ohio Enterprise Bond Fund Accounts. The bonds represent conduit debt and are not reflected in the accompanying financial statements. The scheduled payment of the bonds currently outstanding is, however, guaranteed through the Development Services Agency, Office of Loan Administration, under Chapter 166, Ohio Revised Code. As of June 30, 2016, a liability of \$1.7 million has been recorded in the accompanying financial statements for guarantees extended to defaulted organizations. See NOTE 14H. for additional information. The cumulative guarantee payments made for defaulted organizations with bonds currently outstanding is \$3.7 million. Recoveries for guarantee payments are submitted to the Attorney General's Office for collection; however, no amounts are expected to be recovered from guarantee payments made through June 30, 2016.

The Development Services Agency also participates in the issuance of Hospital Facilities Bonds, as authorized under Chapter 140, Ohio Revised Code. These revenue bonds are payable solely from payments made by the borrowing entities and are secured by the property financed. This debt is not deemed to constitute debt of the State or a pledge of the faith and credit of the State. Accordingly, these bonds are not reflected in the accompanying financial statements.

Under Chapter 5531, Ohio Revised Code, the Ohio Department of Transportation is authorized to issue State Infrastructure Bond Program debt issuances through the Treasurer of State for highway and transit capital projects of eligible Ohio political subdivisions. These bonds are not general obligations of the State of Ohio or of any political subdivision and are not payable from any tax source; therefore, the rights of the holders of the bonds for payments of amounts due are limited to the pledged receipts and those special funds pledged by each debt issuance. The bonds represent conduit debt and are not reflected in the accompanying financial statements. The scheduled payment of the bonds currently outstanding is, however, guaranteed through the State Infrastructure Bank program of the Ohio Department of Transportation. In the event of a borrower's default, amounts recovered from the secured capital project would be used to replenish any reserve funds and any remaining amounts would be transferred to the State Infrastructure Bank accounts. Any amounts provided to repay bonds using appropriations of the Ohio Department of Transportation would be submitted to the Attorney General's Office for collection. Currently, guarantees are outstanding through fiscal year 2039, when the bonds mature, and no circumstances presently exist that indicate that the State will be required to make any payments as a result of these guarantees.

As of June 30, 2016, revenue bonds and notes outstanding that represent conduit debt for the State were as follows (dollars in thousands):

	<u>Outstanding Amount</u>
<b>Primary Government:</b>	
Development Services Agency:	
Ohio Enterprise Bond Program .....	\$ 162,005
Hospital Facilities Bonds .....	4,365
Ohio Department of Transportation:	
State Transportation Infrastructure BondFund Program.....	<u>39,300</u>
Total Primary Government .....	<u>\$ 205,670</u>

**NOTE 17 FUND DEFICITS AND FUND BALANCE REPORTING**

**A. Fund Balance Reporting-Constraints by Purpose**

Fund balance constraints reported in the governmental funds, as of June 30, 2016, are presented by purpose in the table on the following page:



**NOTE 17 FUND DEFICITS AND FUND BALANCE REPORTING (Continued)**

Primary Government					
Fund Balance Constraints by Purpose					
(dollars in thousands)					
	Major Funds				Total
	General	Job, Family & Other Human Services	Buckeye Tobacco Settlement Financing Authority Revenue Bonds	Nonmajor Governmental Funds	
Fund Balance:					
<i>Nonspendable</i>					
Inventories.....	\$ 21,359	\$ -	\$ -	\$ 109,665	\$ 131,024
Noncurrent Portion of Loans Receivable.....	1,999	-	-	-	1,999
Advances to Local Government.....	22,595	-	-	-	22,595
Total Nonspendable.....	<u>45,953</u>	<u>-</u>	<u>-</u>	<u>109,665</u>	<u>155,618</u>
<i>Restricted</i>					
Primary, Secondary and Other Education.....	19	48	-	144,723	144,790
Higher Education Support.....	234,010	-	-	26,993	261,003
Public Assistance and Medicaid.....	-	266,911	-	200,146	467,057
Health and Human Services.....	-	-	-	50,313	50,313
Justice and Public Protection.....	15,399	948	-	107,078	123,425
Environmental Protection and Natural Resources.....	6,053	-	-	147,756	153,809
Transportation.....	-	-	-	10,180	10,180
Transit Project Loans.....	-	-	-	222,877	222,877
Highway Construction/Preservation.....	-	-	-	723,325	723,325
General Government.....	8,417	19,381	-	48,552	76,350
Community and Economic Development.....	82,927	9	-	356,988	439,924
Grants/Loans-Local Government Capital Improvements..	729,056	-	-	-	729,056
State/Local Government Road/Bridge Improvements.....	194,434	-	-	-	194,434
Capital Outlay.....	-	-	-	528,829	528,829
Debt Service.....	-	-	4,753,857	10,344	4,764,201
Total Restricted.....	<u>1,270,315</u>	<u>287,297</u>	<u>4,753,857</u>	<u>2,578,104</u>	<u>8,889,573</u>
<i>Committed</i>					
Primary, Secondary and Other Education.....	2	-	-	83,585	83,587
Higher Education Support.....	-	-	-	1,744	1,744
Public Assistance and Medicaid.....	104,531	43,585	-	28,820	176,936
Health and Human Services.....	5,662	7,518	-	14,015	27,195
Justice and Public Protection.....	786	-	-	79,412	80,198
Environmental Protection and Natural Resources.....	-	-	-	190,548	190,548
Transportation.....	-	-	-	1,235	1,235
General Government.....	18,152	15,707	-	95,023	128,882
Community and Economic Development.....	2,372	-	-	185,493	187,865
Business Development Loans.....	689,373	-	-	-	689,373
Total Committed.....	<u>820,878</u>	<u>66,810</u>	<u>-</u>	<u>679,875</u>	<u>1,567,563</u>
<i>Assigned</i>					
Primary, Secondary and Other Education.....	144,407	-	-	-	144,407
Higher Education Support.....	38,685	-	-	-	38,685
Public Assistance and Medicaid.....	377,850	-	-	-	377,850
Health and Human Services.....	180,203	-	-	-	180,203
Justice and Public Protection.....	78,105	-	-	-	78,105
Environmental Protection and Natural Resources.....	24,660	-	-	-	24,660
General Government.....	481,425	-	-	-	481,425
Escheat Investments used for Mortgage Insurance/ Minority Contractor Bonding/Housing Finance Loans..	1,187,653	-	-	-	1,187,653
Community and Economic Development.....	140,302	-	-	-	140,302
Total Assigned.....	<u>2,653,290</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,653,290</u>
<i>Unassigned</i>					
	863,925	(280)	-	(148)	863,497
Total Fund Balance.....	<u>\$ 5,654,361</u>	<u>\$ 353,827</u>	<u>\$ 4,753,857</u>	<u>\$ 3,367,496</u>	<u>\$ 14,129,541</u>



**NOTE 17 FUND DEFICITS AND FUND BALANCE REPORTING (Continued)**

As of June 30, 2016, the Budget Stabilization Fund had a fund balance of \$2 billion which was included as a part of the unassigned fund balance in the General Fund.

**B. Fund Deficits**

The following individual funds reported deficits that are reflected in the State's basic financial statements, as of June 30, 2016 (dollars in thousands):

**Primary Government:**

Nonmajor Proprietary Funds:

Office of Auditor of State.....	\$ (4,713)
<i>Total Primary Government</i>	<u>\$ (4,713)</u>

**Discretely Presented Component Units:**

Major Component Units:

Ohio Facilities Construction Commission .....	\$ (3,825,348)
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Nonmajor Component Units:

Ohio Capital Fund.....	(63,443)
Cincinnati State Community College.....	(25,752)
Owens State Community College.....	(8,430)
<i>Total Component Units</i> .....	<u>\$ (3,922,973)</u>

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

**NOTE 18 DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES**

**A. Deferred Outflows of Resources**

Details on deferred outflows of resources for the primary government, as of June 30, 2016, follow (dollars in thousands):

<b>Primary Government - Deferred Outflows of Resources</b>					
	Net Pension Asset/Liability	Hedging Derivatives	Loss on Debt Refundings	Resources of a Future Period	Total
<b>Governmental Activities:</b>					
Major Governmental Funds:					
Buckeye Tobacco Settlement Financing					
Authority Revenue Bonds.....	\$ -	\$ -	\$ -	\$ 4,331,322	\$ 4,331,322
<i>Total Governmental Activities</i> .....	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,331,322</u>	<u>4,331,322</u>
Reconciliation of fund level statements to government-wide statements due to basis differences.....	1,211,563	37,060	177,839	-	1,426,462
<i>Total Governmental Activities</i> .....	<u>\$ 1,211,563</u>	<u>\$ 37,060</u>	<u>\$ 177,839</u>	<u>\$ 4,331,322</u>	<u>\$ 5,757,784</u>
<b>Business-Type Activities:</b>					
Major Proprietary Funds:					
Workers' Compensation.....	\$ 63,608	\$ -	\$ -	\$ -	\$ 63,608
Lottery Commission.....	10,548	-	-	-	10,548
Nonmajor Proprietary Funds .....	20,204	-	-	-	20,204
<i>Total Business-Type Activities</i> .....	<u>\$ 94,360</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 94,360</u>
<i>Total Primary Government</i> .....					<u>\$ 5,852,144</u>

As of June 30, 2016, The Ohio State University, a major discretely presented component unit, reported deferred outflows of resources totaling approximately \$675.8 million for net pension asset/liability and \$22.4 million for losses on debt-related transactions.



**NOTE 18 DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES (Continued)**

**B. Deferred Inflows of Resources**

The deferred inflows of resources for the primary government, as of June 30, 2016, are comprised of the following (dollars in thousands).

<b>Primary Government - Deferred Inflows of Resources</b>					
	Net Pension Asset/Liability	Resources from the Sale of Future Revenues	Unavailable Resources	Debt Refundings	Total
<b>Governmental Activities:</b>					
Major Governmental Funds:					
General .....	\$ -	\$ 804,327	\$ 438,769	\$ -	\$ 1,243,096
Job, Family and Other Human Services .....	-	-	81,873	-	81,873
Buckeye Tobacco Settlement Financing					
Authority Revenue Bonds.....	-	-	472,178	-	472,178
Nonmajor Governmental Funds .....	-	34,100	16,703	-	50,803
Total Governmental Activities .....	-	838,427	1,009,523	-	1,847,950
Reconciliation of fund level statements to government-wide statements due to basis differences.....					
	93,896	1,229,393	(1,009,523)	71	313,837
Total Governmental Activities .....	<u>\$ 93,896</u>	<u>\$ 2,067,820</u>	<u>\$ -</u>	<u>\$ 71</u>	<u>2,161,787</u>
<b>Business-Type Activities:</b>					
Major Proprietary Funds:					
Workers' Compensation.....	\$ 6,685	\$ -	\$ -	\$ -	\$ 6,685
Lottery Compensation.....	1,465	-	-	-	1,465
Nonmajor Proprietary Funds .....	1,247	-	-	-	1,247
Total Business-Type Activities .....	<u>\$ 9,397</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,397</u>
Total Primary Government.....					<u>\$ 2,171,184</u>

As of June 30, 2016, the Ohio Facilities Construction Commission, a major discretely presented component unit, reported deferred inflows of resources totaling approximately \$3.53 billion pertaining to resources from the sale of future revenues. In addition, the Ohio State University, another major discretely presented component unit, reported deferred inflows of resources of \$122.4 million for net pension asset/liability, \$19.3 million for gains on debt-related transactions, and approximately \$445.4 million related to service concession arrangements.

**NOTE 19 JOINT VENTURES AND RELATED ORGANIZATIONS**

**A. Joint Ventures**

**Great Lakes Protection Fund (GLPF)**

The Great Lakes Protection Fund is an Illinois non-profit organization that was formed to further federal and state commitments to the restoration and maintenance of the Great Lakes Basin's ecosystem. The governors of seven of the eight states that border on the Great Lakes comprise the GLPF's membership. Under the GLPF's articles of

incorporation, each state is required to make a financial contribution. Income earned on the contributions provides grants to projects that advance the goals of the Great Lakes Toxic Substances Control Agreement and the binational Great Lakes Water Quality Agreement.

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



**NOTE 19 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)**

Annually, one-third of the GLPF's net earnings is allocated and paid to the member states in proportion to their respective cash contributions to the GLPF. The allocation is based on the amount and period of time the state's contributions were invested. GLPF earnings distributions are to be used by the states to finance projects that are compatible with the GLPF's objectives. Ohio applies its distribution (approximately \$199 thousand) to operations of its own protection program, known as the Lake Erie Protection Program, which is modeled after the GLPF.

Required contributions and contributions received from the states, which border the Great Lakes, as of December 31, 2015 (the GLPF's year-end), are presented below (dollars in thousands):

	Contribution Required	Contribution Received	Contribution Percentage
Michigan .....	\$ 25,000	\$ 25,000	30.9%
Indiana* .....	16,000	-	-
Illinois .....	15,000	15,000	18.4%
Ohio .....	14,000	14,000	17.3%
New York .....	12,000	12,000	14.8%
Wisconsin .....	12,000	12,000	14.8%
Minnesota .....	1,500	1,500	1.9%
Pennsylvania ....	1,500	1,500	1.9%
<b>Total .....</b>	<b>\$ 97,000</b>	<b>\$ 81,000</b>	<b>100.00%</b>

\*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, 2015, was as follows (dollars in thousands):

Cash and Investments .....	\$ 124,528
Other Assets .....	143
<b>Total Assets .....</b>	<b>\$ 124,671</b>
Total Liabilities .....	\$ 1,354
Total Net Position .....	123,317
<b>Total Liabilities and Net Position .....</b>	<b>\$ 124,671</b>
Total Revenues and Other Additions.....	\$ 5,251
Total Expenditures and Other Deductions.....	(10,383)
<b>Change in Net Position .....</b>	<b>\$ (5,132)</b>

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

**Local Community and Technical Colleges**

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

The governing boards of the technical colleges consist of either seven or nine trustees, of which State officials appoint two or three members, respectively; the remaining members are appointed by the local school boards located in the respective technical college district.

The Ohio General Assembly appropriates moneys to these institutions from the General Fund to subsidize operations so that higher education can become more financially accessible to Ohio residents. The primary government also provides financing for the construction of these institutions' capital facilities by meeting the debt



**NOTE 19 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)**

service requirements for the Tobacco Settlement revenue bonds issued by the Buckeye Tobacco Settlement Financing Authority, the Higher Education Capital Facilities general obligation bonds issued by the Ohio Public Facilities Commission (OPFC), and the Higher Education Facilities special obligation bonds, previously issued by the OPFC, for these purposes. The bonds provide funding for capital appropriations, which are available to the local community and technical colleges for spending on capital construction.

Fiscal year 2016 expenses that were included in the “Higher Education Support” function under governmental activities in the Statement of Activities for state assistance to the local community and technical colleges are presented below (dollars in thousands).

	Operating Subsidies	Capital Subsidies	Total
<b>Local Community Colleges:</b>			
Cuyahoga .....	\$ 68,148	\$ 5,321	\$ 73,469
Eastern Gateway.....	6,693	1,525	8,218
Lakeland .....	19,344	4,293	23,637
Lorain County .....	26,626	4,138	30,764
Rio Grande .....	6,002	213	6,215
Sinclair .....	48,781	4,085	52,866
Total Local Community Colleges.....	<u>175,594</u>	<u>19,575</u>	<u>195,169</u>
<b>Technical Colleges:</b>			
Belmont .....	5,355	58	5,413
Central Ohio .....	12,141	-	12,141
Hocking .....	13,245	1,525	14,770
James A. Rhodes .....	10,509	360	10,869
Marion .....	7,333	-	7,333
Zane .....	8,892	424	9,316
North Central .....	7,747	1,949	9,696
Stark .....	28,655	3,636	32,291
Total Technical Colleges .....	<u>93,877</u>	<u>7,952</u>	<u>101,829</u>
Total .....	<u>\$ 269,471</u>	<u>\$ 27,527</u>	<u>\$ 296,998</u>

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

**B. Related Organizations**

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

During fiscal year 2016, the State had the following related-party transactions with its related organizations:

- The General Fund reports a \$243.1 million loans receivable balance due from the Ohio Housing Finance Agency. The State made the loans to finance and support the agency’s housing programs.
- Separate funds, established for the Ohio Housing Finance Agency, the Petroleum Underground Storage Tank Release Compensation Board, and the Higher Education Facility Commission, were accounted for on the primary government’s Ohio Administrative Knowledge System. The primary purpose of the funds is to streamline payroll and other administrative disbursement processing for these organizations. The financial activities of the funds, which do not receive any funding support from the primary government, have been included in the agency funds.



**NOTE 19 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)**

- From the Job, Family and Other Human Services Fund, the Public Defender's Office paid the Ohio Legal Assistance Foundation approximately \$3.4 million for administrative services performed under contract for the distribution of state funding to nonprofit legal aid societies.

**NOTE 20 CONTINGENCIES AND COMMITMENTS**

**A. Litigation**

The State, its units, and employees are parties to numerous legal proceedings, which normally occur in governmental operations. Pending litigation affecting the Department of Natural Resources is discussed below. All other legal proceedings are not, in the opinion of management after consultation with the Attorney General, likely to have a material adverse effect on the State's financial position.

**Department of Natural Resources (DNR)**

In *State ex rel. Merrill v. Ohio Dept. of Natural Resources*, a class action case brought by owners of property bordering Lake Erie, the plaintiffs sought declaratory relief as to title for shoreline land consistent with their deeds (that the phrase "natural shoreline" is not synonymous with "ordinary high-water mark" and therefore the legal boundary of their properties extends beyond the point claimed by DNR). Plaintiffs also sought a writ of mandamus to compel appropriations from the State and DNR for taking of this land. This lawsuit was filed in 2004 and after many years of litigation, in order to avoid additional costs, risks, and further delays associated with proceeding, the parties agreed to settle their claims. On May 26, 2016, the parties submitted a joint proposed class action settlement to the Lake County Court of Common Pleas for approval. The settlement agreement was approved by the court on October 24, 2016. As part of the settlement, the State and DNR denied any wrongdoing or legal liability for the claims asserted in the lawsuit and DNR was required to make payment in the amount of \$6.1 million no later than December 8, 2016. Based on this payment the claim will be resolved in fiscal year 2017.

**B. Federal Awards**

The State of Ohio receives significant awards from the Federal Government in the form of grants and entitlements, including certain non-cash programs. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the spending of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit or to financial compliance audits by the grantor agencies of the federal government or their designees. Disallowances and sanctions as a result of these audits may become liabilities to the State.

**Federal Single Audit**

As a result of the fiscal year 2015 State of Ohio Single Audit (issued in March 2016), \$8 million of federal expenditures were in question as not being appropriate under the terms of the respective grants. No provision for any liability or adjustments has been recognized for these questioned costs in the state's financial statements for the fiscal year ended June 30, 2016.

**C. Tobacco Settlement**

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

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

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

While BTSFA's share of the total base payments to the states through 2052 will not change over time, estimating the amount of annual payments that actually will be received in any given year can be complex, since under the



**NOTE 20 CONTINGENCIES AND COMMITMENTS (Continued)**

terms of the MSA, payments are subject to a number of adjustment factors, including an inflation adjustment, a volume adjustment, and a potential adjustment for market share losses of participating manufacturers. Some of these adjustments, such as the inflation adjustment, result in BTSFA receiving higher payments. Other factors, such as the volume adjustment and the market share adjustment can work to reduce the amount of the State's annual payments.

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

During fiscal year 2016, Ohio received \$297.1 million, which is approximately \$104 million or 25.9 percent less than the pre-adjusted base payment for the year.

As of June 30, 2016, the estimated tobacco settlement receivable in the amount of \$506.3 million is included in "Other Receivables" reported for the governmental funds. The receivable includes \$300.3 million for payments withheld from BTSFA beginning fiscal year 2008 and \$34.1 million for payments withheld from the State for fiscal years 2006 and 2007. These amounts were withheld by the cigarette manufacturers when they exercised the market share loss provisions of the MSA. The moneys are on deposit in an escrow account until pending litigation between the States and the manufacturers is resolved. Both the Authority and the State contend that they have met their obligations under the MSA and are due the payments withheld.

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

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

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

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



**NOTE 20 CONTINGENCIES AND COMMITMENTS (Continued)**

Year Ending June 30,	Pre-adjusted MSA Base Payments	Pre-Adjusted Payments from the Strategic Contribution Fund	Total
2017.....	\$ 380,940	\$ 25,096	\$ 406,036
2018.....	431,324	—	431,324
2019.....	436,331	—	436,331
2020.....	441,189	—	441,189
2021.....	446,563	—	446,563
2022-2026.....	2,316,649	—	2,316,649
2027-2031.....	2,472,971	—	2,472,971
2032-2036.....	2,640,790	—	2,640,790
2037-2041.....	2,812,833	—	2,812,833
2042-2046.....	2,993,720	—	2,993,720
2047-2051.....	3,187,256	—	3,187,256
2052.....	662,283	—	662,283
Total .....	<u>\$ 19,222,849</u>	<u>\$ 25,096</u>	<u>\$ 19,247,945</u>

**D. Construction Commitments**

As of June 30, 2016, the Ohio Department of Transportation had total contractual commitments of approximately \$2.89 billion for highway construction projects. Funding for future projects is expected to be provided from federal, primary government, general obligation and revenue bonds, and local government sources in amounts of \$1.35 billion, \$1.04 billion, \$412.1 million, and \$87.5 million, respectively.

As of June 30, 2016, other major non-highway construction commitments for the primary government’s budgeted capital projects funds and major discretely presented component unit funds were as follows (dollars in thousands):

<b>Primary Government</b>	
Mental Health/Developmental Disabilities Facilities Improvements .....	\$ 21,593
Parks and Recreation Improvements .....	70,403
Administrative Services Building Improvements .....	20,462
Youth Services Building Improvements .....	28,199
Adult Correctional Building Improvements .....	79,197
Highway Safety Building Improvements .....	16
Ohio Parks and Natural Resources .....	24,242
Transportation Building Improvements.....	47,503
Total .....	<u>\$ 291,615</u>
<b>Major Discretely Presented Component Units</b>	
Ohio State University .....	\$ 188,978

**E. Pollution Remediation Activities**

During fiscal year 2016, the State was involved in remediation activities for pollution as described in the following paragraph. These activities include site investigation, cleanup, and monitoring. The associated estimated cost of remediation activities is shown below (in general, projects with a liability of less than \$1 million at June 30 are not listed).



## **NOTE 20 CONTINGENCIES AND COMMITMENTS (Continued)**

As a result of the imminent danger to public health, the Ohio Environmental Protection Agency (EPA) has assumed responsibility for operating and maintaining the collection and treatment system at the Lincoln Fields contaminated water system in Mansfield. The liability at June 30 is estimated at \$4.3 million. Cost was estimated by the EPA site coordinator using actual invoices to date.

The Ohio Department of Transportation has been named as a responsible party to remediate pollution resulting from contaminated soil on the agency-owned property and contaminated groundwater on the surrounding properties. The June 30 liability to eliminate the pollution and continue monitoring activities is estimated to be \$1.6 million. Cost was estimated by the onsite coordinators using actual invoices to date.

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

Capital assets may be created during the pollution remediation process. These capital assets will be reported in accordance with the State's capital assets policy. As of June 30, 2016, no capital assets were created nor reported as a result of any pollution remediation process.

### **F. Encumbrances**

At June 30, 2016, the State has significant encumbrances of \$746.6 million in the General Fund, \$1.01 billion in the Job, Family and Other Human Services Special Revenue Fund, and \$3.9 billion in the nonmajor governmental funds.

## **NOTE 21 RISK FINANCING**

### **A. Workers' Compensation Benefits**

The Ohio Workers' Compensation System, which the Ohio Bureau of Workers' Compensation and the Industrial Commission of Ohio administer, is the exclusive provider of workers' compensation insurance to private and public employers in Ohio who are not self-insured. The Workers' Compensation Enterprise Fund (Fund) provides benefits to employees for losses sustained from job-related injury, disease, or death.

"Benefits Payable" of \$15.67 billion is reported in the Fund as of June 30, 2016. This amount represents reserves for indemnity and medical claims resulting from work-related injuries or illnesses, including actuarial estimates for both reported claims and claims incurred but not reported. The liability is based on the estimated ultimate cost of settling claims, including the effects of inflation and other societal and economic factors and projections as to future events, including claims frequency, severity, persistency, and inflationary trends for medical claims reserves. The compensation adjustment expenses liability, which is included in "Other Liabilities" in the amount of approximately \$1.82 billion, is an estimate of future expenses to be incurred in the settlement of claims. The estimate for this liability is based on projected claim-related expenses, estimated costs of the managed care Health Partnership Program, nonincremental adjustment expense, and the reserve for compensation.

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



**NOTE 21 RISK FINANCING (Continued)**

Benefits payable and the compensation adjustment expenses liability have been discounted at four percent to reflect the present value of future benefit payments. The selected discount rate approximates an average yield on United States government securities with durations similar to the expected claims underlying the Fund's reserves.

The undiscounted reserves for the benefits and compensation adjustment expenses totaled \$29.3 billion, as of June 30, 2016, and \$30.7 billion, as of June 30, 2015. For additional information, refer to the Fund's separate audited financial report, for the fiscal year ended June 30, 2016.

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

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

	Fiscal Year 2016	Fiscal Year 2015
Benefits Payable and Compensation Adjustment Expenses Liability, as of July 1 .....	\$ 18,195	\$ 18,722
Incurring Compensation and Compensation Adjustment Benefits .....	1,203	1,395
Incurring Compensation and Compensation Adjustment Benefit Payments and Other Adjustments .....	(1,905)	(1,922)
Benefits Payable and Compensation Adjustment Expenses Liability, as of June 30 .....	<u>\$ 17,493</u>	<u>\$ 18,195</u>

**B. State Employee Healthcare Plan**

Employees of the State's primary government have the option of participating in the Ohio Med PPO Plan (Plan). The Plan is managed by two third party administrators (TPAs), Medical Mutual of Ohio (MMO) and United Healthcare (UHC). The two TPAs are responsible for processing claims for separate regions throughout the State.

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

Governmental and proprietary funds pay a share of the costs for claims settlement based on the number of employees opting for plan participation and the type of coverage selected by participants. The payments are reported in the Payroll Withholding and Fringe Benefits Agency Fund (Agency Fund) until such time that the accumulated resources are distributed to MMO or UHC for claims settlement.

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

As of June 30, 2016, approximately \$44.4 million in total assets was available in the Agency Fund to cover healthcare claims. Changes in the balance of claims liabilities for the Plan during the past two fiscal years were as follows (dollars in thousands):



**NOTE 21 RISK FINANCING (Continued)**

Ohio Med PPO		
	Fiscal Year 2016	Fiscal Year 2015
Claims Liabilities, as of July 1 .....	\$ 48,214	\$ 48,216
Incurring Claims .....	530,252	467,729
Claims Payments .....	(524,476)	(467,731)
Claims Liabilities, as of June 30 .....	<u>\$ 53,990</u>	<u>\$ 48,214</u>

As of June 30, 2016, the resources on deposit in the Agency Fund were less than the estimated claims liability by approximately \$9.6 million, thereby resulting in a funding deficit. Eighty-five percent or \$8.2 million of the deficit, representing the employer share, was reallocated back to the governmental and proprietary funds, with a resulting increase in expenditures/expenses.

**C. Other Risk Financing Programs**

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

**NOTE 22 SUBSEQUENT EVENTS**

**Bond Issuances**

Subsequent to June 30, 2016, the State issued major debt as detailed in the table below:

Debt Issuances Subsequent to June 30, 2016 (dollars in thousands)			
	Date Issued	Net Interest Rate or True Interest Cost	Amount
<b>Primary Government:</b>			
<i>Ohio Public Facilities Commission - General Obligation Bonds:</i>			
Infrastructure Improvements, Series 2016B.....	11/01/16	3.00%	\$ 150,000
Total General Obligation Bonds.....			<u>150,000</u>
<i>Treasurer of State - Revenue Bonds:</i>			
State Infrastructure Project, Series 2016-1.....	07/26/16	1.86%	217,565
Total Revenue Bonds.....			<u>217,565</u>
<i>Treasurer of State-Special Obligation Bonds:</i>			
Cultural and Sports Capital Facilities, Series 2016A.....	08/16/16	1.52%	40,000
Parks and Recreation Facilities, Series 2016C.....	09/27/16	2.24%	100,000
Adult Correctional Facilities, Series 2016D.....	10/18/16	1.53%	15,380
Adult Correctional Facilities, Series 2016B-C.....	10/25/16	3.04%	64,620
Total Special Obligation Bonds .....			<u>220,000</u>
<i>Department of Administrative Services - Certificates of Participation:</i>			
Enterprise Data Center Solutions, Series 2016.....	10/20/16	1.85%	26,035
Ohio Administrative Knowledge System, Series 2016.....	10/20/16	1.90%	19,145
Total Certificates of Participation.....			<u>45,180</u>
Total Primary Government.....			<u>\$ 632,745</u>