STATE OF OHIO

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2012

STATE OF OHIO

SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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NOTE:

The State of Ohio *Comprehensive Annual Financial Report* for fiscal year ended June 30, 2012, has been issued in a separate report by the Ohio Office of Budget and Management. This report can be viewed at the following website: http://obm.ohio.gov/

EXECUTIVE SUMMARY
2012 STATE OF OHIO SINGLE AUDIT

AUDIT OF BASIC FINANCIAL STATEMENTS

There are 10 separate opinion units included in the basic financial statements of the State of Ohio for the fiscal year (FY) ended June 30, 2012. Four of the 10 opinion units are audited entirely or in part by independent accounting firms under contract with the Auditor of State. The remaining six opinion unit audits are performed by audit staff of the Auditor of State. This division of responsibility is described on page 1 in our Independent Accountants' Report.

We audited the basic financial statements of the State of Ohio as of and for the period ended June 30, 2012, following auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the Single Audit Act Amendments of 1996, and the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The objective of our audit was to express our opinion concerning whether the financial statements present fairly, in all material respects, the financial position of the State of Ohio, and the results of its operations, and cash flows of the proprietary and similar trust funds, in conformity with accounting principles generally accepted in the United States of America. We issued unqualified opinions on the 10 opinion units.

In addition to our opinions on the basic financial statements, we issued an Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*. The letter for the fiscal year ended June 30, 2012, included one material weakness and one significant deficiency from one state agency. These comments are summarized on page 181 of this report.

AUDIT RESPONSIBILITIES AND REPORTING UNDER OMB CIRCULAR A-133

The Single Audit Act requires an annual audit of the State's federal financial assistance programs. The specific audit and reporting requirements are set forth in U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Schedule of Expenditures of Federal Awards (the Schedule) reports federal expenditures for each federal financial assistance program by federal agency, as identified by the Catalog of Federal Domestic Assistance (CFDA) number. As detailed on pages 141 through 156, the State administered 383 federal programs from 25 Federal agencies with total federal expenditures of $24.7 billion in fiscal year 2012. Of the $24.7 billion, the State disbursed $1.6 billion in funding as a result of the American Recovery and Reinvestment Act (ARRA) of 2009. This compares to $5.5 billion of ARRA funds disbursed in FY 2011 and $6.2 billion disbursed in FY 2010.

The Schedule is used for identifying Type A and Type B programs. For fiscal year 2012, Type A federal programs for the State of Ohio were those programs with annual federal expenditures exceeding $37 million. There were 34 programs at or above this amount. Type B programs were those programs with annual federal expenditures exceeding $7.4 million, but less than $37 million. There were 33 programs meeting the criteria for Type B programs. The identification of Type A and B programs is utilized for determining which federal programs will be tested in detail for compliance with federal laws and regulations. Under Circular A-133, the auditor uses a risk-based approach to testing. Once programs are classified as Type A or B, they are then assessed as either high or low risk programs. All high-risk Type A programs are considered major programs and are tested in detail for compliance with federal regulations. Low-risk Type A programs must be tested at least once every three years. One high-risk Type B program then is selected for testing to replace each low-risk Type A program not required to be tested. The State of Ohio Single Audit included the testing of 29 Type A programs and five high-risk Type B programs as major programs in fiscal year 2012.

Included in the Schedule are monies paid by the Ohio Department of Job & Family Services to their subrecipient county agencies to administer applicable portions of the Medicaid, Children's Health Insurance Program, TANF, Foster Care, Adoption Assistance, Social Services Block Grant, Child Care Cluster, Child Support Enforcement, and SNAP federal programs. The related county federal schedules will report expenditures for all disbursements made at the county level. However, for the Medicaid, Children's Health Insurance Program, TANF (OWF portion), Adoption Assistance, Child Care Cluster, and SNAP federal programs, the counties performed only limited functions and maintained case records to support benefits paid by the Ohio Department of Job & Family Services related to these programs. We selected five of 88 counties and performed testing related to the specific county level activities for these five major programs. The results of our county level audit procedures are included in the Schedule of Findings and Questioned Costs.

The State's colleges and universities' federal financial assistance, which was approximately $4 billion in fiscal year 2012, is excluded from the State's Schedule although their financial activities are included in the State's financial statements (Discretely Presented Component Units). The State's colleges and universities included in the State's reporting entity are subject to separate audits under OMB Circular A-133.

In accordance with A-133, we issued an Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133. Our report on compliance includes our opinion on compliance with the 34 major federal financial assistance programs and describes instances of noncompliance with Federal requirements we detected that require reporting per Circular A-133. This report also describes any material weaknesses or significant deficiencies we identified related to controls used to administer Federal financial assistance programs. Due to the significance of two of our audit findings, we qualified our opinion on compliance related to Subrecipient Monitoring applicable to its Capitalization Grants for Clean Water State Revolving Funds and Capitalization Grants for Drinking Water Revolving Funds programs and Matching and Level of Effort applicable to its Highway Safety Cluster program.

SUMMARY OF FINDINGS AND QUESTIONED COSTS

The fiscal year 2012 Schedule of Findings and Questioned Costs contains 37 findings of which 24 were repeated from the fiscal year 2011 State of Ohio Single Audit. Two of these findings, as summarized on page 180, also relate to our Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*. Both comments relate to the computer systems at the Department of Job & Family Services.

The 37 A-133 findings, beginning on page 183, relate to the federal programs at 11 state agencies. Of these federal findings, many of which were rated as more than one type, 12 resulted in questioned costs (some also included control deficiencies), 16 were noncompliance (some also included control deficiencies), 22 were identified as material weaknesses, and 10 were significant deficiencies. Of the 12 findings with questioned costs, 10 questioned amounts totaling more than $252,000. Amounts could not be determined for the other two questioned cost findings.

The schedule below identifies the number of reportable items included in the State of Ohio Single Audit, by state agency, from fiscal year 2007 through 2012.

State Agency	2012	2011	2010	2009	2008	2007
Ohio Dept. of Job & Family Services	20	28	27	26	30	34
Ohio Department of Education	4	7	2	2	2	5
Ohio Department of Health	1	4	7	4	6	3
Ohio Department of Development	1	4	1	0	1	2
Ohio Dept. of Alcohol & Drug Addiction	2	3	2	0	0	0
Ohio Dept. of Developmental Disabilities	0	2	1	0	0	0
Ohio Department of Mental Health	1	2	2	1	1	1
Ohio Rehabilitation Services Commission	2	2	0	1	2	0
Ohio Department of Public Safety	3	1	N/A	0	4	3
Ohio Office of Budget and Management	0	1	0	0	4	1
Ohio Administrative Knowledge System	0	1	1	0	4	1
Ohio Dept. of Transportation	1	1	0	3	1	2
Other State Agencies	2	3	1	3	0	1
Total	**37**	**59**	**44**	**40**	**55**	**53**

In addition to the comments included in this report, the State of Ohio and each state agency may receive a management letter which would include internal control and compliance deficiencies that do not rise to the level required for inclusion in this report. Those management letters are not part of this report.

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FINANCIAL SECTION

INDEPENDENT ACCOUNTANTS' REPORT

The Honorable John Kasich, Governor
State of Ohio
Columbus, Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Ohio (the State), as of and for the year ended June 30, 2012, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following organizations:

Primary Government: Office of the Auditor of State; Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio; Office of Financial Incentives; State Treasury Asset Reserve of Ohio; Treasurer of State Lease Revenue Bonds; and Tuition Trust Authority.

Blended Component Units: Ohio Building Authority and State Highway Patrol Retirement System.

Discretely Presented Component Units: Bowling Green State University; Central State University; Cleveland State University; Kent State University; Miami University; Ohio State University; Ohio University; Shawnee State University; University of Akron; University of Cincinnati; University of Toledo; Wright State University; Youngstown State University; Cincinnati State Community College; Clark State Community College; Columbus State Community College; Edison State Community College; Northwest State Community College; Owens State Community College; Southern State Community College; Terra State Community College; Washington State Community College; Ohio Capital Fund; and Ohio Water Development Authority.

In addition, we did not audit the financial statements of the Public Employees Retirement System, Police and Fire Pension Fund, State Teachers Retirement System, and School Employees Retirement System, whose assets are held by the Treasurer of State and are included as part of the State's Aggregate Remaining Fund Information.

These financial statements reflect the following percentages of total assets and revenues or additions of the indicated opinion units:

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenues / Additions
Governmental Activities	2%	1%
Business-Type Activities	95%	38%
Aggregate Discretely Presented Component Units	98%	94%
Aggregate Remaining Fund Information	95%	15%
Workers' Compensation	100%	100%

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Those financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these independently audited organizations, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based upon our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Ohio, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparisons for the General and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we are issuing our report dated March 21, 2013 under separate cover with the State of Ohio Single Audit report, on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis* and the *Required Supplementary Information's Infrastructure Assets Accounted for Using the Modified Approach*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the State's basic financial statements taken as a whole. The accompanying Supplementary Schedule of Expenditures of Federal Awards by Federal Agency and Supplementary Schedule of Expenditures of Federal Awards by Federal Agency and Federal Program (Schedules) provide additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements. The Schedules are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected the Schedules to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dave Yost

Dave Yost
Auditor of State

March 21, 2013

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State of Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)

Introduction
This section of the State of Ohio's annual financial report presents management's discussion and analysis of the State's financial performance during the fiscal year ended June 30, 2012. The management's discussion and analysis section should be read in conjunction with the preceding transmittal letter and the State's financial statements, which follow.

Financial Highlights
Government-wide Financial Statements
During fiscal year 2012, net assets of the State's primary government increased by $2.32 billion and ended fiscal year 2012 with a balance of $25.17 billion. Net assets of the State's component units increased by $885.8 million, after prior year restatements, and ended fiscal year 2012 with a balance of $14.37 billion. Additional discussion of the State's government-wide balances and activities, as of and for the year ended June 30, 2012, can be found beginning on page 9.

Fund Financial Statements
Governmental funds reported a combined ending fund balance of $11.32 billion that was comprised of $173.7 million in nonspendable, $8.51 billion restricted for specific purposes, $1.39 billion committed, $1.67 billion in assigned, and a $416.2 million deficit in unassigned. Nonspendable includes amounts for inventories, the noncurrent portion of loans receivables, prepaids, and advances to local governments. The purposes of the restricted, committed, and assigned fund balances are primary, secondary and other education, higher education support, public assistance and Medicaid, health and human services, justice and public protection, environmental protection and natural resources, transportation, general government, community and economic development, capital outlay and debt service. The balances and activities of the State's governmental funds are discussed further beginning on page 13.

As of June 30, 2012, the General Fund's fund balance was approximately $3.19 billion, including $87 million in nonspendable, $1.03 billion in restricted, $824.6 million in committed, $1.67 billion in assigned, and a $415.7 million deficit in unassigned, as detailed in NOTE 17. The General Fund's fund balance increased by $968 million (exclusive of a $1.6 million decrease in inventories) or 43.5 percent during fiscal year 2012. The balances and activities of the General Fund are discussed further beginning on page 13.

Proprietary funds reported net assets of $6.57 billion, as of June 30, 2012, an increase of $2.49 billion since June 30, 2011. This increase is largely due to the net increase of $2.05 billion in the Workers' Compensation Fund. The balances and activities of the proprietary funds are discussed further beginning on page 15.

Capital Assets
The carrying amount of capital assets for the State's primary government increased to $25.76 billion at June 30, 2012. The majority of the $35.7 million increase during fiscal year 2012 was the acquisition of highway network infrastructure. Further discussion of the State's capital assets can be found beginning on page 16.

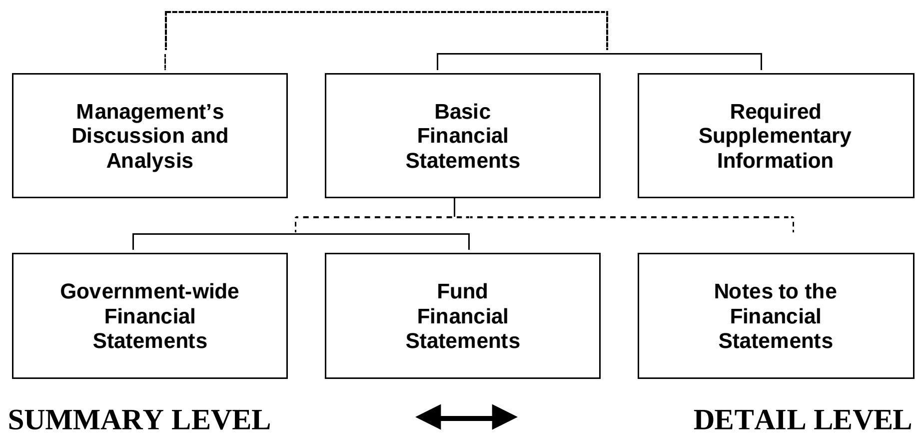
Long-Term Debt — Bonds and Notes Payable and Certificates of Participation Obligations
Overall, the carrying amount of total long-term debt for the State's primary government increased $780.1 million or 4.5 percent during fiscal year 2012 and reported an ending balance of $18.3 billion. During the year, the State issued, at par, $2.28 billion in general obligation bonds, $194 million in revenue bond anticipation notes (BANS), and $259.2 million in special obligation bonds. Of the general obligation bonds and special obligation bonds issued, at par, $1.15 billion and $226.5 million, respectively, were refunding bonds. Additional discussion of the State's bonds, notes, and certificates of participation can be found beginning on page 17.

Overview of the Financial Statements

This annual report consists of management's discussion and analysis, basic financial statements, including the accompanying notes to the financial statements, required supplementary information, and combining statements and schedules for the nonmajor governmental funds, nonmajor proprietary funds, fiduciary funds, and nonmajor discretely presented component unit funds. The basic financial statements are comprised of the government-wide financial statements and fund financial statements.

Figure 1 below illustrates how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, as explained later, this report includes an optional section that contains combining statements that provide details about the State's nonmajor governmental and proprietary funds and discretely presented component units.

Figure 1
Required Components of the
State of Ohio's Annual Financial Report



The *Government-wide Financial Statements* provide financial information about the State as a whole, including its component units.

The *Fund Financial Statements* focus on the State's operations in more detail than the government-wide financial statements. The financial statements presented for governmental funds report on the State's general government services. Proprietary fund statements report on the activities that the State operates like private-sector businesses. Fiduciary fund statements provide information about the financial relationships in which the State acts solely as a trustee or agent for the benefit of others outside of the government, to whom the resources belong.

Following the fund financial statements, the State includes financial statements for its major component units within the basic financial statements section. Nonmajor component units are also presented in aggregation under a single column in the component unit financial statements.

The basic financial statements section includes notes that more fully explain the information in the government-wide and fund financial statements; the notes provide more detailed data that are essential to a full understanding of the data presented in the financial statements. The notes to the financial statements can be found on pages 52 through 138 of this report.

In addition to the basic financial statements and accompanying notes, a section of required supplementary information further discusses the assessed condition and estimated and actual maintenance and preservation costs of the state's highway and bridge infrastructure assets that are reported using the modified approach. Limited in application to a government's infrastructure assets, the modified approach provides an alternative to the traditional recognition of depreciation expense. Required supplementary information can be found on pages 139 through 142 of this report.

Figure 2 on the following page summarizes the major features of the State's financial statements.

Figure 2
Major Features of the State of Ohio's Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements: Governmental Funds	Fund Statements: Proprietary Funds	Fund Statements: Fiduciary Funds
Scope	Entire State government (except fiduciary funds) and the State's component units	The activities of the State that are not proprietary or fiduciary, such as general government, transportation, justice and public protection, etc.	Activities the State operates similar to private businesses, such as the workers' compensation insurance program, lottery, tuition credit program, etc.	Instances in which the State is the trustee or agent for someone else's resources
Required Financial Statements	• Statement of Net Assets • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances	• Statement of Net Assets • Statement of Revenues, Expenses and Changes in Fund Net Assets • Statement of Cash Flows	• Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

Government-wide Financial Statements

The government-wide financial statements consist of the Statement of Net Assets and the Statement of Activities. For these statements, the State applies accounting methods similar to those used by private-sector companies; that is, the State follows the accrual basis of accounting and the economic resources focus when preparing the government-wide financial statements. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of the timing of related cash inflows or outflows.

The two government-wide financial statements report the State's net assets and how they have changed. Net assets — the difference between the State's assets/deferred outflows of resources and liabilities/deferred inflows of resources — is one way to measure the State's financial health, or position. Over time, increases or decreases in the State's net assets indicate whether its financial health has improved or deteriorated, respectively. However, a reader should consider additional nonfinancial factors, such as changes in the State's economic indicators and the condition of the State's highway system, when assessing the State's overall financial status.

The State's government-wide financial statements, which can be found on pages 22 through 25 of this report, are divided into three categories as follows.

Governmental Activities — Most of the State's basic services are reported under this category, such as primary, secondary and other education, higher education support, public assistance and Medicaid, health and human services, justice and public protection, environmental protection and natural resources, transportation, general government, and community and economic development. Taxes, federal grants, charges for services, including license, permit, and other fee income, fines and forfeitures, and other income finance most of these activities.

Business-type Activities — The State charges fees to customers to help cover the costs of certain services it provides. The State reports the following programs and activities as business-type: workers' compensation insurance program, lottery operations, unemployment compensation program, the leasing and maintenance operations of the Ohio Building Authority, which ceased operations December 31, 2011, guaranteed college tuition credit program, liquor control operations, underground parking garage operations at the statehouse, and the Auditor of State's governmental auditing and accounting services.

Component Units — The State presents the financial activities of the School Facilities Commission, Cultural Facilities Commission, eTech Ohio Commission, Ohio Water Development Authority, Ohio Air Quality Development Authority, the Ohio Capital Fund, and 22 state-assisted colleges and universities as discretely presented component units under a separate column in the government-wide financial statements. The Buckeye Tobacco Settlement Financing Authority is presented as a blended component unit with its activities blended and included under governmental activities. Additionally, the Ohio Building Authority, which ceased operations December 31, 2011, is presented as a blended component unit with its activities blended and included under governmental and business-type activities. Although legally separate, the State is financially accountable for its component units, as is further explained in NOTE 1A. to the financial statements.

Fund Financial Statements

The fund financial statements provide more detailed information about the State's most significant funds — not the State as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. State law and bond covenants mandate the use of some funds. The Ohio General Assembly establishes other funds to control and manage money for particular purposes or to show that the State is properly using certain taxes and grants. The State employs fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The State has three kinds of funds — governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds — Most of the State's basic services are included in governmental funds, which focus on how cash and other financial assets that can readily be converted to cash flow in and out (i.e., near-term inflows and outflows of spendable resources) and the balances remaining at year-end that are available for spending (i.e., balances of spendable resources). Consequently, the governmental fund financial statements provide a detailed short-term view that helps the financial statement reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs. The State prepares the governmental fund financial statements by applying the modified accrual basis of accounting and a current financial resources focus. Because this information does not encompass the additional long-term focus of the government-wide statements, a reconciliation schedule, which follows each of the governmental fund financial statements, explains the relationship (or differences) between them.

The State's governmental funds include the General Fund and 10 special revenue funds, 25 debt service funds, and 11 capital projects funds. Under separate columns, information is presented in the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, the Job, Family and Other Human Services Special Revenue Fund, and the Buckeye Tobacco Settlement Financing Authority Revenue Bonds Debt Service Fund, all of which are considered major funds. Data from the other 44 governmental funds, which are classified as nonmajor funds, are combined into an aggregated presentation under a single column on the basic governmental fund financial statements. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

For budgeted governmental funds, the State also presents budgetary comparison statements and schedules in the basic financial statements and combining statements, respectively, to demonstrate compliance with the appropriated budget. The State's budgetary process is explained further in NOTE 1D. to the financial statements.

The basic governmental fund financial statements can be found on pages 26 through 35 of this report while the combining fund statements and schedules can be found on pages 145 through 204.

Proprietary Funds — Services for which the State charges customers a fee are generally reported in proprietary funds. Financial statements for the proprietary funds, which are classified as enterprise funds, provide both long- and short-term financial information. Like the government-wide financial statements, the State prepares the proprietary fund financial statements for its eight enterprise funds by applying the accrual basis of accounting and an economic resources focus.

Under separate columns, information is presented in the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Fund Net Assets, and Statement of Cash Flows for the Workers' Compensation, Lottery Commission, and Unemployment Compensation enterprise funds, all of which are considered to be major funds. Data from the other five enterprise funds, which are classified as nonmajor funds, are combined into an aggregated presentation under a single column on the basic proprietary fund financial statements. Individual fund data for each of these nonmajor proprietary funds is provided in the form of combining statements elsewhere in this report.

The enterprise funds are the same as the State's business-type activities reported in the government-wide financial statements, but the proprietary fund financial statements provide more detail and additional information, such as information on cash flows. The basic proprietary fund financial statements can be found on pages 36 through 43 of this report while the combining fund statements can be found on pages 205 through 213.

Fiduciary Funds — The State is the trustee, or fiduciary, for assets that — because of a trust arrangement — can only be used for the trust beneficiaries. The State is responsible for ensuring the assets reported in these funds are used for their intended purposes. All of the State's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. The State excludes the State Highway Patrol Retirement System Pension Trust Fund, Variable College Savings Plan Private-Purpose Trust Fund, STAR Ohio Investment Trust Fund, and the agency funds from its government-wide financial statements because the State cannot use these assets to finance its operations. The basic fiduciary fund financial statements can be found on pages 44 through 47 of this report.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets. During fiscal year 2012, as shown in the table below, the combined net assets of the State's primary government increased $2.32 billion or 10.2 percent. Net assets reported for governmental activities decreased $166.4 million or less than one percent and business-type activities increased $2.49 billion, or 61 percent. Condensed financial information derived from the Statement of Net Assets for the primary government follows.

Statement of Net Assets
As of June 30, 2012
With Comparatives as of June 30, 2011
(dollars in thousands)

	As of June 30, 2012			As of June 30, 2011		
	Govern-mental Activities	Business-Type Activities	Total Primary Government	Govern-mental Activities	Business-Type Activities	Total Primary Government
Assets and Deferred Outflows of Resources:						
Current Assets and Other						
Noncurrent Assets	$ 18,274,202	$ 29,364,751	$ 47,638,953	$ 18,125,869	$ 27,813,243	$ 45,939,112
Capital assets	25,611,543	144,164	25,755,707	25,559,678	160,302	25,719,980
Total Assets	43,885,745	29,508,915	73,394,660	43,685,547	27,973,545	71,659,092
Total Deferred Outflows of Resources	$ 59,117	$ -	$ 59,117	$ 36,708	$ -	$ 36,708
Liabilities						
Current and Other Liabilities	6,239,624	(16,211) *	6,223,413	6,659,174	145,688	6,804,862
Noncurrent Liabilities	19,107,231	22,956,562	42,063,793	18,298,713	23,748,969	42,047,682
Total Liabilities	25,346,855	22,940,351	48,287,206	24,957,887	23,894,657	48,852,544
Net Assets:						
Invested in Capital Assets, Net of Related Debt	22,147,262	67,331	22,214,593	23,157,156	54,430	23,211,586
Restricted	3,579,618	7,884,358	11,463,976	3,856,555	5,844,952	9,701,507
Unrestricted	(7,128,873)	(1,383,125)	(8,511,998)	(8,249,343)	(1,820,494)	(10,069,837)
Total Net Assets	$ 18,598,007	$ 6,568,564	$ 25,166,571	$ 18,764,368	$ 4,078,888	$ 22,843,256

* Internal balances exceeded current and other liabilities. (See page 22.)

As of June 30, 2012, the primary government's investment in capital assets (i.e., land, buildings, land improvements, machinery and equipment, vehicles, infrastructure, and construction-in-progress), less related outstanding debt, was $22.21 billion. Restricted net assets were approximately $11.46 billion, resulting in an $8.51 billion deficit. Net assets are restricted when constraints on their use are 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) legally imposed through constitutional or enabling legislation. Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The government-wide Statement of Net Assets reflects a $7.13 billion deficit for unrestricted governmental activities. The State of Ohio, like many other state governments, issues general and special obligation debt, the proceeds of which benefit local governments and component units. The proceeds are used to build facilities for public-assisted colleges and universities and local school districts and finance infrastructure improvements for local governments. The policy of selling general obligation and special obligation bonds for these purposes has been the practice for many years. Of the $10.98 billion of outstanding general obligation and special obligation debt at

June 30, 2012, $8.13 billion is attributable to debt issued for state assistance to component units (School Facilities Commission, Cultural Facilities Commission, and the colleges and universities) and local governments. The balance sheets of component unit and local government recipients reflect ownership of the related constructed capital assets without the burden of recording the debt. Unspent proceeds related to these bond issuances are included on the Statement of Net Assets as restricted net assets. By issuing such debt, the State is left to reflect significant liabilities without the benefit of recording the capital assets constructed with the proceeds from the debt issuances.

Additionally, as of June 30, 2012, the State's governmental activities have significant unfunded liabilities for compensated absences in the amount of $440.4 million (see NOTE 14A.) and a $699.5 million interfund payable due to the workers' compensation component of business-type activities for the State's workers' compensation liability (see NOTE 7A.). These unfunded liabilities also contribute to the reported deficit for governmental activities.

Condensed financial information derived from the Statement of Activities, which reports how the net assets of the State's primary government changed during fiscal years 2012 and 2011, follows.

Primary Government
Statement of Activities
For the Fiscal Year Ended June 30, 2012
With Comparatives for the Fiscal Year Ended June 30, 2011
(dollars in thousands)

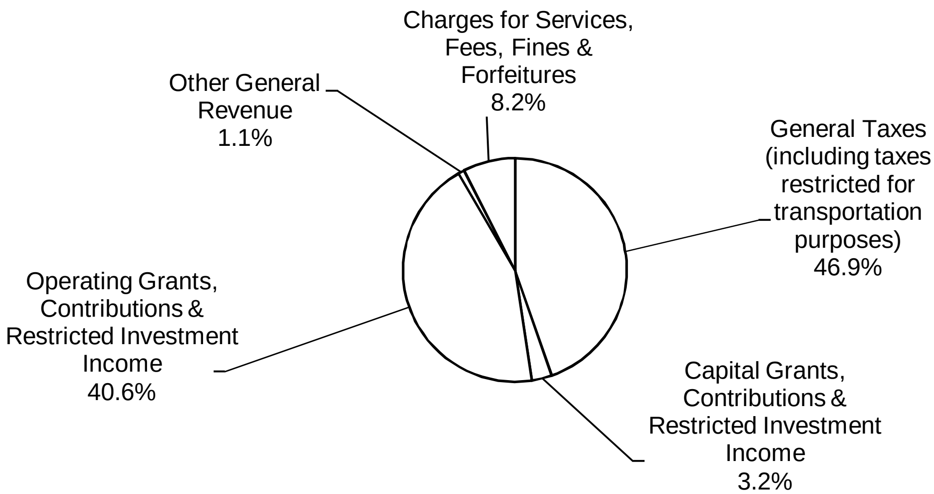
	Fiscal Year 2012			Fiscal Year 2011		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Program Revenue:						
Charges for Services, Fees,						
Fines and Forfeitures	$ 4,031,628	$ 7,283,146	$ 11,314,774	$ 3,776,993	$ 6,957,195	$ 10,734,188
Operating Grants, Contributions and						
Restricted Investment Income/ (loss)	20,053,477	3,568,091	23,621,568	22,041,872	5,002,794	27,044,666
Capital Grants, Contributions and						
Restricted Investment Income/ (loss)	1,573,765	-	1,573,765	1,465,484	-	1,465,484
Total Program Revenues	25,658,870	10,851,237	36,510,107	27,284,349	11,959,989	39,244,338
General Revenues:						
General Taxes	21,374,384	-	21,374,384	20,626,711	-	20,626,711
Taxes Restricted for Transportation	1,800,473	-	1,800,473	1,759,421	-	1,759,421
Tobacco Settlement	333,148	-	333,148	334,665	-	334,665
Escheat Property	153,556	-	153,556	101,289	-	101,289
Unrestricted Investment Income	3,702	3	3,705	2,688	1,184	3,872
Other	48,078	5	48,083	1,323	-	1,323
Total General Revenues	23,713,341	8	23,713,349	22,826,097	1,184	22,827,281
Total Revenue	49,372,211	10,851,245	60,223,456	50,110,446	11,961,173	62,071,619
Expenses:						
Primary, Secondary and Other Education	12,340,848	-	12,340,848	12,126,435	-	12,126,435
Higher Education Support	2,348,154	-	2,348,154	2,726,016	-	2,726,016
Public Assistance and Medicaid	21,206,515	-	21,206,515	20,111,691	-	20,111,691
Health and Human Services	3,835,369	-	3,835,369	4,295,483	-	4,295,483
Justice and Public Protection	3,202,970	-	3,202,970	3,184,345	-	3,184,345
Environmental Protection and						
Natural Resources	407,379	-	407,379	350,870	-	350,870
Transportation	2,564,702	-	2,564,702	2,186,332	-	2,186,332
General Government	595,797	-	595,797	792,728	-	792,728
Community and Economic Development	3,867,888		3,867,888	4,479,010		4,479,010
Interest on Long term Debt						
(excludes interest charged as						
program expense)	118,902	-	118,902	134,888	-	134,888
Workers' Compensation	-	1,945,190	1,945,190	-	2,354,296	2,354,296
Lottery Commission	-	2,001,671	2,001,671	-	1,911,105	1,911,105
Unemployment Compensation	-	2,754,835	2,754,835	-	4,094,207	4,094,207
Ohio Building Authority	-	13,010	13,010	-	22,076	22,076
Tuition Trust Authority	-	80,157	80,157	-	79,671	79,671
Liquor Control	-	543,729	543,729	-	507,800	507,800
Underground Parking Garage	-	3,842	3,842	-	3,171	3,171
Office of Auditor of State	-	69,183	69,183	-	69,185	69,185
Total Expenses	50,488,524	7,411,617	57,900,141	50,387,798	9,041,511	59,429,309
Surplus/ (Deficiency) Before Transfers	(1,116,313)	3,439,628	2,323,315	(277,352)	2,919,662	2,642,310
Transfers - Internal Activities	949,952	(949,952)	-	945,551	(945,551)	-
Change In Net Assets	(166,361)	2,489,676	2,323,315	668,199	1,974,111	2,642,310
Net Assets, July 1	18,764,368	4,078,888	22,843,256	18,096,169	2,104,777	20,200,946
Net Assets, June 30	$ 18,598,007	$ 6,568,564	$ 25,166,571	$ 18,764,368	$ 4,078,888	$ 22,843,256

Governmental Activities

Expenses exceeded revenues during fiscal year 2012 for governmental activities. Although partially offset with transfers from the State's business-type activities, net assets for governmental activities decreased from $18.76 billion, at July 1, 2011, to $18.6 billion, at June 30, 2012, or $166.4 million. Revenues of $49.37 billion for fiscal year 2012 were 1.5 percent lower than those reported for fiscal year 2011. General taxes (including taxes restricted for transportation purposes) comprised 46.9 percent of fiscal year 2012 total revenues and increased by 3.5 percent compared to fiscal year 2011. Operating grants, contributions and restricted investment income, making up 40.6 percent of total revenues, decreased by nine percent compared to fiscal year 2011. Fiscal year 2012 net transfers of $950 million and expenses of $50.49 billion both reflect increases of less than one percent over fiscal year 2011.

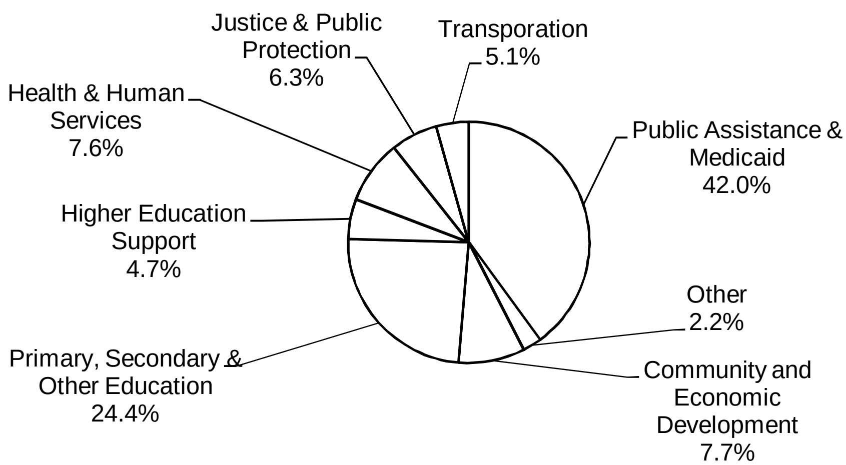
The following charts illustrate revenues by source and expenses by program of governmental activities as percentages of total revenues and program expenses, respectively, reported for the fiscal year ended June 30, 2012.

Governmental Activities — Sources of Revenue
Fiscal Year 2012



Total FY 12 Revenue for Governmental Activities = $49.37 Billion

Governmental Activities — Expenses by Program
Fiscal Year 2012



Total FY 12 Program Expenses for Governmental Activities = $50.49 Billion

The following tables present the total expenses and net cost of each of the State's governmental programs for the fiscal years ended June 30, 2012 and 2011. The net cost (total program expenses less revenues generated by the program) represents the financial burden that was placed on the State's taxpayers by each of these programs. This cost is essentially funded with the State's general revenues from taxes, tobacco settlement, and escheat property.

Program Expenses and Net Costs of Governmental Activities by Program
For the Fiscal Year Ended June 30, 2012
With Comparatives for the Fiscal Year Ended June 30, 2011
(dollars in thousands)

	For the Fiscal Year Ended June 30, 2012			
Program	Program Expenses	Net Cost of Program	Net Cost as Percentage of Total Expenses for Program	Net Cost as Percentage of Total Expenses—All Programs
Primary, Secondary and Other Education……………	$ 12,340,848	$ 10,016,493	81.2%	19.8%
Higher Education Support……………………………..	2,348,154	2,320,263	98.8%	4.6%
Public Assistance and Medicaid………………………	21,206,515	5,368,909	25.3%	10.6%
Health and Human Services…………………………..	3,835,369	946,317	24.7%	1.9%
Justice and Public Protection………………………….	3,202,970	2,058,956	64.3%	4.1%
Environmental Protection and Natural Resources…..	407,379	109,574	26.9%	0.2%
Transportation………………………………………….	2,564,702	847,524	33.0%	1.7%
General Government………………………………….	595,797	20,614	3.5%	0.1%
Community and Economic Development……………..	3,867,888	3,022,102	78.1%	6.0%
Interest on Long-Term Debt…………………………..	118,902	118,902	100.0%	0.2%
Total Governmental Activities…………………………	$ 50,488,524	$ 24,829,654	49.2%	49.2%

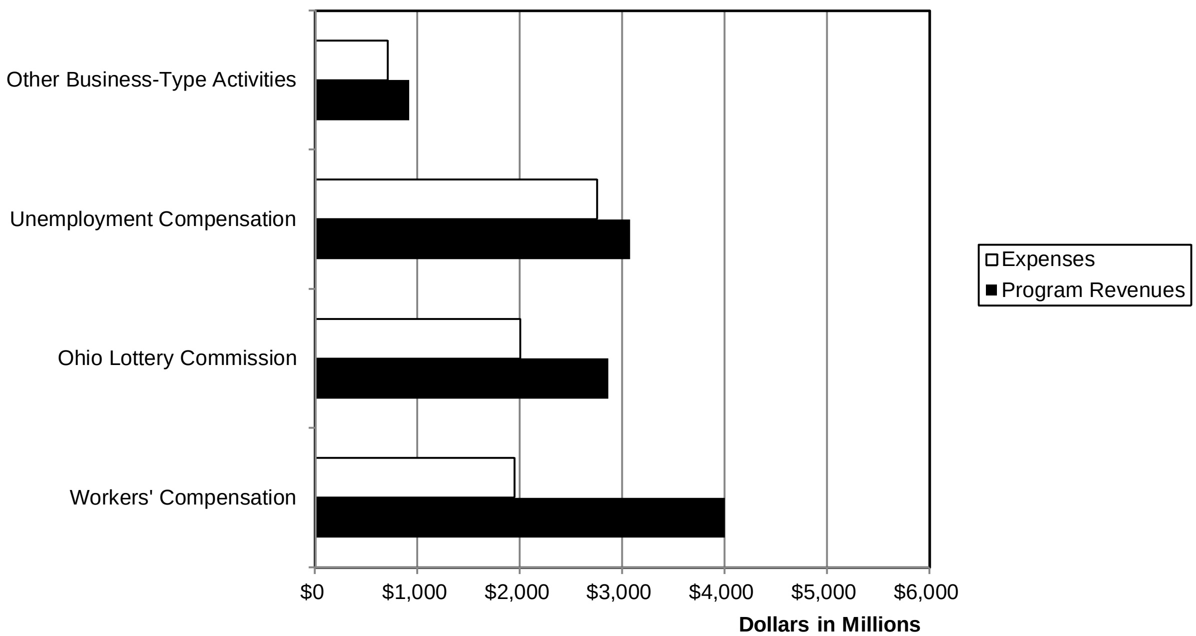
	For the Fiscal Year Ended June 30, 2011			
Program	Program Expenses	Net Cost of Program	Net Cost as Percentage of Total Expenses for Program	Net Cost as Percentage of Total Expenses—All Programs
Primary, Secondary and Other Education……………	$ 12,126,435	$ 9,297,999	76.7%	18.5%
Higher Education Support……………………………..	2,726,016	2,407,828	88.3%	4.8%
Public Assistance and Medicaid………………………	20,111,691	3,991,432	19.8%	7.9%
Health and Human Services…………………………..	4,295,483	1,214,661	28.3%	2.4%
Justice and Public Protection………………………….	3,184,345	1,632,939	51.3%	3.2%
Environmental Protection and Natural Resources…..	350,870	46,697	13.3%	0.1%
Transportation………………………………………….	2,186,332	552,843	25.3%	1.1%
General Government………………………………….	792,728	407,420	51.4%	0.8%
Community and Economic Development……………..	4,479,010	3,416,742	76.3%	6.8%
Interest on Long-Term Debt…………………………..	134,888	134,888	100.0%	0.3%
Total Governmental Activities…………………………	$ 50,387,798	$ 23,103,449	45.9%	45.9%

Business-Type Activities

The State's enterprise funds reported net assets of $6.57 billion, as of June 30, 2012, as compared to $4.08 billion in net assets, as of June 30, 2011, an increase of 61 percent. The primary cause for the increase in business-type activities' net assets was the Workers' Compensation Fund, which reported net assets of $7.82 billion, as of June 30, 2012, as compared to $5.77 billion, as of June 30, 2011, a $2.05 billion increase. The Lottery Commission and the Unemployment Compensation Fund also reported increases in net assets during fiscal year 2012. The Lottery Commission Fund reported net assets of $238.5 million, as of June 30, 2012, as compared to $150.7 million, as of June 30, 2011, an $87.8 million increase. The net assets in the Unemployment Compensation Fund increased $313.8 million from $(1.93) billion, as of June 30, 2011, to $(1.61) billion, as of June 30, 2012.

The chart below compares program expenses and program revenues for business-type activities.

Business-Type Activities — Expenses and Program Revenues
Fiscal Year 2012



Additional analysis of the Business-Type Activities' revenues and expenses is included with the discussion of the Proprietary Funds beginning on page 15.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Governmental funds reported the following results, as of and for the fiscal years ended June 30, 2012 and June 30, 2011 (dollars in thousands).

	As of and for the Fiscal Year Ended June 30, 2012			
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unassigned Fund Balance (Deficit)	$ (415,658)	$ (547)	$ -	$ (416,205)
Total Fund Balance...	3,189,993	5,340,400	2,786,073	11,316,466
Total Revenues	30,928,235	9,331,664	9,037,918	49,297,817
Total Expenditures..	29,972,837	9,651,271	11,553,067	51,177,175

	As of and for the Fiscal Year Ended June 30, 2011			
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unassigned Fund Balance (Deficit)	$ (1,208,029)	$ -	(25)	$ (1,208,054)
Total Fund Balance...	2,223,608	5,638,892	2,860,682	10,723,182
Total Revenues	30,914,677	9,860,521	9,202,236	49,977,434
Total Expenditures..	29,837,914	9,880,100	$11,537,549	51,255,563

General Fund

The main operating fund of the State is the General Fund. During fiscal year 2012, General Fund revenue and expenditures increased by $13.6 million and $134.9 million, respectively. Other sources and uses showed an increase of net sources of $482.4 million when compared with fiscal year 2011. Higher personal income tax revenue, increased non-auto sales and use tax revenues from expanded Medicaid Health Insuring Corporations collections, and debt issuance proceeds offset decreased federal funding and increased spending for Public Assistance and Medicaid. Total fund balance at June 30, 2012, increased by $968 million (exclusive of a $1.6 million decrease in inventories) or 43.5 percent.

General Fund Budgetary Highlights

The State ended the first year of its 2012-13 biennial budget on June 30, 2012, with a General Fund budgetary fund balance (i.e., cash less encumbrances) of $2.33 billion. Total budgetary sources for the General Fund (including $1.24 billion in transfers from other funds) in the amount of $33.95 billion were below final estimates by $648 million or 1.9 percent during fiscal year 2012. Total tax receipts were above final estimates by $399 million or 1.8 percent.

Total budgetary uses for the General Fund (including $1.75 billion in transfers to other funds) in the amount of $34.55 billion were below final estimates by $2.39 billion or 6.5 percent for fiscal year 2012. There was no budget stabilization designation at June 30, 2011, for use in balancing the final fiscal year 2012 budget.

The appropriations act (Act) for the 2012-13 biennium for the General Revenue Fund (GRF), the largest, non-GAAP, budgetary-basis operating fund included in the State's General Fund, was passed by the General Assembly and signed (with selective vetoes) by the Governor on June 30, 2011. To address the use of non-recurring funding sources in the prior budget biennium including amounts received under the American Recovery and Reinvestment Act (ARRA), the Act included targeted spending cuts across most State Agencies and major new Medicaid reform and cost containment measures. The Act provided for GRF biennial appropriations of approximately $55.78 billion, an 11 percent increase from the 2010-11 GRF biennial expenditures, and GRF biennial estimated revenue of approximately $56.07 billion, a six percent increase from the 2010-11 GRF biennial revenues.

GRF appropriations for major program categories compared to the 2010-11 biennium actual GRF spending reflected increases of 30 percent for Medicaid and three percent for elementary and secondary education; decreases of nine percent for higher education and eight percent for mental health and developmental disabilities; and flat funding for corrections and youth services. The Act also reflected the restructuring of $440 million of fiscal year 2012 GRF debt service into fiscal years 2013 through 2025.

The Act authorized the transfer of the State's spirituous liquor distribution and merchandising operations to JobsOhio Beverage Systems, an Ohio nonprofit corporation, the sole member of which is JobsOhio, a nonprofit corporation created to promote economic development, job creation and retention, job training, and the recruitment of business to the State. In consideration of this transfer, the State anticipated receiving a $500 million one-time payment from JobsOhio in fiscal year 2012 and would have forgone annual deposits to the GRF from net liquor profits. The transfer did not occur in fiscal year 2012 and the State did not receive the anticipated $500 million one-time payment during fiscal year 2012; however, annual net liquor profits of $92.5 million were deposited into the GRF.

The Act also authorized the sale of five State-owned prison facilities to private operators. On September 1, 2011, the State announced that it opted to sell only one of the facilities. Litigation has been filed that challenges the authorization in the Act to sell the facilities.

Additional expenditure savings authorized by the Act included reduced allocations to the local government fund and the public library fund and the accelerated phase-out of reimbursement payments in connection with the elimination of the tangible personal property tax and electric power generation deregulation and natural gas deregulation, for local governments and school districts. It also provided for cost savings through changes to the State's construction bidding procedures and authorized transfers to the GRF from unclaimed funds, other non-GRF funds, and a tax amnesty program.

Several tax law changes were enacted, including the implementation of the previously postponed final 4.2 percent annual decrease in State personal income tax rates. The Act created the InvestOhio income tax credit program under which investors in small businesses based in Ohio, who hold their investments for at least two years, may be eligible to receive income tax credits.

New funds were created by the Act, including a $130 million Medicaid reserve fund and a $104 million Unemployment Compensation Contingency Fund. The Unemployment Compensation Contingency Fund is used to pay interest on federal advances to the State Unemployment Compensation Fund.

The Ohio Constitution prohibits the State from borrowing money to fund operating expenditures in the GRF. Therefore, by law, the GRF's budget must be balanced so that appropriations do not exceed available cash receipts and cash balances for the current fiscal year.

The State ended fiscal year 2012 with a GRF cash balance of $973.4 million and a GRF budgetary fund balance of $371 million. In addition to meeting the State's requirement to maintain an ending fund balance reflecting one-half of one percent of fiscal year 2012 GRF revenues, the State deposited $235.1 million into the Budget Stabilization Fund in early fiscal year 2013.

Other Major Governmental Funds
The *Job, Family and Other Human Services Fund* had a fund balance of $196.1 million at June 30, 2012, a decrease of $224.4 million, or 53.4 percent, compared to fiscal year 2011. The decrease in fund balance is due to expenditures exceeding revenues by $259.3 million. A 51.9 percent decrease in net Other Financing Sources over the prior fiscal year due to a reduction in bonds and notes issued in fiscal year 2012 over fiscal year 2011 also contributed to the decline in the fund balance.

Federal Government revenue decreased by $777.3 million, or 9.2 percent, over fiscal year 2011. This decrease in revenue is largely due to the phase out of ARRA stimulus funding. An increase of $190.2 million, or 21.3 percent, in License, Permits and Fees income is due in part to the rise in the hospital franchise fees.

Health and Human Services expenditures decreased by $383.3 million and Public Assistance and Medicaid expenditures increased by $153.2 million compared to fiscal year 2011. These variances are the result of the change in responsibility for the payment of Medicaid for aging programs from the Ohio Department of Aging during fiscal year 2011 to the Ohio Department of Job and Family Services during fiscal year 2012. The reduction in ARRA funding also played a role in the decreased expenditures in the fund.

The fund balance for the *Buckeye Tobacco Settlement Financing Authority Revenue Bonds Fund*, as of June 30, 2012, totaled approximately $5.14 billion dollars, a decrease of $74.1 million or 1.4 percent since June 30, 2011. Tobacco settlement revenue was $5.3 million higher than the amount received for fiscal year 2011 due to a timing difference in collections between fiscal years 2011 and 2012. In general, tobacco settlement revenue has been decreasing in recent years due to declining cigarette consumption and tobacco companies depositing money into the disputed account, as described in Note 19D. Investment income decreased $2 million from $2.6 million in fiscal year 2011 to $667 thousand in fiscal year 2012. Debt Service expenditures decreased by $4.6 million during fiscal year 2012 as a result of changing debt service requirements for the bonds. Notwithstanding the increases in revenues and decreases in expenditures during fiscal year 2012, the ending fund balance decreased at June 30, 2012, as a result of the total expenditures being in excess of revenue collected during the fiscal year.

Proprietary Funds
Major Proprietary Funds
The State's proprietary fund financial statements report the same type of information found in the business-type activities portion of the government-wide financial statements, but in a slightly different format.

For the *Workers' Compensation Fund*, the $2.05 billion increase in net assets was due to a steady stream of premium and assessment income and a decrease in benefits and claims expenses of approximately $406 million or 18.1 percent. Benefits and claims expenses decreased due to lower estimates for future medical expenses attributable to lower claims frequencies and a decrease in the medical inflation rate.

For fiscal year 2012, the *Lottery Commission Fund* reported $859.2 million in net income before transfers of $771 million and $335 thousand to the Education and General Funds, respectively. The $87.8 million or 58.3 percent increase in the fund's net assets to $238.5 million, as of June 30, 2012, was predominately due to an increase in ticket sales and new collections of video lottery terminal revenues. Ticket sales increased $138 million or 5.3 percent, resulting in record sales of $2.74 billion. Additionally, the Lottery Commission began collecting video lottery terminal and license revenues in fiscal year 2012, receiving $36.1 million. These events account for the $174.1 million or 6.7 percent increase in charges for sales and service revenues from $2.6 billion in fiscal year 2011 to $2.78 billion in fiscal year 2012. Prizes expenses were $1.68 billion as of June 30, 2012, compared to $1.6 billion, as of June 30, 2011, an increase of approximately $77.7 million or 4.9 percent. This increase was in proportion to ticket sales.

The $313.8 million increase in net assets in the *Unemployment Compensation Fund* is due to the declining unemployment rate. The unemployment rate in Ohio dropped from an average of 9.3 percent in fiscal year 2011 to an average of 7.9 percent in fiscal year 2012. The decrease in the unemployment rate caused the State's benefits and claims expense to decrease by $1.34 billion or 32.8 percent from the previous fiscal year. While the State of Ohio's benefits and claims expense decreased, the State received less money from the federal government. During fiscal year 2012, the State received $1.43 billion from the federal government compared to $2.52 billion in fiscal year 2011 resulting in a 43.3 percent decrease in federal funding. The premium and assessment income, however, increased by $49.8 million.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2012 and June 30, 2011, the State had invested $25.76 billion and $25.72 billion, respectively, net of accumulated depreciation of $3.28 billion and $3.11 billion, respectively, in a broad range of capital assets, as detailed in the table below.

Capital Assets, Net of Accumulated Depreciation
As of June 30, 2012
With Comparatives as of June 30, 2011
(dollars in thousands)

	As of June 30, 2012			As of June 30, 2011		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Land	$ 2,154,598	$ 11,994	$ 2,166,592	$ 2,082,738	$ 11,994	$ 2,094,732
Buildings	1,686,151	67,505	1,753,656	1,779,018	75,039	1,854,057
Land Improvements	185,119	9	185,128	181,204	10	181,214
Machinery and Equipment	247,555	55,023	302,578	274,472	71,335	345,807
Vehicles	139,444	2,309	141,753	125,927	1,924	127,851
Infrastructure:						
Highway Network:						
General Subsystem	8,588,032	-	8,588,032	8,544,734	-	8,544,734
Priority Subsystem	8,195,288	-	8,195,288	7,895,454	-	7,895,454
Bridge Network	2,964,043	-	2,964,043	2,937,912	-	2,937,912
Parks, Recreation, and Natural Resources System	81,827	-	81,827	83,732	-	83,732
	24,242,057	136,840	24,378,897	23,905,191	160,302	24,065,493
Construction-in-Progress	1,369,486	7,324	1,376,810	1,654,487	-	1,654,487
Total Capital Assets, Net	$ 25,611,543	$ 144,164	$25,755,707	$ 25,559,678	$160,302	$25,719,980

During fiscal year 2012, the State recognized $416.8 million in annual depreciation expense relative to its governmental capital assets as compared with $346.6 million in annual depreciation expense recognized in fiscal year 2011. The State also recognized $32.6 million in annual depreciation expense relative to its business-type capital assets as compared with $32.7 million in annual depreciation expense recognized in fiscal year 2011.

Additionally, the State completed construction on a variety of projects at various state facilities during fiscal year 2012 totaling approximately $574.8 million, as compared with $550.5 million in the previous fiscal year. The total increase in the State's capital assets, net of accumulated depreciation, for the current fiscal year was .1 percent (approximately a .2 percent increase for governmental activities and a 10.1 percent decrease for business-type activities). As is further detailed in NOTE 19C of the notes to the financial statements, the State had $83.5 million in major construction commitments (unrelated to infrastructure), as of June 30, 2012, as compared with the $105.8 million balance reported for June 30, 2011.

Modified Approach

For reporting its highway and bridge infrastructure assets, the State has adopted the use of the modified approach. The modified approach allows a government *not to report depreciation expense* for eligible infrastructure assets if the government manages the eligible infrastructure assets using an asset management system that possesses certain characteristics and the government can document that the eligible infrastructure assets are being preserved approximately at (or above) a condition level it sets (and discloses). Under the modified approach, the State is required to expense all spending (i.e., preservation and maintenance costs) on infrastructure assets except for additions and improvements. Infrastructure assets accounted for using the modified approach include approximately 43,026 in lane miles of highway (13,109 in lane miles for the priority highway subsystem and 29,917 in lane miles for the general highway subsystem) and approximately 105.3 million square feet of deck area that comprises 14,182 bridges for which the State has the responsibility for ongoing maintenance.

Ohio accounts for its pavement network in two subsystems: *Priority*, which comprises interstate highways, freeways, and multi-lane portions of the National Highway System, and *General*, which comprises two-lane routes outside of cities. It is the State's goal to allow no more than 25 percent of the total lane-miles reported for each of the priority and general subsystems, respectively, to be classified with a "poor" condition rating. The most recent condition assessment, completed by the Ohio Department of Transportation for calendar year 2011, indicates that only 1.3 percent and 3.7 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating. For calendar year 2010, only 2.2 percent and 3.9 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating.

For the bridge network, it is the State's intention to allow no more than 15 percent of the total number of square feet of deck area to be in "fair" or "poor" condition. The most recent condition assessment, completed by the Ohio Department of Transportation for calendar year 2011, indicates that only four percent and .04 percent of the number of square feet of bridge deck area were considered to be in "fair" and "poor" conditions, respectively. For calendar year 2010, only 3.8 percent and .04 percent of the number of square feet of bridge deck area were considered to be in "fair" and "poor" conditions, respectively.

For fiscal year 2012, total actual maintenance and preservation costs for the priority and general subsystems were $438.5 million and $357.3 million, respectively, compared to estimated costs of $403.8 million for the priority system and $211.2 million for the general system, while total actual maintenance and preservation costs for the bridge network was $511.5 million compared to estimated costs of $509 million. For the previous fiscal year, total actual maintenance and preservation costs for the priority and general subsystems were $420 million and $342.2 million respectively, compared to estimated costs of $406.1 million for the priority system and $258.4 million for the general system, while total actual maintenance and preservation costs for the bridge network was $409.7 million compared to estimated costs of $433.6 million. Overall, the State's costs for actual maintenance and preservation for highway infrastructure assets have exceeded estimates over the past two years due to steadily increasing underlying costs for the materials and labor associated with infrastructure projects.

More detailed information on the State's capital assets can be found in NOTE 8 to the financial statements and in the Required Supplementary Information section of this report.

Debt — Bonds and Notes Payable and Certificates of Participation Obligations

As of June 30, 2012 and June 30, 2011, the State had total debt of approximately $18.3 billion and $17.52 billion, respectively, as shown in the table below.

Bonds and Notes Payable and Certificates of Participation
As of June 30, 2012
With Comparatives as of June 30, 2011
(dollars in thousands)

	As of June 30, 2012			As of June 30, 2011		
	Govern-mental Activities	Business-Type Activities	Total	Govern-mental Activities	Business-Type Activities	Total
Bonds and Notes Payable:						
General Obligation Bonds	$ 8,888,085	$ -	$ 8,888,085	$ 7,872,276	$ -	$ 7,872,276
Revenue Bonds and Notes	7,129,786	31,633	7,161,419	7,156,025	47,889	7,203,914
Special Obligation Bonds	2,090,889	-	2,090,889	2,260,853	-	2,260,853
Certificates of Participation	156,664	-	156,664	179,935	-	179,935
Total Debt	$18,265,424	$31,633	$18,297,057	$17,469,089	$47,889	$17,516,978

The State's general obligation bonds are backed by its full faith and credit. Revenue bonds and notes issued by the State are secured with revenues pledged for the retirement of debt principal and the payment of interest. Special obligation bonds issued by the State are supported with lease payments from tenants of facilities constructed with the proceeds from the bond issuances. Under certificate of participation (COPs) financing arrangements, the State is required to make rental payments (subject to appropriations) that approximate interest and principal payments made by trustees to certificate holders.

During fiscal year 2012, the State issued, at par, $2.28 billion in general obligation bonds, $194 million in revenue bonds and notes, and $259.2 million in special obligation bonds. Of the general obligation bonds and special obligation bonds issued, at par, $1.15 million and $226.5 million, respectively, were refunding bonds. The $194 million in revenue bonds and notes issued were Bond Anticipation Notes (BANS) that are expected to be retired, renewed, or refunded into long term debt. The total increase in the State's debt obligations for the current fiscal year, as based on carrying amount, was 4.5 percent (a 4.6 percent increase for governmental activities and a 34 percent decrease for business-type activities).

Credit Ratings

Ohio's credit ratings for general obligation debt are Aa1 by Moody's Investors Service, Inc. (Moody's) and AA+ by Fitch Inc. (Fitch). Standard & Poor's Ratings Services (S&P) rates the State's general obligation debt as AA+, other than Highway Capital Improvement Obligations, which are rated AAA.

For special obligation bonds, which the Treasurer of State issues and General Revenue Fund appropriations secure, Moody's rating is Aa2, Fitch's rating is AA, and S&P's rating is AA.

The State's revenue bonds and notes are rated as follows:

Revenue Bonds and Notes	Fitch	Moody's	S&P	Source of State Payment
Governmental Activities:				
Treasurer of State:				
Economic Development	AA-	Aa2	AA	Net Liquor Profits
State Infrastructure Bank	A+	Aa2	AA	Federal Transportation Grants and Loan Receipts
Revitalization Projects	AA-	Aa3	AA-	Net Liquor Profits
Buckeye Tobacco Settlement Financing Authority (ratings are in a range)	B- to BBB+	B3 to Aaa	B- to BBB	Pledged Receipts from the Tobacco Master Settlement Agreement
Business-Type Activities:				
Bureau of Workers' Compensation	AA	Aa3	AA	Workers' Compensation Enterprise Fund

On March 16, 2012, Moody's revised its "credit outlook" on the State from "negative" to "stable." A credit outlook is an indication of the pressure on the rating over the near-to-intermediate term and is not a precursor to a rating change. This is the first time since February 2007 that Ohio has been at Aa+/Aa1 with a stable outlook from all three rating agencies, including Standard & Poor's.

The ratings and rating outlooks in effect from time to time reflect only the views of the particular rating organization. An explanation of its view of the meaning and significance of its rating or outlook may be obtained from the respective rating agency. Generally, the rating agencies base their rating on submitted information and on their own investigations, studies, and assumptions. There can be no assurance that the ratings or outlooks assigned will continue for any given time. Rating agencies may lower or withdraw a rating at any time, if in its judgment circumstances so warrant.

Limitations on Debt

Section 17 of Article VIII of the Ohio Constitution, approved by Ohio voters in November 1999, establishes an annual debt service "cap" applicable to future issuances of direct obligations payable from the General Revenue Fund (GRF) or net state lottery proceeds. Generally, new obligations may not be issued if debt service for any future fiscal year on those new and the then outstanding bonds of those categories would exceed five percent of the total of estimated GRF revenues plus net state lottery proceeds for the fiscal year of issuance.

Those direct obligations of the State include general obligation and special obligation bonds that are paid from the State's GRF, but exclude general obligation debt for Third Frontier Research and Development, development of sites and facilities, and veterans compensation, and general obligation bonds payable from non-GRF funds (such as highway bonds that are paid from highway user receipts). Pursuant to the implementing legislation, the Governor has designated the Director of the Ohio Office of Budget and Management as the State official responsible for making the five percent determinations and certifications. Application of the five percent cap may be waived in a particular instance by a three-fifths vote of each house of the Ohio General Assembly and may be changed by future constitutional amendments.

More detailed information on the State's long-term debt, including changes during the year, can be found in NOTES 10 through 13 and NOTE 15 of the financial statements.

Conditions Expected to Affect Future Operations

Economic Factors

Through February 2013, leading economic indicators have weakened but remain consistent with uninterrupted growth at a moderate pace across the country and especially in Ohio. The Ohio unemployment rate increased to seven percent in January 2013 after having held below seven percent for three consecutive months in late calendar year 2012. The rate is down from 7.6 percent in January 2012 and is .9 percentage points below the national unemployment rate for January 2013.

Nationally, real gross domestic product (GDP) was essentially unchanged in the fourth quarter of calendar year 2012 following a 3.1 percent increase in the third quarter. U.S. nonfarm payroll employment increased by 236 thousand jobs during February 2013 and averaged 205 thousand jobs per month during the previous four months. The national unemployment rate decreased to 7.7 percent in February 2013—the lowest level since December 2008.

The 2012-13 Biennial Budget

Major new sources of expenditure savings and tax law changes in the 2012-13 biennial (beginning July 1, 2011) appropriations bill included the following:

- In fiscal year 2013, allocations to local governments will be reduced by $340 million and allocations to public libraries will be reduced by $102.8 million. Beginning in fiscal year 2014, allocations will be made by committing a set percent of annual tax revenues deposited into the GRF (beginning with fiscal year 2013 GRF tax revenues).
- GRF will receive a greater share of commercial activities tax, kilowatt-hour tax, and natural gas consumption tax revenues due to the accelerated phase-out of reimbursement payments for local governments and school districts.
- The estate tax will be eliminated beginning January 1, 2013.

Mid-Biennium Review
In March 2012, the Governor announced a series of policy proposals resulting from a "mid-biennium review" (MBR), with a stated focus on job creation as a priority. In May and June 2012, the General Assembly passed seven pieces of legislation addressing the subjects of energy, tax reform, education, workforce development, and management efficiency for both state and local governments.

General Revenue Fund
For fiscal year 2013, total fiscal year-to-date GRF receipts collected through February 2013 are $727.2 million above estimates and $2.08 billion higher than collections through February of the prior fiscal year. Total fiscal year-to-date GRF disbursements through February 2013 are $177.1 million below estimates and $993.1 million above expenditures through February of the prior fiscal year. As of February 2013, receipts were 3.9 percent ahead of budget estimates and disbursements were .9 percent below budget estimates. Fiscal year 2013 receipts are 12.1 percent ahead of receipts for the first eight months of fiscal year 2012. Disbursements for fiscal year 2013 are 5.5 percent above disbursements for the same time period of fiscal year 2012.

Unemployment Compensation Fund
Due to the declining revenues and the challenging economic climate, the State has sought federal assistance in meeting its unemployment benefit costs. In accordance with Title XII of the Social Security Act, the State received repayable advances in the Unemployment Trust Fund of $2.31 billion from the Federal Unemployment Account to cover the insufficient State funds for benefit claims during fiscal years 2009 and 2010. The State continues to make principal and interest payments on these advances. As of June 30, 2012, $1.88 billion of the repayable advances remains, as detailed in NOTE 14.

Transfer of the State's Spirituous Liquor Distribution and Merchandising Operations
On February 1, 2013, the State transferred its spirituous liquor distribution and merchandising operations for a period of 25 years to JobsOhio Beverage System in exchange for a payment of $1.46 billion. A portion of this payment provided for the payment of all debt service on the outstanding Economic Development and Revitalization revenue bonds and notes. Pursuant to the transaction agreement, the State will forgo deposits to the GRF from the net liquor profits and may not issue additional obligations secured by a pledge of profits from the sale of spirituous liquor during the 25-year term. Litigation related to JobsOhio and the General Assembly's February 2011 law that authorized its creation has been filed and is currently pending. More detailed information on this transfer can be found in NOTE 21 of the financial statements.

Contacting the Ohio Office of Budget and Management
This financial report is designed to provide the State's citizens, taxpayers, customers, investors and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Questions regarding any of the information provided in this report or requests for additional financial information should be addressed to the Ohio Office of Budget and Management, Financial Reporting Section, 30 East Broad Street, 34th Floor, Columbus, Ohio 43215-3457 or by e-mail at obm@obm.state.oh.us.

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BASIC FINANCIAL STATEMENTS

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

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

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

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

STATE OF OHIO

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

(dollars in thousands)

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

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

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

STATE OF OHIO

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

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

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

NONMAJOR GOVERNMENTAL FUNDS	TOTAL
$ 2,958,437	$ 6,930,670
29,843	124,112
67,801	1,119,439
416,926	978,638
93,631	1,595,721
681,278	1,471,936
93,823	1,158,587
1,114	927,570
—	3,767,380
77,887	912,879
74,532	105,839
14,342	33,286
$ 4,509,614	**$ 19,126,057**
$ 290,899	$ 601,021
47,063	140,572
203,004	1,089,155
416,926	978,638
291,212	1,285,622
182,831	1,635,184
5,834	23,248
143,498	801,681
141,574	495,889
700	750,637
—	7,944
1,723,541	7,809,591
84,221	173,673
2,218,816	8,506,365
483,036	1,386,456
—	1,666,177
—	(416,205)
2,786,073	11,316,466
$ 4,509,614	**$ 19,126,057**

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

Total Fund Balances for Governmental Funds	***$ 11,316,466***
Total net assets reported for governmental activities in the Statement of Net Assets is different because:	
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds. Those assets consist of:	
Land	*2,154,598*
Buildings and Improvements, net of $1,916,634 accumulated depreciation	*1,686,151*
Land Improvements, net of $263,592 accumulated depreciation	*185,119*
Machinery and Equipment, net of $645,557 accumulated depreciation	*247,555*
Vehicles, net of $183,537 accumulated depreciation	*139,444*
Infrastructure, net of $19,040 accumulated depreciation	*19,829,190*
Construction-in-Progress	*1,369,486*
	25,611,543
Some of the State's revenues are collected after year-end but are not available soon enough to pay for the current period's (within 60 days of year-end) expenditures, and therefore, are deferred in the funds.	
Taxes Receivable	*127,692*
Intergovernmental Receivable	*267,141*
Other Receivables	*402,193*
Other Assets	*4,655*
	801,681
Unearned capitalized interest revenues are not financial resources, and therefore, are not reported in the funds.	*(1,938)*
Unamortized bond issue costs are not financial resources, and therefore, are not reported in the funds.	*75,715*
Deferred outflows of resources are not financial resources, and therefore, are not reported in the funds.	*59,117*
The following liabilities are not due and payable in the current period, and therefore, are not reported in the funds.	
Accrued Liabilities:	
Interest Payable	*(165,184)*
Refunds and Other Liabilities	*(106)*
Bonds and Notes Payable:	
General Obligation Bonds	*(8,888,085)*
Revenue Bonds and Notes	*(7,129,786)*
Special Obligation Bonds	*(2,090,889)*
Certificates of Participation	*(156,664)*
Other Noncurrent Liabilities:	
Compensated Absences	*(440,410)*
Net Pension Obligation	*(8,389)*
Net OPEB Obligation	*(83,911)*
Capital Leases Payable	*(4,199)*
Derivatives	*(81,818)*
Estimated Claims Payable	*(3,030)*
Pollution Remediation, net of liabilities reported as accounts payable in the funds and recoveries reported above as other receivables	*(3,129)*
Liability for Escheat Property	*(208,977)*
	(19,264,577)
Total Net Assets of Governmental Activities	***$ 18,598,007***

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

STATE OF OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(dollars in thousands)

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

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

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

STATE OF OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2012

(dollars in thousands)

Net Change in Fund Balances -- Total Governmental Funds		*578,302*
Change in Inventories		*14,982*
		593,284
The change in net assets reported for governmental activities in the Statement of Activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital Outlay Expenditures	*347,099*	
Depreciation Expense	*(295,234)*	
Excess of Capital Outlay Over Depreciation Expense		*51,865*
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. In the current period, proceeds were received from:		
General Obligation Bonds	*(1,130,910)*	
Revenue Bonds and Notes	*(194,030)*	
Special Obligation Bonds	*(32,700)*	
Refunding Bonds, including Bond Premium/Discount, Net	*(1,612,962)*	
Premiums and Discounts, Net:		
General Obligation Bonds	*(138,370)*	
Special Obligation Bonds	*(2,835)*	
Deferred Refunding Loss	*63,498*	
Capitalized Interest	*(1,938)*	
Capital Leases	*(560)*	
Total Debt Proceeds		*(3,050,807)*
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current year, these amounts consist of:		
Debt Principal Retirement and Defeasements:		
General Obligation Bonds	*1,520,311*	
Revenue Bonds and Notes	*263,155*	
Special Obligation Bonds	*440,690*	
Certificates of Participation	*22,180*	
Capital Lease Payments	*2,891*	
Total Long-Term Debt Repayment		*2,249,227*
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the governmental funds. Deferred revenues decreased by this amount this year.		*(27,680)*

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

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

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

STATE OF OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND AND MAJOR SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(dollars in thousands)

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

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

JOB, FAMILY AND OTHER HUMAN SERVICES			
BUDGET			VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
ORIGINAL	FINAL	ACTUAL	
		$ —	
		—	
		—	
		—	
		—	
		1,824	
		1,093,781	
		25	
		4,554,038	
		—	
		4,724	
		776,159	
		6,430,551	
$ 229	$ 229	209	$ 20
3,500	3,500	3,335	165
8,412,470	8,482,219	6,988,091	1,494,128
435,303	464,646	405,095	59,551
85,676	86,954	72,023	14,931
—	—	—	—
—	—	—	—
3,534	3,534	2,828	706
180	230	230	—
6,861	6,861	718	6,143
—	—	—	—
$ 8,947,753	**$ 9,048,173**	**7,472,529**	**$ 1,575,644**
		(1,041,978)	
		15,732	
		23,302	
		(7,967)	
		31,067	
		(1,010,911)	
		(1,118,055)	
		1,454,817	
		$ (674,149)	

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

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

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

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

STATE OF OHIO

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

(dollars in thousands)

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

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

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

STATE OF OHIO

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

(dollars in thousands)

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

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

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

(continued)

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

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

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 204,953	$ 1,353,295
(6,896)	(6,896)
1,405	32,628
—	47,540
(3)	(369)
—	2,326
—	(1,137,150)
(664)	(583)
—	(2,288)
602	8,625
(10,714)	(123,265)
(4,388)	(4,388)
172	(1,127)
17,404	19,213
(1,938)	(1,938)
—	(295,664)
—	(67,894)
(471)	(667)
(147)	(923)
(39,599)	(219,461)
(527)	(51,912)
$ 159,189	**$ (450,898)**
$ —	$ 1,380,312

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

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

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

AGENCY
$ 336,309
96,038
15,204,046
46,008,054
12,537,449
38,173,652
4,919,104
309,687
8,517,609
15,166,436
12,429,471
5,667,515
3,737,695
64,219
46,999
—
—
1,288
437,151
—
163,652,722
—
—
46,999
—
153,268
163,452,455
163,652,722
—
—
—
—
$ —

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

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

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

STATE OF OHIO

COMBINING STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 2012
(dollars in thousands)

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

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

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

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

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

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

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

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

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

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

1. Blended Component Units

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

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

2. Discretely Presented Component Units

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- The *Invested in Capital Assets, Net of Related Debt* component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The portion of debt attributable to significant unspent related debt proceeds at year-end is not included in the calculation of this net assets component.

- The *Restricted Net Assets* component represents net assets with constraints placed on their use that are either 1.) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2.) imposed by law through constitutional provisions or enabling legislation. For component units with permanent endowments, restricted net assets are displayed in two additional components — nonexpendable and expendable. Nonexpendable net assets are those that are required to be retained in perpetuity.

- The *Unrestricted Net Assets* component consists of net assets that do not meet the definition of the preceding two components.

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

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The State reports the following major governmental funds:

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

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

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

The State reports the following major proprietary funds:

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

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

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

The State reports the following fiduciary fund types:

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

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

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

K. Capital Assets

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

The State has established the following capitalization thresholds:

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Interfund Balances and Activities

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

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

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

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

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

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

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

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

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

R. Intra-Entity Balances and Activities

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

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

S. Derivatives Instruments

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

NOTE 2 RESTATEMENTS AND CHANGES IN ACCOUNTING PRINCIPLES AND STANDARDS

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

Government-Wide Financial Statements:

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

B. Implementation of Recently Issued Accounting Pronouncements
For the fiscal year ended June 30, 2012, the State implemented the provisions of

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

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

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

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

C. Recently Issued GASB Pronouncements

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

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

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

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

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

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

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

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

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

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

NOTE 3 GAAP versus NON-GAAP BUDGETARY BASIS

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

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

Original budget amounts in the accompanying budgetary statements have been taken from the first complete appropriated budget for fiscal year 2012. An appropriated budget is the expenditure authority created by appropriation bills that are signed into law and related estimated revenues. The original budget also includes actual appropriation amounts automatically carried over from prior years by law, including the automatic rolling forward of appropriations to cover prior-year encumbrances.

Final Budget amounts represent original appropriations modified by authorized transfers, supplemental and amended appropriations, and other legally authorized legislative and executive changes applicable to fiscal year 2012, whenever signed into law or otherwise legally authorized.

For fiscal year 2012, no excess expenditures over appropriations were reported in individual funds.

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

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

Primary Government
Reconciliation of GAAP Basis Fund Balances to Non-GAAP Budgetary Basis Fund Balances
For the General Fund and Major Special Revenue Fund
As of June 30, 2012
(dollars in thousands)

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

NOTE 4 DEPOSITS AND INVESTMENTS

A. Legal Requirements

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

B. State-Sponsored Investment Pool

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

C. Deposit and Investment Risks

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

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

1. Custodial Credit Risk

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

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

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

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

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

			Uninsured Portion of Reported Bank Balance		
	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
Primary Government	$ 1,093,696	$ 1,090,139	$ 20,423	$ 150,962	$ 19,464
Major Discretely Presented Component Units:					
Ohio Water Development Authority (12/31/11)	33,336	33,319	-	32,823	-
Ohio State University	1,315,321	1,308,345	200,005	1,061,484	-
University of Cincinnati	(1,447)	6,514	-	-	-

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

Major Discretely Presented Component Units
Investment Custodial Credit Risk
As of June 30, 2012
(dollars in thousands)

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

2. Credit Risk

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

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

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

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

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

For the Ohio Police and Fire Pension Fund,

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

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

University of Cincinnati Component Unit Fund

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

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

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

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

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

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Major Discretely Presented Component Units
Investment Credit Ratings
As of June 30, 2012
(dollars in thousands)

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

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

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

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

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

3. Concentration of Credit Risk

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

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

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

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

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

Variable College Saving Plan Private-Purpose Trust Fund
No single issuer shall comprise more than five percent of the total portfolio with the exception of investments in U.S. government securities.

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

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

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

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

4. Interest Rate Risk

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

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

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

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

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

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

5. Foreign Currency Risk

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

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

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

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Retirement Systems Agency Fund

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

D. Investment Derivatives

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

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

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

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

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

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

E. Securities Lending Transactions

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

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

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

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

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

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

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

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

NOTE 5 RECEIVABLES

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

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

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

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

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

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

NOTE 5 RECEIVABLES (Continued)

C. Loans Receivable

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

Primary Government - Loans Receivable

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

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

D. Other Receivables

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

Primary Government - Other Receivables

Types of Receivables	Governmental Activities				
	Major Governmental Funds				
	General	Job, Family & Other Human Services	Buckeye Tobacco Settlement Financing Authority Revenue Bonds	Nonmajor Govern-mental Funds	Total
Manufacturers' Rebates	$ 122,111	$ 218,587	$ -	$ 2,149	$ 342,847
Tobacco Settlement	-	-	321,616	72,720	394,336
Health Facility Bed Assessments	-	103,662	-	-	103,662
Interest	2,811	-	38	156	3,005
Accounts	50,990	12,711	-	1,620	65,321
Environmental Legal Settlements	-	-	-	1,242	1,242
Miscellaneous	2,466	-	-	-	2,466
Other Receivables, Net	178,378	334,960	321,654	77,887	912,879
Current-Due Within One Year	178,378	334,960	38	5,167	518,543
Noncurrent-Due in More Than One Year	-	-	321,616	72,720	394,336
Other Receivables, Net	$ 178,378	$ 334,960	$ 321,654	$ 77,887	$ 912,879

Types of Receivables	Business-Type Activities				
	Major Proprietary Funds				
	Workers' Compensation	Lottery Commission	Unemployment Compensation	Nonmajor Proprietary Funds	Total
Accounts	$ 131,480	$ -	$ 141,572	$ 12,855	$ 285,907
Interest and Dividends (including restricted portion)	151,512	2,158	-	1,702	155,372
Lottery Sales Agents	-	51,360	-	-	51,360
Other Receivables, Gross	282,992	53,518	141,572	14,557	492,639
Estimated Uncollectible	(1,092)	(209)	(63,951)	-	(65,252)
Other Receivables, Net-Due Within One Year	$ 281,900	$ 53,309	$ 77,621	$ 14,557	$ 427,387
Total Primary Government					$ 1,340,266

NOTE 5 RECEIVABLES (Continued)

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

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

NOTE 6 PAYABLES

A. Accrued Liabilities

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

Primary Government - Accrued Liabilities

	Wages and Employee Benefits	Accrued Interest	Total Accrued Liabilities
Governmental Activities:			
Major Governmental Funds:			
General	$ 80,237	$ -	$ 80,237
Job, Family and Other Human Services	13,272	-	13,272
Nonmajor Governmental Funds	47,063	-	47,063
	140,572	-	140,572
Reconciliation of fund level statements to government-wide statements due to basis differences	-	165,184	165,184
Total Governmental Activities	140,572	165,184	305,756
Business-Type Activities:			
Nonmajor Proprietary Funds	3,189	-	3,189
Total Primary Government	$ 143,761	$ 165,184	$ 308,945

	Wages and Employee Benefits	Health Benefit Claims	Management and Administrative Expenses	Total Accrued Liabilities
Fiduciary Activities:				
State Highway Patrol Retirement System Pension Trust (12/31/2011)	$ 21,040	$ 484	$ -	$ 21,524
Variable College Savings Plan Private-Purpose Trust	-	-	2,371	2,371
Total Fiduciary Activities	$ 21,040	$ 484	$ 2,371	$ 23,895

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

NOTE 6 PAYABLES (Continued)

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

Primary Government - Intergovernmental Payable

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

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

NOTE 6 PAYABLES (Continued)

C. Refund and Other Liabilities

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

Primary Government - Refund and Other Liabilities

	Personal Income Tax Estimated Refund Claims	Other	Total
Governmental Activities:			
Major Governmental Funds:			
General	$ 732,163	$ 13,800	$ 745,963
Job, Family and Other Human Services	-	3,974	3,974
Nonmajor Governmental Funds	-	700	700
	732,163	18,474	750,637
Reconciliation of balances included in the "Refund and Other Liabilities" and "Other Noncurrent Liabilities" balances in the government-wide financial statements	-	106	106
Total Governmental Activities	$ 732,163	$ 18,580	$ 750,743

	Reserve for Compensation Adjustment	Refund and Security Deposits	Compensated Absences	Capital Leases	Other	Total
Business-Type Activities:						
Major Proprietary Funds:						
Workers' Compensation	$ 1,889,602	$ 86,285	$ 26,455	$ -	$ 34,934	$ 2,037,276
Lottery Commission	-	42,871	3,602	45,289	1,541	93,303
Unemployment Compensation	-	8,719	-	-	-	8,719
Nonmajor Proprietary Funds	-	3,474	10,718	-	415	14,607
	1,889,602	141,349	40,775	45,289	36,890	2,153,905
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-wide financial statements	(1,889,602)	(86,285)	(40,775)	(45,289)	(10,274)	(2,072,225)
Total Business-Type Activities	$ -	$ 55,064	$ -	$ -	$ 26,616	$ 81,680
Total Primary Government						$ 832,423

	Child Support Collections	Refund and Security Deposits	Payroll Withholdings	Retirement Systems' Assets	Other	Total
Fiduciary Activities:						
State Highway Patrol Retirement System Pension Trust (12/31/2011)	$ -	$ -	$ -	$ -	$ 54	$ 54
Variable College Savings Plan Private-Purpose Trust	-	-	-	-	3,677	3,677
STAR Ohio Investment Trust	-	-	-	-	191	191
Agency Funds:						
Holding and Distribution	-	11,694	-	-	-	11,694
Centralized Child Support Collections	60,844	-	-	-	-	60,844
Retirement Systems	-	-	-	162,635,211	-	162,635,211
Payroll Withholding and Fringe Benefits	-	-	175,134	-	-	175,134
Other	-	412,579	-	16,319	140,674	569,572
Total Fiduciary Activities	$ 60,844	$ 424,273	$ 175,134	$ 162,651,530	$ 144,596	$ 163,456,377

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

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

A. Interfund Balances

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

	Due To			
	Governmental Activities			
Due from	General	Buckeye Tobacco Settlement Financing Authority Revenue Bonds	Nonmajor Governmental Funds	Total
Major Governmental Funds:				
General	$ 64,106	$ 858,906	$ 1,114	$ 924,126
Total Governmental Activities	64,106	858,906	1,114	924,126
Business-Type Activities:				
Nonmajor Proprietary Funds	3,444	-	-	3,444
Total Business-Type Activities	3,444	-	-	3,444
Total Primary Government	$ 67,550	$ 858,906	$ 1,114	$ 927,570

	Business-Type Activities				
	Major Proprietary Fund				
Due from	Workers' Compensation	Lottery Commission	Nonmajor Proprietary Funds	Total	Total Primary Government
Major Governmental Funds:					
General	$ 502,810	$ -	$ 10,074	$ 512,884	$ 1,437,010
Job, Family and Other Human Services	15,343	-	-	15,343	15,343
Nonmajor Governmental Funds	181,313	1,518	-	182,831	182,831
Total Governmental Activities	699,466	1,518	10,074	711,058	1,635,184
Business-Type Activities:					
Major Proprietary Funds:					
Lottery Commission	2,695	-	-	2,695	2,695
Nonmajor Proprietary Funds	10,258	-	-	10,258	13,702
Total Business-Type Activities	12,953	-	-	12,953	16,397
Total Primary Government	$ 712,419	$ 1,518	$ 10,074	$ 724,011	$ 1,651,581

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

The State's primary government is permitted to pay its workers' compensation liability on a terminal-funding (pay-as-you-go) basis. As a result, the Workers' Compensation Enterprise Fund recognized $712.4 million as an interfund receivable for the unbilled premium due for the primary government's share of the Bureau's actuarially determined liability for compensation. In the Statement of Net Assets, the State includes the liability in the internal balance reported for governmental activities.

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

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

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

	Business-Type Activities			
	Major Proprietary Funds			
Transferred from	Workers' Compensation	Nonmajor Proprietary Funds	Total	Total Primary Government
Major Governmental Funds:				
General	$ 95	$ 26,430	$ 26,525	$ 1,472,254
Job, Family and Other Human Services	-	-	-	969
Buckeye Tobacco Settlement Financing Authority Revenue Bonds	-	-	-	13,855
Nonmajor Governmental Funds	-	-	-	366,040
Total Governmental Activities	95	26,430	26,525	1,853,118
Major Proprietary Funds:				
Workers' Compensation	-	-	-	11,405
Lottery Commission	-	-	-	771,364
Unemployment Compensation	-	-	-	4,622
Nonmajor Proprietary Funds	-	-	-	189,086
Total Business-Type Activities	-	-	-	976,477
Total Primary Government	$ 95	$ 26,430	$ 26,525	$ 2,829,595

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

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

C. Component Units

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

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

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

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

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

Primary Government
(dollars in thousands)

			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	Total State Assistance to the Component Units
Major Governmental Funds:					
General	$ 1,054	$ 16,528	$ 687,295	$1,636,727	$ 2,324,022
Job, Family and Other Human Services	-	886	-	-	-
Buckeye Tobacco Settlement Financing Authority Revenue Bonds	3,766,326	-	-	-	-
Nonmajor Governmental Funds	-	5,834	-	102,405	102,405
Total Governmental Activities	3,767,380	23,248	687,295	1,739,132	2,426,427
Total Primary Government	$ 3,767,380	$ 23,248	$ 687,295	$1,739,132	$ 2,426,427

Component Units
(dollars in thousands)

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

NOTE 8 CAPITAL ASSETS

A. Primary Government

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

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

NOTE 8 CAPITAL ASSETS (Continued)

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

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

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

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

NOTE 8 CAPITAL ASSETS (Continued)

B. Major Discretely Presented Component Units

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

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

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

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

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

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

A. Ohio Public Employees Retirement System (OPERS)

Pension Benefits

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

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

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

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

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

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

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

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

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

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

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

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

	2012	2011	2010
Primary Government:			
Regular Employees	$ 266,051	$ 267,671	$ 241,734
Law Enforcement Employees............................	4,277	4,235	3,889
Total	$ 270,328	$ 271,906	$ 245,623
Major Component Units:			
School Facilities Commission	$ 429	$ 378	$ 345
Ohio Water Development Authority........	113	101	155
Ohio State University..............	104,451	97,145	85,332
University of Cincinnati...........	14,580	14,767	13,814

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

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

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

Other Postemployment Benefits (OPEB)

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

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

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

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

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

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

	Employer Share	
	Defined Benefit Plan	Combined Plan
July 1, 2011 through June 30, 2012	4.00%	6.05%

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

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

	2012	2011	2010
Primary Government:			
Regular Employees	$ 108,138	$ 128,257	$ 148,549
Law Enforcement Employees	1,213	1,426	1,694
Total	$ 109,351	$ 129,683	$ 150,243
Major Component Units:			
School Facilities Commission	$ 176	$ 178	$ 212
Ohio Water Development Authority	46	58	65
Ohio State University	42,800	45,894	52,407
University of Cincinnati	5,940	6,977	8,486

Members of the defined contribution plan may access a Retiree Medical Account upon retirement. During fiscal year 2012, employers paid 4.5 percent of their share into members' accounts. An employee's interest in the medical account for qualifying healthcare expenses vests on the basis of length of service, with 100 percent vesting attained after five years of credited service. Employers make no further contributions to a member's medical account after retirement, nor do employers have any further obligation to provide postemployment healthcare benefits.

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

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

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

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

Early Retirement Incentives (ERI)

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

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

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

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

B. State Teachers Retirement System of Ohio (STRS)

Pension Benefits

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

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

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

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

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

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

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

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

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

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

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

Contribution rates for fiscal year 2012 were 14 percent for employers and ten percent for employees for the defined benefit, defined contribution, and combined plans. For the defined benefit and combined plans, 13 percent of the employer rate is used to fund pension obligations. For the defined contribution plan, 10.5 percent of the employer's share is deposited into individual employee accounts, while 3.5 percent is paid to the defined benefit plan.

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

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

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

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

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

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Other Postemployment Benefits (OPEB)

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

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

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

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

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

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

C. State Highway Patrol Retirement System (SHPRS)

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

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

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

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

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

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

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

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

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

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

During calendar year 2011, all of the employees' contributions funded pension benefits while 24.75 percent of the employer's contributions funded pension benefits. The difference in the total employer rates charged and the employer rates applicable to the funding of pension benefits is applied to the funding of postemployment healthcare benefits.

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

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

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

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

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

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

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

(A) Valuation Year	(B) Actuarial Accrued Liability (AAL)	(C) Valuation Assets	(D) Unfunded Actuarial Accrued Liability (UAAL) (B)-(C)	(E) Ratio of Assets to AAL (C)/(B)	(F) Active Member Payroll	(G) UAAL as Percentage of Active Member Payroll (D)/(F)
2011	$ 1,047,700	$ 623,360	$ 424,340	59.5%	$ 93,126	455.7%
2010	1,017,770	630,971	386,799	62.0%	94,768	408.2%
2009	940,084	620,357	319,727	66.0%	94,825	337.2%

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

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

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

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

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

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

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

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

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

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

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

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

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

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

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

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

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

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

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

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

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

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

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

NOTE 10 GENERAL OBLIGATION BONDS

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

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

Through the approval of the November 1995 amendment, voters authorized the issuance of Highway Capital Improvements Bonds in amounts up to $220 million in any fiscal year (plus any prior fiscal years' principal amounts not issued under the new authorization), with no more than $1.2 billion outstanding at any time. As of June 30, 2012, the General Assembly has authorized the issuance of approximately $2.77 billion in Highway Capital Improvements Bonds, of which $2.29 billion has been issued.

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

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

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

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

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

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

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

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

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

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

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

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

Future Funding of Current Interest and Capital Appreciation Bonds:

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

Future Funding of Variable-Rate Bonds:

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

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

Hedging Derivatives

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

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

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

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

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

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

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

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

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

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

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

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

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

Advance Refundings

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

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

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

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

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

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

NOTE 11 REVENUE BONDS AND NOTES

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

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

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

A. Primary Government

Economic Development Bonds and Notes, issued by the Treasurer of State for the Office of Financial Incentive's Direct Loan Program, provide financing for loans and loan guarantees to businesses within the State for economic development projects that create or retain jobs in the State. The taxable bonds and notes, payable through 2030, are backed with profits derived from the sale of spirituous liquor by the Division of Liquor Control and pledged moneys and related investment earnings held in reserve under a trust agreement with a financial institution.

Revitalization Project Bonds and Notes provide financing to enable the remediation or cleanup of contaminated publicly or privately owned lands to allow for their environmentally safe and productive development. The bonds and notes, payable through 2026, are also backed with profits derived from the sale of spirituous liquor by the Division of Liquor Control.

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

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

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

NOTE 11 REVENUE BONDS AND NOTES (Continued)

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

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

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

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

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

NOTE 11 REVENUE BONDS AND NOTES (Continued)

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

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

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

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

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

NOTE 11 REVENUE BONDS AND NOTES (Continued)

B. Major Discretely Presented Component Units

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

A portion of OWDA's outstanding bonds has been issued for the Water Pollution Control Loan Program, which provides low-cost financing to LGAs for the construction of wastewater treatment facilities. In the event pledged program revenues, which consist of interest payments from the LGAs and reimbursement for construction costs, are not sufficient to meet debt service requirements for the bonds, the General Assembly may appropriate moneys for the full replenishment of a bond reserve. As of December 31, 2011, approximately $1.85 billion in bonds were outstanding for this program.

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

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

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

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

NOTE 11 REVENUE BONDS AND NOTES (Continued)

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

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

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

NOTE 11 REVENUE BONDS AND NOTES (Continued)

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

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

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

NOTE 12 SPECIAL OBLIGATION BONDS

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

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

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

Special obligation bonds outstanding and bonds authorized but unissued, as of June 30, 2012, are presented in the following table.

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

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

NOTE 12 SPECIAL OBLIGATION BONDS (Continued)

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

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

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

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

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

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

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

In prior years, OBA and the Treasurer of State defeased certain bond issues by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the various trust accounts' assets and liabilities for the defeased bonds are not included in the State's financial statements. As of June 30, 2012, $182.7 million of lease rental special obligations bonds are considered defeased and no longer outstanding.

NOTE 13 CERTIFICATES OF PARTICIPATION

A. Primary Government

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

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

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

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

Obligations outstanding for the primary government under COP financing arrangements, as of June 30, 2012, are presented in the following table.

Primary Government — Governmental Activities
Summary of Certificate of Participation Obligations
As of June 30, 2012
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Department of Administrative Services:				
Ohio Administrative Knowledge System (OAKS)	2005-09	2.5%-5.3%	2019	$ 126,590
State Taxation Accounting and Revenue System (STARS)...	2008	3.7%-5.0%	2019	30,074
Total Certificates of Participation				$ 156,664

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

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

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

NOTE 13 CERTIFICATES OF PARTICIPATION (Continued)

B. Major Discretely Presented Component Units
Approximately $3.3 million in COP obligations are reported in the major discretely presented component unit funds. The obligations finance building construction costs at the Ohio State University.

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

Major Discretely Presented Component Units
Future Funding Requirements for Certificate of Participation Obligations
As of June 30, 2012
(dollars in thousands)

	Ohio State University		
Year Ending June 30,	Principal	Interest	Total
2013	$ 490	$ 156	$ 646
2014	515	131	646
2015	540	104	644
2016	570	76	646
2017	595	47	642
2018-2022	625	16	641
Total	$ 3,335	$ 530	$ 3,865

NOTE 14 OTHER NONCURRENT LIABILITIES

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

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

For the year ended June 30, 2012, NOTE 15 summarizes the changes in other noncurrent liabilities. Explanations of certain significant noncurrent liability balances reported in the financial statements follow.

A. Compensated Absences
For the primary government, the compensated absences liability, as of June 30, 2012, was $481.2 million, of which $440.4 million is allocable to governmental activities and $40.8 million is allocable to business-type activities.

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

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

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

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

Operating leases (leases on assets not recorded in the Statement of Net Assets) contain various renewable options as well as some purchase options. Any escalation clauses, sublease rentals, and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures or expenses of the related funds when paid or incurred. The primary government's total operating lease expenditures/expenses for fiscal year 2012 were approximately $78.9 million. Fiscal year 2013 future minimum lease commitments for operating leases judged to be noncancelable, as of June 30, 2012, were $3.7 million.

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

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

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

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

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

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

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

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

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

D. Derivatives

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

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

E. Litigation Liabilities

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

F. Pollution Remediation Liabilities

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

G. Estimated Claims Payable

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

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

H. Liability for Escheat Property

The State records a liability for escheat property to the extent that it is probable that the escheat property will be reclaimed and paid to claimants. As of June 30, 2012, the liability totaled approximately $216.9 million.

I. Worker's Compensation

Benefits Payable

As discussed in NOTE 20, the Worker's Compensation Enterprise Fund provides benefits to employees for losses sustained from job-related injury, disease, or death. The Bureau has computed a reserve for compensation, as of June 30, 2012, in the amount of approximately $17.82 billion. The reserve, which includes estimates for reported claims and claims incurred but not reported, is included in the "Benefits Payable" balance reported for the enterprise fund.

J. Unemployment Compensation

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

K. Deferred Prize Awards Payable

Future installment payments for the deferred prize awards payable are reported at present value based upon interest rates that the Treasurer of State provides to the Lottery Commission Enterprise Fund. The interest rates, ranging from 2.3 to 9 percent, represent the expected long-term rate of return on the assets restricted for the payment of deferred prize awards. Once established for a particular deferred prize award, the interest rate does not fluctuate with changes in the expected long-term rate of return. The difference between the present value and gross amount of the obligations is amortized into income over the terms of the obligations using the interest method. The State reduces prize liabilities by an estimate of the amount of the prize that will ultimately be unclaimed. As of June 30, 2012, this payable totals $606.2 million.

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

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

L. Tuition Benefits Payable

The actuarial present value of future tuition benefits payable from the Tuition Trust Authority Enterprise Fund was approximately $553 million, as of June 30, 2012. The valuation method reflects the present value of estimated tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition increases in state universities and state community colleges and termination of participant contracts under the plan.

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

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

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

M. Other Liabilities

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

NOTE 15 CHANGES IN NONCURRENT LIABILITIES

A. Primary Government

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

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

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

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

NOTE 15 CHANGES IN NONCURRENT LIABILITIES (Continued)

For fiscal year 2012, the State's primary government included interest expense on its debt issues in the following governmental functions rather than reporting it separately as interest expense. The related borrowings are essential to the creation or continuing existence of the programs they finance. The various state subsidy programs supported by the borrowings provide direct state assistance to local governments for their respective capital and construction or research projects. None of the financing provided under these programs benefits the general operations of the primary government, and accordingly, such expense is not reported separately on the Statement of Activities under the expense category for interest on long-term debt.

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

B. Major Discretely Presented Component Units

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

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

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

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

NOTE 16 NO COMMITMENT DEBT

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

The authorities' debt instruments represent a limited obligation payable solely from payments made by the borrowing entities. Most of the bonds are secured by the property financed. Upon repayment of the bonds, ownership of acquired property transfers to the entity served by the bond issuance. This debt is not deemed to constitute debt of the State or a pledge of the faith and credit of the State. Accordingly, these bonds are not reflected in the accompanying financial statements.

As of June 30, 2012 (December 31, 2011 for discretely presented component units), revenue bonds and notes outstanding that represent "no commitment" debt for the State were as follows (dollars in thousands):

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

NOTE 17 FUND DEFICITS AND FUND BALANCE REPORTING

A. Fund Deficits

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

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

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

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

NOTE 17 FUND DEFICITS AND FUND BALANCE REPORTING (Continued)

B. Fund Balance Reporting-Constraints by Purpose

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

Primary Government
Fund Balance Constraints by Purpose
(dollars in thousands)

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

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

NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS

A. Joint Ventures

Great Lakes Protection Fund (GLPF)

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

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

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

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

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

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

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

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

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

NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

Local Community and Technical Colleges

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

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

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

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

	Operating Subsidies	Capital Subsidies	Total
Local Community Colleges:			
Cuyahoga	$ 56,217	$ 4,402	$ 60,619
Eastern	4,736	27	4,763
Lakeland	17,682	547	18,229
Lorain County	24,032	2,144	26,176
Rio Grande	4,908	371	5,279
Sinclair	47,137	628	47,765
Total Local Community Colleges	154,712	8,119	162,831
Technical Colleges:			
Belmont	5,451	71	5,522
Central Ohio	10,268	162	10,430
Hocking	14,064	216	14,280
James A. Rhodes	9,664	1,070	10,734
Marion	5,657	84	5,741
Zane	6,038	98	6,136
North Central	7,122	599	7,721
Stark	24,728	425	25,153
Total Technical Colleges	82,992	2,725	85,717
Total	$ 237,704	$ 10,844	$ 248,548

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

B. Related Organizations

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

NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

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

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

NOTE 19 CONTINGENCIES AND COMMITMENTS

A. Litigation

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

Department of Commerce (COM)

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

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

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

NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

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

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

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

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

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

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

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

NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

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

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

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

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

As a result of the fiscal year 2011 State of Ohio Single Audit (issued in March 2012), $8.3 million of federal expenditures were in question as not being appropriate under the terms of the respective grants. No provision for any liability or adjustments has been recognized for the questioned costs in the state's financial statements for the fiscal year ended June 30, 2012.

NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

C. Construction Commitments

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

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

Primary Government		
Mental Health/Developmental Disabilities		
Facilities Improvements	$	32,421
Parks and Recreation Improvements		8,655
Administrative Services		
Building Improvements		9,580
Youth Services Building Improvements		9,566
Adult Correctional Building Improvements		18,308
Highway Safety Building Improvements		25
Ohio Parks and Natural Resources		4,948
Total	$	83,503

Major Discretely Presented Component Units		
Ohio State University	$	705,909
University of Cincinnati		229,759

D. Tobacco Settlement

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

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

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

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

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

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

NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

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

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

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

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

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

Year Ending June 30,	Pre-adjusted MSA Base Payments	Pre-Adjusted Payments from the Strategic Contribution Fund	Total
2013	$ 363,783	$ 23,966	$ 387,749
2014	367,789	24,230	392,019
2015	371,684	24,486	396,170
2016	376,306	24,791	401,097
2017	380,940	25,096	406,036
2018-2022	2,207,289	—	2,207,289
2023-2027	2,346,281	—	2,346,281
2028-2032	2,505,977	—	2,505,977
2033-2037	2,674,512	—	2,674,512
2038-2042	2,848,790	—	2,848,790
2043-2047	3,030,814	—	3,030,814
2048-2052	3,228,246	—	3,228,246
Total	$ 20,702,411	$ 122,569	$ 20,824,980

NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

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

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

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

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

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

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

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

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

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

NOTE 20 RISK FINANCING

A. Workers’ Compensation Benefits
The Ohio Workers’ Compensation System, which the Ohio Bureau of Workers’ Compensation and the Industrial Commission of Ohio administer, is the exclusive provider of workers’ compensation insurance to private and public employers in Ohio who are not self-insured. The Workers’ Compensation Enterprise Fund provides benefits to employees for losses sustained from job-related injury, disease, or death.

NOTE 20 RISK FINANCING (Continued)

"Benefits Payable" of $17.82 billion is reported in the Workers' Compensation Enterprise Fund (Fund) as of June 30, 2012. This amount represents reserves for indemnity and medical claims resulting from work-related injuries or illnesses, including actuarial estimates for both reported claims and claims incurred but not reported. The liability is based on the estimated ultimate cost of settling claims, including the effects of inflation and other societal and economic factors and projections as to future events, including claims frequency, severity, persistency, and inflationary trends for medical claims reserves. The compensation adjustment expenses liability, which is included in "Other Liabilities" in the amount of approximately $1.89 billion, is an estimate of future expenses to be incurred in the settlement of claims. The estimate for this liability is based on projected claim-related expenses, estimated costs of the managed care Health Partnership Program, nonincremental adjustment expense, and the reserve for compensation.

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

Benefits payable and the compensation adjustment expenses liability have been discounted at four percent to reflect the present value of future benefit payments. The selected discount rate approximates an average yield on United States government securities with durations similar to the expected claims underlying the Fund's reserves. The undiscounted reserves for the benefits and compensation adjustment expenses totaled $32.2 billion, as of June 30, 2012, and $32.5 billion, as of June 30, 2011. For additional information, refer to the Fund's separate audited financial report, for the fiscal year ended June 30, 2012.

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

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

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

B. State Employee Healthcare Plans

Employees of the primary government have the option of participating in the Ohio Med PPO Plan. The plan is managed by two third party administrators (TPAs), Medical Mutual of Ohio (MMO) and United Healthcare (UHC). The two TPAs are responsible for covering separate regions throughout the State.

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

NOTE 20 RISK FINANCING (Continued)

Governmental and proprietary funds pay a share of the costs for claims settlement based on the number of employees opting for plan participation and the type of coverage selected by participants. The payments are reported in the Payroll Withholding and Fringe Benefits Agency Fund until such time that the primary government pays the accumulated resources to MMO or UHC for claims settlement. Prior to July 1, 2011, Aetna had served as a healthcare plan provider to the State; as such, the primary government may also submit payments to Aetna for claims settlements for claims incurred through June 30, 2011.

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

As of June 30, 2012, approximately $40 million in total assets was available in the Payroll Withholding and Fringe Benefits Agency Fund to cover claims for MMO. Changes in the balance of claims liabilities for MMO during the past two fiscal years were as follows (dollars in thousands):

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

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

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

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

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

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

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

NOTE 20 RISK FINANCING (Continued)

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

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

NOTE 21 SUBSEQUENT EVENTS

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

Debt Issuances
Subsequent to June 30, 2012
(dollars in thousands)

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

NOTE 21 SUBSEQUENT EVENTS (Continued)

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

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

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REQUIRED SUPPLEMENTARY INFORMATION

Infrastructure Assets Accounted for Using the Modified Approach

Pavement Network

The Ohio Department of Transportation conducts annual condition assessments of its Pavement Network. The State manages its pavement system by means of annual, visual inspections by trained pavement technicians. Technicians rate the pavement using a scale of 1 (minimum) to 100 (maximum) based on a Pavement Condition Rating (PCR). This rating examines items such as cracking, potholes, deterioration of the pavement, and other factors. It does not include a detailed analysis of the pavement's subsurface conditions.

Ohio accounts for its pavement network in two subsystems: *Priority*, which comprises interstate highways, freeways, and multi-lane portions of the National Highway System, and *General*, which comprises two-lane routes outside of cities.

For the Priority Subsystem, it is the State's intention to maintain at least 75 percent of the pavement at a PCR level of at least 65, and to allow no more than 25 percent of the pavement to fall below a 65 PCR level. For the General Subsystem, it is the State's intention to maintain at least 75 percent of the pavement at a PCR level of at least 55, and to allow no more than 25 percent of the pavement to fall below a 55 PCR level.

Pavement Network
Condition Assessment Data

Priority Subsystem

	Pavement Condition Ratings (PCR)									
	Excellent PCR = 85-100		Good PCR = 75-84		Fair PCR = 65-74		Poor PCR = Below 65		Total	
Calendar Year	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%
2011	9,145	69.76	2,828	21.58	971	7.40	165	1.26	13,109	100.00
2010	9,009	68.99	2,897	22.18	863	6.61	290	2.22	13,059	100.00
2009	8,662	66.98	2,948	22.80	1,066	8.24	256	1.98	12,932	100.00
2008	8,683	67.70	2,699	21.04	1,154	9.00	290	2.26	12,826	100.00
2007	8,457	66.50	2,752	21.63	1,120	8.81	389	3.06	12,718	100.00

General Subsystem

	Pavement Condition Ratings (PCR)									
	Excellent PCR = 85-100		Good PCR = 75-84		Fair PCR = 55-74		Poor PCR = Below 55		Total	
Calendar Year	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%
2011	14,610	48.83	8,415	28.13	5,787	19.34	1,105	3.70	29,917	100.00
2010	15,198	50.78	8,062	26.93	5,497	18.36	1,175	3.93	29,932	100.00
2009	15,064	50.28	7,480	24.97	6,059	20.22	1,356	4.53	29,959	100.00
2008	15,037	50.14	6,793	22.65	6,745	22.49	1,416	4.72	29,991	100.00
2007	14,650	48.73	6,531	21.72	7,319	24.34	1,564	5.21	30,064	100.00

Infrastructure Assets Accounted for Using the Modified Approach (Continued)

Pavement Network
Comparison of Estimated-to-Actual Maintenance and Preservation Costs
(dollars in thousands)

Priority Subsystem

Fiscal Year	Estimated	Actual
2012	$403,829	$438,510
2011	406,058	419,955
2010	357,393	394,017
2009	352,644	407,564
2008	357,396	405,258

General Subsystem

Fiscal Year	Estimated	Actual
2012	$211,210	$357,337
2011	258,410	342,202
2010	209,775	299,450
2009	214,071	347,154
2008	178,252	237,050

Bridge Network

The Ohio Department of Transportation conducts annual inspections of all bridges in the State's Bridge Network. The inspections cover major structural items such as piers and abutments, and assign a General Appraisal Condition Rating (GACR) from 0 (minimum) to nine (maximum) based on a composite measure of these major structural items.

It is the State's intention to maintain at least 85 percent of the square feet of deck area at a general appraisal condition rating level of at least five, and to allow no more than 15 percent of the number of square feet of deck area to fall below a general appraisal condition rating level of five.

Bridge Network
Condition Assessment Data
(square feet in thousands)

	General Appraisal Condition Ratings (GACR)									
	Excellent GACR = 7-9		Good GACR = 5-6		Fair GACR = 3-4		Poor GACR = 0-2		Total	
Calendar Year	Sq Ft Deck Area	%	Sq Ft Deck Area	%	Sq Ft Deck Area	%	Sq Ft Deck Area	%	Sq Ft Deck Area	%
2011	56,082	53.25	45,029	42.76	4,156	3.95	42	0.04	105,309	100.00
2010	52,590	49.74	49,064	46.41	4,024	3.81	43	0.04	105,721	100.00
2009	51,605	48.95	49,745	47.19	3,433	3.26	630	0.60	104,413	100.00
2008	50,383	48.05	50,554	48.22	3,239	3.09	676	0.64	104,852	100.00
2007	50,056	48.09	50,484	48.50	3,493	3.36	51	0.05	104,084	100.00

Infrastructure Assets Accounted for Using the Modified Approach (Continued)

Bridge Network
Comparison of Estimated-to-Actual Maintenance and Preservation Costs
(dollars in thousands)

Fiscal Year	Estimated	Actual
2012	$508,955	$ 511,486
2011	433,593	409,690
2010	330,580	330,262
2009	308,655	360,451
2008	288,329	313,801

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SUPPLEMENTARY SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SUMMARIZED BY FEDERAL AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

FEDERAL AGENCY	
U.S. Department of Health and Human Services	$13,094,546,198
U.S. Department of Agriculture	3,956,223,044
U.S. Department of Labor	3,078,516,049
U.S. Department of Education	1,854,454,119
U.S. Department of Transportation	1,637,215,294
U.S. Environmental Protection Agency	501,717,463
U.S. Department of Housing and Urban Development	130,746,817
U.S. Department of Energy	97,341,231
U.S. Department of Homeland Security	88,920,709
Social Security Administration	86,515,652
U.S. Department of Justice	55,167,656
U.S. Department of Defense	44,792,534
U.S. Department of the Interior	24,869,739
U.S. Department of Veterans Affairs	24,515,724
U.S. Department of Commerce	10,290,985
National Endowment for the Arts	7,724,933
Corporation for National and Community Service	7,441,378
U.S. Small Business Administration	5,619,571
U.S. Equal Employment Opportunity Commission	1,631,080
Election Assistance Commission	1,282,276
U.S. Appalachian Regional Commission	979,501
U.S. Department of Treasury	382,225
General Services Administration	124,892
National Aeronautics and Space Administration	65,707
U.S. Department of State Bureau of Education and Cultural Affairs	60,350
TOTAL EXPENDITURES	**$24,711,145,127**

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STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Agriculture		
SNAP Cluster:		
10.551	Supplemental Nutrition Assistance Program	$ 3,001,488,368
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	112,303,190
10.561	ARRA -- State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	44,015
	Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	112,347,205
	Total SNAP Cluster	*3,113,835,573*
Child Nutrition Cluster:		
10.553	School Breakfast Program	100,239,463
10.555	National School Lunch Program	364,479,777
10.556	Special Milk Program for Children	527,680
10.559	Summer Food Service Program for Children	10,757,873
	Total Child Nutrition Cluster	*476,004,793*
Emergency Food Assistance Cluster:		
10.568	Emergency Food Assistance Program (Administrative Costs)	1,940,409
	Total Emergency Food Assistance Cluster	*1,940,409*
Forest Service Schools and Roads Cluster:		
10.665	Schools and Roads -- Grants to States	335,188
	Total Forest Service Schools and Roads Cluster	*335,188*
10.025	Plant and Animal Disease, Pest Control, and Animal Care	1,832,440
10.069	Conservation Reserve Program	37,644
10.153	Market News	181,465
10.163	Market Protection and Promotion	1,916,836
10.169	Specialty Crop Block Grant Program	1,170
10.170	Specialty Crop Block Grant Program -- Farm Bill	646,692
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	4,684,225
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	238,959,664
10.558	Child and Adult Care Food Program	94,443,713
10.560	State Administrative Expenses for Child Nutrition	4,669,119
10.565	Commodity Supplemental Food Program	1,416,914
10.572	WIC Farmers' Market Nutrition Program (FMNP)	453,711
10.574	Team Nutrition Grants	210,156
10.576	Senior Farmers Market Nutrition Program	1,642,240
10.579	ARRA -- Child Nutrition Discretionary Grants Limited Availability	148,704
10.580	Supplemental Nutrition Assistance Program, Outreach/Participation Program	748,387
10.582	Fresh Fruit and Vegetable Program	3,552,521
10.664	Cooperative Forestry Assistance	3,290,537
10.675	Urban and Community Forest Program	7,091
10.676	Forest Legacy Program	22,941
10.680	Forest Health Protection	1,022,895
10.687	ARRA -- Recovery Act of 2009 -- Capital Improvement and Maintenance	507,197
10.688	ARRA -- Recovery Act of 2009 -- Wildland Fire Management	729,062
10.902	Soil and Water Conservation	67,659
10.904	Watershed Protection and Flood Prevention	6,312
10.912	Environmental Quality Incentives Program	216,240
10.913	Farm and Ranch Lands Protection Program	2,567,559
10.923	Emergency Watershed Protection Program	67,938
10.924	Conservation Stewardship Program	56,049
	Total U.S. Department of Agriculture	**3,956,223,044**
U.S. Department of Commerce		
11.419	Coastal Zone Management Administration Awards	2,241,584

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Commerce (Continued)		
11.420	Coastal Zone Management Estuarine Research Reserves	609,603
11.555	Public Safety Interoperable Communications Grant Program	2,312,586
11.558	ARRA -- State Broadband Data and Development Grant Program	1,239,929
11.611	Manufacturing Extension Partnership	3,887,283
	Total U.S. Department of Commerce	**10,290,985**
U.S. Department of Defense		
12	FUSRAP Oversight: Diamond Magnesium Site and Luckey Beryllium Site	23,537
12.002	Procurement Technical Assistance for Business Firms	512,991
12.005	Donation of Federal Surplus Personal Property	11,147,298
12.112	Payments to States in Lieu of Real Estate Taxes	284,263
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	764,254
12.400	Military Construction, National Guard	503,171
12.401	National Guard Military Operations and Maintenance (O&M) Projects	30,681,423
12.401	ARRA -- National Guard Military Operations and Maintenance (O&M) Projects	875,597
	Total National Guard Military Operations and Maintenance (O&M) Projects	31,557,020
	Total U.S. Department of Defense	**44,792,534**
U.S. Department of Housing and Urban Development		
CDBG -- State Administered CDBG Cluster:		
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	70,336,898
14.255	ARRA -- Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (Recovery Act Funded)	1,948,389
	Total CDBG -- State Administered CDBG Cluster	*72,285,287*
14.231	Emergency Solutions Grant Program	2,843,055
14.235	Supportive Housing Program	290,411
14.239	Home Investment Partnerships Program	30,428,631
14.241	Housing Opportunities for Persons with AIDS	1,296,950
14.256	ARRA -- Neighborhood Stabilization (Recovery Act Funded)	12,932,862
14.257	ARRA -- Homelessness Prevention and Rapid Re--Housing Program (Recovery Act Funded)	9,583,387
14.401	Fair Housing Assistance Program -- State and Local	668,691
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing	417,543
	Total U.S. Department of Housing and Urban Development	**130,746,817**
U.S. Department of the Interior		
Fish and Wildlife Cluster:		
15.605	* Sport Fish Restoration Program	582,067
15.605	Sport Fish Restoration Program	4,877,788
15.611	* Wildlife Restoration and Basic Hunter Education	214,899
15.611	Wildlife Restoration and Basic Hunter Education	4,474,432
	Total Fish and Wildlife Cluster	*10,149,186*
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	2,976,831
15.252	Abandoned Mine Land Reclamation (AMLR) Program	7,892,239
15.255	* Science and Technology Projects Related to Coal Mining and Reclamation	42,525
15.608	Fish and Wildlife Management Assistance	25,915
15.634	* State Wildlife Grants	1,281,098
15.634	State Wildlife Grants	1,360,513
15.662	Great Lakes Restoration	533,865
15.808	* U.S. Geological Survey -- Research and Data Collection	93,821
15.809	National Spatial Data Infrastructure Cooperative Agreements Program	5,949

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of the Interior (Continued)		
15.810	* National Cooperative Geologic Mapping Program	84,209
15.814	* National Geological and Geophysical Data Preservation Program	17,294
15.819	* Energy Cooperatives to Support National Coal Resources Data System (NCRDS)	70,522
15.916	Outdoor Recreation -- Acquisition, Development and Planning	335,772
	Total U.S. Department of the Interior	**24,869,739**
U.S. Department of Justice		
JAG Program Cluster:		
16.738	* Edward Byrne Memorial Justice Assistance Grant Program	211,613
16.738	Edward Byrne Memorial Justice Assistance Grant Program	9,299,279
16.803	* ARRA -- Recovery Act -- Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	95,863
16.803	ARRA -- Recovery Act -- Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	5,286,617
	Total JAG Program Cluster	*14,893,372*
16.017	Sexual Assault Services Formula Program	448,303
16.2011-108	Domestic Cannabis Eradication Program	548,102
16.2012-102	Domestic Cannabis Eradication Program	720
16.203	Promoting Evidence Integration in Sex Offender Management Discretionary Grant Program	55,380
16.321	Anti-terrorism Emergency Reserve	66,664
16.523	Juvenile Accountability Block Grants	2,385,616
16.528	Enhanced Training and Services to End Violence and Abuse of Women Later in Life	97,544
16.540	Juvenile Justice and Delinquency Prevention -- Allocation to States	2,306,585
16.543	Missing Children's Assistance	1,740,909
16.550	* State Justice Statistics Program for Statistical Analysis Centers	57,894
16.554	National Criminal History Improvement Program (NCHIP)	119,057
16.575	Crime Victim Assistance	13,641,299
16.576	Crime Victim Compensation	2,816,039
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	17,270
16.588	Violence Against Women Formula Grants	4,155,551
16.588	ARRA -- Violence Against Women Formula Grants	229,937
	Total Violence Against Women Formula Grants	4,385,488
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	21,882
16.593	Residential Substance Abuse Treatment for State Prisoners	610,356
16.606	State Criminal Alien Assistance Program	332,255
16.607	Bulletproof Vest Partnership Program	40,569
16.609	* Project Safe Neighborhoods	148,235
16.609	Project Safe Neighborhoods	271,616
16.710	Public Safety Partnership and Community Policing Grants	125,680
16.727	Enforcing Underage Drinking Laws Program	323,853
16.735	Protecting Inmates and Safeguarding Communities Discretionary Grant Program	400,059
16.741	DNA Backlog Reduction Program	1,379,740
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	860,914
16.744	Anti-Gang Initiative	156,867
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program	79,491
16.746	Capital Case Litigation	26,406
16.750	Support for Adam Walsh Act Implementation Grant Program	31,832
16.751	Edward Byrne Memorial Competitive Grant Program	925
16.753	Congressionally Recommended Awards	99,999
16.754	Harold Rogers Prescription Drug Monitoring Program	448,688
16.801	ARRA -- Recovery Act -- State Victim Assistance Formula Grant Program	1,713

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FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Justice (Continued)		
16.802	ARRA -- Recovery Act -- State Victim Compensation Formula Grant Program	3,220,262
16.808	ARRA -- Recovery Act -- Edward Byrne Memorial Competitive Grant Program	398,008
16.810	ARRA -- Recovery Act -- Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	729,221
16.812	Second Chance Act Prisoner Reentry Initiative	736,027
16.816	John R. Justice Prosecutors and Defenders Incentive Act	158,308
16.922	Equitable Sharing Program	984,508
	Total U.S. Department of Justice	**55,167,656**
U.S. Department of Labor		
Employment Service Cluster:		
17.207	Employment Service/Wagner-Peyser Funded Activities	32,307,097
17.207	ARRA - Employment Service/Wagner-Peyser Funded Activities	6,447
	Total Employment Service/Wagner-Peyser Funded Activities	32,313,544
17.801	Disabled Veterans' Outreach Program (DVOP)	7,839,743
17.804	Local Veterans' Employment Representative Program	1,653,897
	Total Employment Service Cluster	*41,807,184*
WIA Cluster:		
17.258	WIA Adult Program	43,652,408
17.258	ARRA -- WIA Adult Program	1,347,039
	Total WIA Adult Program	44,999,447
17.259	WIA Youth Activities	31,162,618
17.260	WIA Dislocated Workers	5,473,303
17.260	ARRA -- WIA Dislocated Workers	4,635,691
	Total WIA Dislocated Workers	10,108,994
17.277	Workforce Investment Act (WIA) National Emergency Grants	3,879,393
17.278	WIA Dislocated Worker Formula Grants	34,469,203
	Total WIA Cluster	*124,619,655*
17.002	Labor Force Statistics	2,645,940
17.005	Compensation and Working Conditions	56,599
17.225	Unemployment Insurance	1,811,805,471
17.225	ARRA -- Unemployment Insurance	1,051,942,378
	Total Unemployment Insurance	2,863,747,849
17.235	Senior Community Service Employment Program	4,123,473
17.245	Trade Adjustment Assistance	29,177,771
17.261	* WIA Pilots, Demonstrations, and Research Projects	285,638
17.261	WIA Pilots, Demonstrations, and Research Projects	315,618
17.267	* Incentive Grants -- WIA Section 503	115,698
17.268	H-1B Job Training Grants	19,052
17.271	Work Opportunity Tax Credit Program (WOTC)	799,869
17.273	Temporary Labor Certification for Foreign Workers	351,967
17.275	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	1,103,909
17.275	ARRA -- Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	682,696
	Total Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	1,786,605
17.277	Workforce Investment Act (WIA) National Emergency Grants	6,759,438
17.504	Consultation Agreements	1,566,360
17.600	Mine Health and Safety Grants	337,333
	Total U.S. Department of Labor	**3,078,516,049**

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FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of State Bureau of Education and Cultural Affairs		
19.025	U.S. Ambassadors Fund for Cultural Preservation	60,350
	Total U.S. Department of State Bureau of Education and Cultural Affairs	**60,350**
U.S. Department of Transportation		
Highway Planning and Construction Cluster: **		
20.205	* Highway Planning and Construction	2,130,805
20.205	Highway Planning and Construction	1,360,010,767
20.205	ARRA -- Highway Planning and Construction	176,405,539
	Total Highway Planning and Construction	1,538,547,111
20.219	Recreational Trails Program	2,242,472
23.003	Appalachian Development Highway System	3,091,177
	Total Highway Planning and Construction Cluster	*1,543,880,760*
Federal Transit Cluster:		
20.500	ARRA - Federal Transit -- Capital Investment Grants	622,760
20.507	Federal Transit -- Formula Grants	17,626,929
	Total Federal Transit Cluster	*18,249,689*
Transit Services Programs Cluster:		
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	3,967,865
20.513	ARRA -- Capital Assistance Program for Elderly Persons and Persons with Disabilities	122,737
	Total Capital Assistance Program for Elderly Persons and Persons with Disabilities	4,090,602
	Total Transit Services Programs Cluster	*4,090,602*
Highway Safety Cluster:		
20.600	State and Community Highway Safety	29,986,307
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	6,231,561
20.610	State Traffic Safety Information System Improvement Grants	393,151
20.612	Incentive Grant Program to Increase Motorcyclist Safety	188,760
	Total Highway Safety Cluster	*36,799,779*
20.218	National Motor Carrier Safety	7,092,337
20.232	Commercial Driver's License Program Improvement Grant	226,320
20.237	Commercial Vehicle Information Systems and Networks	66,567
20.238	Commercial Driver's License Information System (CDLIS) Modernization Grants	198,703
20.317	Capital Assistance to States - Intercity Passenger Rail Service	75,460
20.505	Metropolitan Transportation Planning	494,812
20.509	Formula Grants for Other Than Urbanized Areas	17,767,435
20.509	ARRA -- Formula Grants for Other Than Urbanized Areas	5,668,508
	Total Formula Grants for Other Than Urbanized Areas	23,435,943
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	994,662
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	130,399
20.700	Pipeline Safety Program Base Grants	639,972
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	424,388
20.GG-2011-SA-00-00-00565-00	Breath Test Pilot	78,161
20.GG-2012-SA-00-00-00261-00	Breath Test Pilot	336,740
	Total U.S. Department of Transportation	**1,637,215,294**
U.S. Department of Treasury		
21	Equitable Sharing Program	382,225
	Total U.S. Department of Treasury	**382,225**

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FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Appalachian Regional Commission		
23.008	Appalachian Local Access Roads	47,642
23.011	Appalachian Research, Technical Assistance, and Demonstration Projects	931,859
	Total U.S. Appalachian Regional Commission	**979,501**
U.S. Equal Employment Opportunity Commission		
30.002	Employment Discrimination -- State and Local Fair Employment Practices Agency Contracts	1,631,080
	Total U.S. Equal Employment Opportunity Commission	**1,631,080**
General Services Administration		
39.003	Donation of Federal Surplus Personal Property	124,892
	Total General Services Administration	**124,892**
National Aeronautics and Space Administration		
43.011	Office of Inspector General	65,707
	Total National Aeronautics and Space Administration	**65,707**
National Endowment for the Arts		
45.025	Promotion of the Arts -- Partnership Agreements	1,141,600
45.310	Grants to States	6,583,333
	Total National Endowment for the Arts	**7,724,933**
U.S. Small Business Administration		
59.037	Small Business Development Centers	5,619,571
	Total U.S. Small Business Administration	**5,619,571**
U.S. Department of Veterans Affairs		
64.005	Grants to States for Construction of State Home Facilities	168,165
64.005	ARRA -- Grants to States for Construction of State Home Facilities	284,363
	Total Grants to States for Construction of State Home Facilities	452,528
64.014	Veterans State Domiciliary Care	2,203,043
64.015	Veterans State Nursing Home Care	21,200,369
64.124	All-Volunteer Force Educational Assistance	659,784
	Total U.S. Department of Veterans Affairs	**24,515,724**
U.S. Environmental Protection Agency		
66.001	Air Pollution Control Program Support	4,516,979
66.032	State Indoor Radon Grants	404,682
66.034	Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	1,162,594
66.039	ARRA -- National Clean Diesel Emissions Reduction Program	234,527
66.040	State Clean Diesel Grant Program	692,448
66.040	ARRA -- State Clean Diesel Grant Program	204,022
	Total State Clean Diesel Grant Program	896,470
66.419	Water Pollution Control State, Interstate, and Tribal Program Support	5,995,078
66.432	State Public Water System Supervision	3,136,593
66.433	State Underground Water Source Protection	210,227
66.436	Surveys, Studies, Investigations, Demonstrations and Training Grants and Cooperative Agreements -- Section 104(b)(3) of the Clean Water Act	19,859
66.454	Water Quality Management Planning	904,265
66.454	ARRA -- Water Quality Management Planning	429,020
	Total Water Quality Management Planning	1,333,285

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U.S. Environmental Protection Agency (Continued)		
66.458	Capitalization Grants for Clean Water State Revolving Funds	373,125,246
66.458	ARRA -- Capitalization Grants for Clean Water State Revolving Funds	5,218,529
	Total Capitalization Grants for Clean Water State Revolving Funds	378,343,775
66.460	Nonpoint Source Implementation Grants	6,070,522
66.461	Regional Wetland Program Development Grants	45,287
66.468	Capitalization Grants for Drinking Water State Revolving Funds	78,602,966
66.468	ARRA -- Capitalization Grants for Drinking Water State Revolving Funds	10,645
	Total Capitalization Grants for Drinking Water State Revolving Funds	78,613,611
66.469	Great Lakes Program	3,699,902
66.471	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	424,489
66.472	Beach Monitoring and Notification Program Implementation Grants	259,553
66.474	Water Protection Grants to the States	110,741
66.500	Environmental Protection-Consolidated Research	34,946
66.605	Performance Partnership Grants	120,402
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	217,219
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	565,722
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	274,613
66.709	Multi-Media Capacity Building Grants for States and Tribes	7,661
66.801	Hazardous Waste Management State Program Support	4,901,781
66.802	Superfund State, Political Subdivision, and Indian Tribe Site -- Specific Cooperative Agreements	796,107
66.804	Underground Storage Tank Prevention, Detection and Compliance Program	1,372,354
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	1,732,012
66.805	ARRA -- Leaking Underground Storage Tank Trust Fund Corrective Action Program	2,041,112
	Total Leaking Underground Storage Tank Trust Fund Corrective Action Program	3,773,124
66.813	Alternative or Innovative Treatment Technology Research, Demonstration, Training, and Hazardous Substance Research Grants	2,663
66.817	State and Tribal Response Program Grants	971,009
66.818	Brownfield Assessments and Cleanup Cooperative Agreements	2,015,893
66.818	ARRA -- Brownfield Assessments and Cleanup Cooperative Agreements	1,185,795
	Total Brownfield Assessments and Cleanup Cooperative Agreements	3,201,688
	Total U.S. Environmental Protection Agency	**501,717,463**
U.S. Department of Energy		
81	Petroleum Violation Escrow Funds	64,796
81.000	Cost Recovery Grants -- Environmental Research	630,235
81.041	* State Energy Program	8,954
81.041	State Energy Program	682,280
81.041	ARRA -- State Energy Program	24,980,840
	Total State Energy Program	25,672,074
81.042	Weatherization Assistance for Low-Income Persons	27,708,792
81.042	ARRA - Weatherization Assistance for Low-Income Persons	31,456,960
	Total Weatherization Assistance for Low-Income Persons	59,165,752
81.087	* Renewable Energy Research and Development	77,744
81.087	Renewable Energy Research and Development	9,967
81.089	* Fossil Energy Research and Development	115,314
81.104	Office of Environmental Waste Processing	77,436

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Energy (Continued)		
81.106	Transport of Transuranic Wastes to the Waste Isolation Pilot Plant: State and Tribal Concerns, Proposed Solutions	20,789
81.119	State Energy Program Special Projects	104,482
81.119	ARRA -- State Energy Program Special Projects	9,892
	Total State Energy Program Special Projects	114,374
81.122	ARRA -- Electricity Delivery and Energy Reliability, Research, Development and Analysis	281,675
81.127	ARRA -- Energy Efficient Appliance Rebate Program (EEARP)	546,469
81.128	ARRA -- Energy Efficiency and Conservation Block Grant Program (EECBG)	10,556,125
81.214	Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency Response Research, Outreach, Technical Analysis	8,481
	Total U.S. Department of Energy	**97,341,231**
U.S. Department of Education		
Title I -- Part A Cluster:		
84.010	Title I Grants to Local Educational Agencies	530,205,255
84.389	ARRA -- Title I Grants to Local Educational Agencies, Recovery Act	42,950,339
	Total Title I -- Part A Cluster	*573,155,594*
Special Education Cluster:		
84.027	Special Education -- Grants to States	429,755,010
84.391	ARRA -- Special Education -- Grants to States, Recovery Act	39,190,804
84.173	Special Education -- Preschool Grants	12,088,266
84.392	ARRA -- Special Education -- Preschool Grants, Recovery Act	1,379,470
	Total Special Education Cluster	*482,413,550*
Vocational Rehabilitation Cluster:		
84.126	Rehabilitation Services -- Vocational Rehabilitation Grants to States	109,524,777
84.390	ARRA -- Rehabilitation Services -- Vocational Rehabilitation Grants to States, Recovery Act	5,185,229
	Total Vocational Rehabilitation Cluster	*114,710,006*
Early Intervention Services (IDEA) Cluster:		
84.181	Special Education -- Grants for Infants and Families	10,521,534
84.393	ARRA -- Special Education -- Grants for Infants and Families, Recovery Act	1,453,030
	Total Early Intervention Services (IDEA) Cluster	*11,974,564*
Educational Technology State Grants Cluster:		
84.318	Education Technology State Grants	4,194,602
84.386	ARRA -- Education Technology State Grants, Recovery Act	2,022,304
	Total Educational Technology State Grants Cluster	*6,216,906*
Independent Living State Grants Cluster:		
84.169	Independent Living -- State Grants	531,879
84.398	ARRA -- Independent Living -- State Grants, Recovery Act	73,770
	Total Independent Living State Grants Cluster	*605,649*
Independent Living Services for Older Individuals Who are Blind Cluster:		
84.177	Rehabilitation Services -- Independent Living Services for Older Individuals Who are Blind	1,191,722
84.399	ARRA -- Independent Living Services for Older Individuals Who are Blind, Recovery Act	182,926
	Total Independent Living Services for Older Individuals Who are Blind Cluster	*1,374,648*
Education of Homeless Children and Youth Cluster:		
84.196	Education for Homeless Children and Youth	2,385,251
84.387	ARRA -- Education for Homeless Children and Youth, Recovery Act	368,272
	Total Education of Homeless Children and Youth Cluster	*2,753,523*

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U.S. Department of Education (Continued)		
Statewide Data Systems Cluster:		
84.372	Statewide Data Systems	601,001
84.384	ARRA-- Statewide Data Systems, Recovery Act	1,160,268
	Total Statewide Data Systems Cluster	*1,761,269*
Teacher Incentive Fund Cluster:		
84.374	Teacher Incentive Fund	1,385,088
84.385	ARRA -- Teacher Incentive Fund, Recovery Act	3,893,939
	Total Teacher Incentive Fund Cluster	*5,279,027*
School Improvement Grants Cluster:		
84.377	School Improvement Grants	812,710
84.388	ARRA -- School Improvement Grants, Recovery Act	59,172,513
	Total School Improvement Grants Cluster	*59,985,223*
84.000	Consolidated Administrative Fund	6,749,666
84.002	* Adult Education -- Basic Grants to States	1,785,979
84.002	Adult Education -- Basic Grants to States	12,834,262
84.011	Migrant Education -- State Grant Program	2,775,951
84.048	Career and Technical Education -- Basic Grants to States	42,741,839
84.144	Migrant Education -- Coordination Program	116,407
84.161	Rehabilitation Services -- Client Assistance Program	293,389
84.184	Safe and Drug-Free Schools and Communities -- National Programs	47,472
84.185	Byrd Honors Scholarships	4,539
84.186	Safe and Drug-Free Schools and Communities -- State Grants	4,430,665
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	1,382,173
84.213	Even Start -- State Educational Agencies	789,878
84.235	Rehabilitation Services -- Demonstrations and Training Programs	364,934
84.240	Program of Protection and Advocacy of Individual Rights	622,825
84.243	Tech-Prep Education	1,234,103
84.265	Rehabilitation Training -- State Vocational Rehabilitation Unit In-Service Training	129,818
84.282	Charter Schools	5,835,894
84.287	Twenty-First Century Community Learning Centers	40,947,225
84.323	Special Education -- State Personnel Development	1,840,439
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	405,555
84.331	Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	81,216
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	2,857,106
84.343	Assistive Technology -- State Grants for Protection and Advocacy	63,662
84.357	Reading First State Grants	679,292
84.358	Rural Education	2,466,115
84.365	English Language Acquisition State Grants	8,370,320
84.366	Mathematics and Science Partnerships	2,255,143
84.367	Improving Teacher Quality State Grants	91,316,058
84.369	Grants for State Assessments and Related Activities	12,872,131
84.371	Striving Readers	1,638,935
84.378	College Access Challenge Grant Program	3,590,794
84.395	ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	72,891,986
84.410	Education Jobs Fund	269,709,603
84.412	Race to the Top – Early Learning Challenge	96,000
84.412	ARRA -- Race to the Top – Early Learning Challenge	2,786
	Total Race to the Top – Early Learning Challenge	98,786
	Total U.S. Department of Education	**1,854,454,119**

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Election Assistance Commission		
90.401	Help America Vote Act Requirements Payments	1,282,276
	Total Election Assistance Commission	**1,282,276**
U.S. Department of Health and Human Services		
Aging Cluster:		
93.044	Special Programs for the Aging -- Title III, Part B -- Grants for Supportive Services and Senior Centers	16,432,139
93.045	Special Programs for the Aging -- Title III, Part C -- Nutrition Services	22,183,450
93.053	Nutrition Services Incentive Program	6,563,355
	Total Aging Cluster	*45,178,944*
Immunization Cluster:		
93.268	Immunization Cooperative Agreements	7,958,799
93.712	ARRA -- Immunization	1,102,631
	Total Immunization Cluster	*9,061,430*
TANF Cluster:		
93.558	Temporary Assistance for Needy Families	674,590,662
	Total TANF Cluster	*674,590,662*
CSBG Cluster:		
93.569	Community Services Block Grant	28,541,476
	Total CSBG Cluster	*28,541,476*
CCDF Cluster:		
93.575	Child Care and Development Block Grant	78,012,001
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	137,606,240
	Total CCDF Cluster	*215,618,241*
Head Start Cluster:		
93.600	Head Start	185,998
93.708	ARRA -- Head Start	40,724
	Total Head Start Cluster	*226,722*
Medicaid Cluster:		
93.775	State Medicaid Fraud Control Units	4,079,258
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	27,044,865
93.778	Medical Assistance Program (Medicaid)	10,664,979,622
93.778	ARRA -- Medical Assistance Program (Medicaid)	29,926,322
	Total Medical Assistance Program (Medicaid)	10,694,905,944
	Total Medicaid Cluster	*10,726,030,067*
93	SEOW -- Subcontract	60,879
93.006	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	76,064
93.041	Special Programs for the Aging -- Title VII, Chapter 3 -- Programs for Prevention of Elder Abuse, Neglect, and Exploitation	211,127
93.042	Special Programs for the Aging -- Title VII, Chapter 2 -- Long Term Care Ombudsman Services for Older Individuals	662,339
93.043	Special Programs for the Aging -- Title III, Part D -- Disease Prevention and Health Promotion Services	870,529
93.048	Special Programs for the Aging -- Title IV and Title II-- Discretionary Projects	354,041
93.051	Alzheimer's Disease Demonstration -- Grants to States	561,817
93.052	National Family Caregiver Support, Title III, Part E	6,452,326
93.069	Public Health Emergency Preparedness	18,053,514
93.070	Environmental Public Health and Emergency Response	803,104

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Health and Human Services (Continued)		
93.072	Lifespan Respite Care Program	35,477
93.086	Healthy Marriage Promotion and Responsible Fatherhood Grants	181,010
93.089	Emergency Systems for Advance Registration of Volunteer Health Professionals	45,798
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	1,528,233
93.103	Food and Drug Administration -- Research	12,846
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	266,106
93.110	Maternal and Child Health Federal Consolidated Programs	229,204
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	1,394,985
93.127	Emergency Medical Services for Children	122,504
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	399,842
93.136	Injury Prevention and Control Research and State and Community Based Programs	1,864,168
93.138	Protection and Advocacy for Individuals with Mental Illness	1,065,955
93.150	Projects for Assistance in Transition from Homelessness (PATH)	2,463,215
93.165	Grants to State for Loan Repayment Program	150,688
93.197	Childhood Lead Poisoning Prevention Projects -- State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	12,751
93.217	Family Planning -- Services	3,776,969
93.234	Traumatic Brain Injury -- State Demonstration Grant Program	217,091
93.235	Affordable Care Act (ACA) Abstinence Education Program	931,940
93.236	Grants to States to Support Oral Health Workforce Activities	1,194,232
93.240	State Capacity Building	427,607
93.241	State Rural Hospital Flexibility Program	488,058
93.243	Substance Abuse and Mental Health Services -- Projects of Regional and National Significance	5,236,905
93.251	Universal Newborn Hearing Screening	264,176
93.267	State Grants for Protections and Advocacy Services	123,792
93.270	Adult Viral Hepatitis Prevention and Control	144,489
93.275	Substance Abuse and Mental Health Services -- Access to Recovery	4,745,884
93.283	The Affordable Care Act: Centers for Disease Control and Prevention Investigations and Technical Assistance	10,857,741
93.301	Small Rural Hospital Improvement Grant Program	309,907
93.414	ARRA -- State Primary Care Offices	72,547
93.448	Food Safety and Security Monitoring Project	642,610
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	2,326,514
93.507	PPHF 2012 National Public Health Improvement Initiative	474,412
93.509	Affordable Care Act (ACA) State Health Care Workforce Development Grants	103,825
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	902,970
93.518	Affordable Care Act -- Medicare Improvements for Patients and Providers	327,855
93.520	Centers for Disease Control and Prevention –Affordable Care Act (ACA) – Communities Putting Prevention to Work	148,980
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF	795,016
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	769,106
93.539	PPHF 2012 - Prevention and Public Health Fund (Affordable Care Act) - Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by 2012 Prevention and Public Health Funds	90,171

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

U.S. Department of Health and Human Services (Continued)

93.544	The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease prevention and Health Promotion Program	219,323
93.556	Promoting Safe and Stable Families	15,352,064
93.563	Child Support Enforcement	120,811,244
93.564	* Child Support Enforcement Research	116,913
93.566	Refugee and Entrant Assistance -- State Administered Programs	6,392,642
93.568	Low-Income Home Energy Assistance	180,240,162
93.576	Refugee and Entrant Assistance -- Discretionary Grants	859,022
93.584	Refugee and Entrant Assistance -- Targeted Assistance Grants	916,507
93.586	State Court Improvement Program	603,215
93.590	Community-Based Child Abuse Prevention Grants	2,072,395
93.597	Grants to States for Access and Visitation Programs	327,664
93.599	Chafee Education and Training Vouchers Program (ETV)	1,658,102
93.617	Voting Access for Individuals with Disabilities -- Grants to States	365,173
93.618	Voting Access for Individuals with Disabilities -- Grants for Protection and Advocacy Systems	63,613
93.630	Developmental Disabilities Basic Support and Advocacy Grants	4,867,540
93.643	Children's Justice Grants to States	1,672,938
93.645	Stephanie Tubbs Jones Child Welfare Services Program	8,270,577
93.658	Foster Care -- Title IV-E	200,499,879
93.658	ARRA -- Foster Care -- Title IV-E	7,854
	Total Foster Care -- Title IV-E	200,507,733
93.659	Adoption Assistance	160,508,127
93.659	ARRA -- Adoption Assistance	33,472
	Total Adoption Assistance	160,541,599
93.667	Social Services Block Grant	137,424,031
93.669	Child Abuse and Neglect State Grants	427,657
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters -- Grants to States and Indian Tribes	2,790,770
93.674	Chafee Foster Care Independence Program	2,924,808
93.717	ARRA -- Preventing Healthcare -- Associated Infections	254,338
93.723	ARRA -- Prevention and Wellness-State, Territories and Pacific Islands	925,891
93.724	ARRA -- Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	20,845
93.725	ARRA -- Communities Putting Prevention to Work -- Chronic Disease Self-Management Program	444,098
93.767	Children's Health Insurance Program	289,462,546
93.768	Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	414,543
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	2,419,928
93.791	Money Follows the Person Rebalancing Demonstration	25,168,791
93.793	Medicaid Transformation Grants	274,286
93.889	National Bioterrorism Hospital Preparedness Program	15,619,771
93.913	Grants to States for Operation of Offices of Rural Health	131,437
93.917	HIV Care Formula Grants	20,023,404
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	467,476
93.940	HIV Prevention Activities -- Health Department Based	4,757,462
93.943	Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	906,816

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Health and Human Services (Continued)		
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	1,157,377
93.946	Cooperative Agreements to Support State Based Safe Motherhood and Infant Health Initiatives Programs	166,869
93.958	Block Grants for Community Mental Health Services	14,179,494
93.959	Block Grants for Prevention and Treatment of Substance Abuse	67,909,959
93.965	Coal Miners Respiratory Impairment Treatment Clinics and Services	722,493
93.975	National All Schedules Prescription Electronic Reporting Grant	21,034
93.977	Preventive Health Services -- Sexually Transmitted Diseases Control Grants	3,462,451
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	3,459
93.991	Preventative Health and Health Services Block Grant	3,128,789
93.994	Maternal and Child Health Services Block Grant to the States	20,007,632
93.A-89-07-0289	Immunization Registry	184,114
93.A-89-07-0403	Ohio Family Health Survey	51,817
93.HHSF223200840102C	Mammography Quality Standard Act Inspection	329,525
93.HHSH250-200900042C	ARRA -- Student/Resident Experience and Rotation in Community Health Program	5,000
	Total U.S. Department of Health and Human Services	**13,094,546,198**
Corporation for National and Community Service		
94.003	State Commissions	325,075
94.004	Learn and Serve America -- School and Community Based Programs	230,780
94.006	AmeriCorps	6,768,200
94.007	Program Development and Innovation Grants	41,144
94.009	Training and Technical Assistance	76,179
	Total Corporation for National and Community Service	**7,441,378**
Social Security Administration		
Disability Insurance/SSI Cluster:		
96.001	Social Security -- Disability Insurance	82,634,084
	Total Disability Insurance/SSI Cluster	*82,634,084*
96.000	Program Income for Rehabilitating Recipients of Social Security Income and Supplemental Security Income -- Vocational Rehabilitation Program	3,351,743
96.008	Social Security -- Work Incentives Planning and Assistance Program	243,146
96.009	Social Security State Grants for Work Incentives Assistance to Disabled Beneficiaries	235,861
96.200-2009-M-29348	National Death Index	50,818
	Total Social Security Administration	**86,515,652**
U.S. Department of Homeland Security		
97.008	Non-Profit Security Program	74,889
97.012	Boating Safety Financial Assistance	4,003,853
97.023	Community Assistance Program -- State Support Services Element (CAP-SSSE)	391,021
97.036	Disaster Grants -- Public Assistance (Presidentially Declared Disasters)	15,708,888
97.039	Hazard Mitigation Grant	6,022,512
97.041	National Dam Safety Program	200,062
97.042	* Emergency Management Performance Grants	36,907
97.042	Emergency Management Performance Grants	8,528,182
97.043	State Fire Training Systems Grants	22,856
97.047	Pre-Disaster Mitigation	2,718,411
97.052	Emergency Operations Centers	20,794
97.055	Interoperable Emergency Communications	879,471
97.056	Port Security Grant Program	441,077
97.067	Homeland Security Grant Program	42,372,357
97.070	Map Modernization Management Support	1,499,515

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Homeland Security (Continued)		
97.073	State Homeland Security Program (SHSP)..	133,937
97.075	Rail and Transit Security Grant Program..	763,445
97.078	Buffer Zone Protection Program (BZPP)..	2,038,053
97.089	Driver's License Security Grant Program..	750,005
97.091	Homeland Security Biowatch Program...	692,037
97.092	Repetitive Flood Claims..	466,533
97.110	Severe Repetitive Loss Program...	6,183
97.120	Border Interoperability Demonstration Project...	1,149,721
	Total U.S. Department of Homeland Security...	**88,920,709**
	TOTAL EXPENDITURES..	**24,711,145,127**

* These programs are a part of the Research and Development Cluster, as defined by OMB Circular A-133. See Note 4 to the Supplementary Schedule of Expenditures of Federal Awards.

** This cluster encompasses the U.S. Department of Transportation's federal programs CFDA# 20.205 and CFDA# 20.219 and the U.S. Appalachian Regional Commission's federal program CFDA# 23.003. In accordance with OMB Circular A-133, CFDA# 23.003 has been included as part of the U.S. Department of Transportation's programs and excluded from the U.S. Appalachian Regional Commission's programs.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* revised June 27, 2003, requires a Supplementary Schedule of Expenditures of Federal Awards (Supplementary Schedule). The State of Ohio reports this information using the following presentations:

- Supplementary Schedule of Expenditures of Federal Awards Summarized by Federal Agency
- Supplementary Schedule of Expenditures of Federal Awards by Federal Agency and Federal Program

The schedules must report total disbursements for each federal financial assistance program, as listed in the *Catalog of Federal Domestic Assistance* (CFDA). The State of Ohio reports each federal financial assistance program not officially assigned CFDA numbers with a two-digit number that identifies the federal grantor agency or with a two-digit federal grantor agency number followed by a federal contract number, when applicable.

A. Reporting Entity
The Supplementary Schedules include all federal programs the State of Ohio has administered for the fiscal year ended June 30, 2012. The State's financial reporting entity includes the primary government and its component units.

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

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

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

The State has excluded federal financial assistance reported in the Discretely Presented Component Units from the Supplementary Schedules. The respective schedules of expenditures of federal awards for the following organizations, which constitute component units of the State since they impose or potentially impose financial burdens on the primary government, are subject to separate audits under OMB Circular A-133.

Colleges and Universities:

State Universities*:*
Bowling Green State University
Central State University
Cleveland State University
Kent State University
Miami University
Ohio State University

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

State Universities (Continued):
Ohio University
Shawnee State University
University of Akron
University of Cincinnati
University of Toledo
Wright State University
Youngstown State University

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

Other Discretely Presented Component Units:
Ohio Air Quality Development Authority

B. Basis of Accounting
The State prepares the Supplementary Schedules on the cash basis of accounting; therefore, the State recognizes expenditures when paid rather than when it incurs obligations.

C. Transfers of Federal Funds between State Agencies
The State excludes interagency disbursements of federal moneys among State agencies to avoid the overstatement of federal financial assistance reported on the Supplementary Schedules.

D. Indirect Costs
Indirect costs benefit more than one federal program and are not directly allocable to the programs receiving the benefits. The State recovers these costs from the federal government by applying federally approved indirect cost rates or by allocating the indirect costs among benefiting programs in accordance with federally approved plans. The State recognizes indirect costs as disbursements in the Supplementary Schedules.

E. Valuation of Non-Cash Federal Assistance
The State reports the following non-cash federal assistance programs on the Supplementary Schedules.

- *National School Lunch Program (CFDA# 10.555)*
  A portion of the federal assistance for this program represents the value of food the State distributes to subrecipients during the fiscal year. The U.S. Department of Agriculture assigns the prices at which the State values donated food commodities.

- *Donation of Federal Surplus Personal Property (CFDA# 12.005)*
  Federal assistance for this program represents the fair market value of donated federal surplus personal property the State distributes to subrecipients during the fiscal year. The State calculates fair value at 23.3 percent of the property's original costs, in conformity with guidelines the U.S. Department of Defense establishes.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Donation of Federal Surplus Personal Property (CFDA# 39.003)*
  Federal assistance for this program represents the fair market value of federal surplus personal property the State distributes to subrecipients during the fiscal year. The State calculates fair value at 23.3 percent of the property's original acquisition costs, in conformity with guidelines the U.S. General Services Administration establishes.

Year-end balances of the State's non-cash federal assistance programs can be found in NOTE 3.

NOTE 2 CAPITALIZATION GRANTS FOR REVOLVING LOAN FUNDS

In fiscal year 2012, the capitalization grants for revolving loan funds comprised the Clean Water Revolving Fund (CFDA# 66.458) and the Drinking Water Revolving Fund (CFDA# 66.468) programs. As of June 30, 2012, outstanding loans for the Capitalization Grants for Revolving Loan Funds programs totaled approximately $1.147 billion.

The calculation of federal assistance for the loan programs includes the following elements.

Capitalization Grant Loan Balance, as of 6/30/11	$1,014,334,950
Loans without Compliance Requirements	(638,661,158)
Loans transferred without Compliance Requirements	(54,828,459)
Net Loan Balance (Loans with Compliance Requirements)	320,845,333
New Loans Disbursed	168,283,839
Net Principal Repayments Received	(37,482,199)
Capitalized Interest Earned	2,101,930
Current Loan Activity	132,903,570
Ending Loan Balance (Loans with Compliance Requirements)	453,748,903
Administrative Costs	1,864,201
Small System Technical Assistant Costs	427,436
Wellhead Costs	916,905
Administrative Interest Earned	(18)
Loan Account Interest Earned	(40)
Total Federal Assistance for FY 2012	$ 456,957,387

The total federal assistance for fiscal year 2012, as reported by the Ohio Environmental Protection Agency, for the Clean Water Revolving Fund and the Drinking Water Revolving Fund were $378,343,775 and $78,613,611 respectively.

NOTE 3 INVENTORY BALANCES FOR NON-CASH FEDERAL ASSISTANCE PROGRAMS

As of June 30, 2012, the outstanding inventory balances for the non-cash federal assistance programs are as follows:

CFDA#	Non-Cash Program	Outstanding Balance, as of 6/30/12
10.555	National School Lunch Program	$4,654,570
12.005	Donation of Federal Surplus Personal Property	11,147,298
39.003	Donation of Federal Surplus Personal Property	124,892
	Total	$15,926,760

NOTE 4 RESEARCH AND DEVELOPMENT CLUSTER

The State has reported the following federal programs under the Research and Development Cluster on the Supplementary Schedule of Expenditures of Federal Awards by Federal Agency and Federal Program.

CFDA#	Program	Amount
15.255	Science and Technology Projects Related to Coal Mining and Reclamation	$42,525
15.605	Sport Fish Restoration Program	582,067
15.611	Wildlife Restoration and Basic Hunter Education	214,899
15.634	State Wildlife Grants	1,281,098
15.808	U.S. Geological Survey--Research and Data Collection	93,821
15.810	National Cooperative Geologic Mapping Program	84,209
15.814	National Geological and Geophysical Data Preservation Program	17,294
15.819	Energy Cooperatives to Support National Coal Resources Data System (NCRDS)	70,522
16.550	State Justice Statistics Programs for Analysis Centers	57,894
16.609	Project Safe Neighborhoods	148,235
16.738	Edward Byrne Memorial Justice Assistance Grant Program	211,613
16.803	ARRA – Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	95,863
17.261	WIA Pilots, Demonstrations, and Research Projects	285,638
17.267	Incentive Grants – WIA Section 503	115,698
20.205	Highway Planning and Construction	2,130,805
81.041	State Energy Program	8,954
81.087	Renewable Energy Research and Development	77,744
81.089	Fossil Energy Research and Development	115,314
84.002	Adult Education – Basic Grants to States	1,785,979
93.564	Child Support Enforcement Research	116,913
97.042	Emergency Management Performance Grants	36,907
	Total Research and Development Cluster	**$7,573,992**

NOTE 5 TRANSFERS BETWEEN FEDERAL PROGRAMS

During fiscal year 2012, the State made allowable transfers of approximately $74.3 million from the Temporary Assistance for Needy Families (93.558) program to the Social Services Block Grant (93.667) program. The Supplementary Schedule shows the State spent approximately $674.6 million on the Temporary Assistance for Needy Families program. The amount reported for the Temporary Assistance for Needy Families program on the Supplementary Schedule excludes the amount transferred to the Social Services Block Grant program. The amount transferred to the Social Services Block Grant program is included in the federal program expenditures

NOTE 5 TRANSFERS BETWEEN FEDERAL PROGRAMS (Continued)

for this program. The following table shows the gross amount drawn for the Temporary Assistance for Needy Families program during fiscal year 2012 and the amount transferred to the Social Services Block Grant program.

Temporary Assistance for Needy Families	$748,858,663
Social Services Block Grant	(74,268,001)
Total Temporary Assistance for Needy Families	**$674,590,662**

NOTE 6 AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009 GRANTS

The State has reported the following federal ARRA programs on the Supplementary Schedule of Expenditures of Federal Awards by Federal Agency and Federal Program.

CFDA#	Program	Amount
10.561	ARRA – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	$44,015
10.579	ARRA – Child Nutrition Discretionary Grants Limited Availability	148,704
10.687	ARRA – Recovery Act of 2009 - Capital Improvement and Maintenance	507,197
10.688	ARRA – Recovery Act of 2009 - Wildland Fire Management	729,062
11.558	ARRA – State Broadband Data and Development Grant Program	1,239,929
12.401	ARRA – National Guard Military Operations and Maintenance (O&M) Projects	875,597
14.255	ARRA – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (Recovery Act Funded)	1,948,389
14.256	ARRA – Neighborhood Stabilization Program (Recovery Act Funded)	12,932,862
14.257	ARRA – Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	9,583,387
16.588	ARRA – Violence Against Women Formula Grants	229,937
16.801	ARRA – Recovery Act – State Victim Assistance Formula Grant Program	1,713
16.802	ARRA – Recovery Act – State Victim Compensation Formula Grant Program	3,220,262
16.803	ARRA – Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	5,382,480
16.808	ARRA – Recovery Act – Edward Byrne Memorial Competitive Grant Program	398,008
16.810	ARRA – Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	729,221
17.207	ARRA – Employment Service/Wagner-Peyser Funded Activities	6,447
17.225	ARRA – Unemployment Insurance	1,051,942,378
17.258	ARRA – WIA Adult Program	1,347,039
17.260	ARRA – WIA Dislocated Workers	4,635,691
17.275	ARRA – Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	682,696
20.205	ARRA – Highway Planning and Construction	176,405,539
20.500	ARRA – Federal Transit – Capital Investments Grants	622,760
20.509	ARRA – Formula Grants for Other Than Urbanized Areas	5,668,508
20.513	ARRA - Capital Assistance Program for Elderly Persons and Persons with Disabilities	122,737
64.005	ARRA – Grants to States for Construction of State Home Facilities	284,363
66.039	ARRA – National Clean Diesel Emissions Reduction Program	234,527
66.040	ARRA – State Clean Diesel Grant Program	204,022
66.454	ARRA – Water Quality Management Planning	429,020
66.458	ARRA – Capitalization Grants for Clean Water State Revolving Funds	5,218,529
66.468	ARRA – Capitalization Grants for Drinking Water State Revolving Funds	10,645
66.805	ARRA – Leaking Underground Storage Tank Trust Fund Corrective Action Program	2,041,112

NOTE 6 AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009 GRANTS (Continued)

CFDA#	Program	Amount
66.818	ARRA – Brownfield Assessments and Cleanup Cooperative Agreements	1,185,795
81.041	ARRA – State Energy Program	24,980,840
81.042	ARRA – Weatherization Assistance for Low-Income Persons	31,456,960
81.119	ARRA – State Energy Program Special Projects	9,892
81.122	ARRA – Electricity Delivery and Energy Reliability, Research, Development and Analysis	281,675
81.127	ARRA – Energy Efficient Appliance Rebate Program (EEARP)	546,469
81.128	ARRA – Energy Efficiency and Conservation Block Grant Program (EECBG)	10,556,125
84.384	ARRA – Statewide Data Systems, Recovery Act	1,160,268
84.385	ARRA – Teacher Incentive Fund, Recovery Act	3,893,939
84.386	ARRA – Education Technology State Grants, Recovery Act	2,022,304
84.387	ARRA – Education for Homeless Children and Youth, Recovery Act	368,272
84.388	ARRA – School Improvement Grants, Recovery Act	59,172,513
84.389	ARRA – Title I Grants to Local Educational Agencies, Recovery Act	42,950,339
84.390	ARRA – Rehabilitation Services – Vocational Rehabilitation Grants to States, Recovery Act	5,185,229
84.391	ARRA – Special Education – Grants to States, Recovery Act	39,190,804
84.392	ARRA – Special Education – Preschool Grants, Recovery Act	1,379,470
84.393	ARRA – Special Education – Grants for Infants and Families, Recovery Act	1,453,030
84.395	ARRA – State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	72,891,986
84.398	ARRA – Independent Living State Grants, Recovery Act	73,770
84.399	ARRA – Independent Living Services for Older Individuals Who are Blind, Recovery Act	182,926
84.412	ARRA – Race to the Top – Early Learning Challenge	2,786
93.414	ARRA – State Primary Care Offices	72,547
93.658	ARRA – Foster Care – Title IV-E	7,854
93.659	ARRA – Adoption Assistance	33,472
93.708	ARRA – Head Start	40,724
93.712	ARRA – Immunization	1,102,631
93.717	ARRA – Preventing Healthcare – Associated Infections	254,338
93.723	ARRA – Prevention and Wellness-State, Territories and Pacific Islands	925,891
93.724	ARRA – Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	20,845
93.725	ARRA – Communities Putting Prevention to Work – Chronic Disease Self-Management Program	444,098
93.778	ARRA – Medical Assistance Program (Medicaid)	29,926,322
93.HHSH 250-2009 00042C	ARRA – Student/Resident Experience and Rotation in Community Health Program	5,000
	Total ARRA Grants	**$1,619,605,890**

Supplemental Nutrition Assistance Program (CFDA# 10.551) – The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions and assets. This condition prevents the U.S. Department of Agriculture (USDA) from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual state level. Therefore, the

NOTE 6 AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009 GRANTS (Continued)

State of Ohio cannot validly disaggregate the regular and Recovery Act components of its reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 10.95 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2012.

ARRA Capitalization Grants for Clean Water State Revolving Funds (CFDA# 66.458) – Listed below are the borrowers that received ARRA Clean Water State Revolving Loan Fund (SRF) assistance, the associated Data Universal Numbering System (DUNS) numbers, and the ARRA SRF loan amounts disbursed to each borrower for reimbursement of eligible expenditures.

Borrower	DUNS	Amount
Akron	944269851	$121,021
Ashtabula County	926038696	36,203
Blanchester	097925671	6,473
Columbus	198549776	261,166
Columbus and Franklin County Metropolitan Park District	040813883	86,051
Coshocton County	097545826	34,811
Cuyahoga County Board of Health	142289581	1,124,013
Dayton	004478194	181,385
Delphos	084558956	4,811
Frazeyburg	173376877	86,440
Galion	058276551	7,909
Greene County	068948348	158,332
Greenfield	038719662	119,355
Harrisburg	005412189	100,000
Ironton	081279739	80,000
Kent	092622042	113,010
Kirtland	626954767	33,591
Lakewood	020629093	40,404
Lancaster	079417861	379
Lawrence County	075004713	82,766
Lorain	083321083	507,446
Lyndhurst	079803151	145,788
Mansfield	127367048	11,750
Mason	173733507	37,625
Ney	052361917	254,333
Nobel County	154171375	323,612
North Star	832448786	519,825
Northeast Ohio Regional Sewer District	074554098	159,756
Riverside	883096877	145,090
Solon	945349074	42,563
Struthers	092626506	296,956
Twinsburg	023816031	15,068
Walnut Creek Sewer District	832672554	42,143
Xenia	092824150	38,454
Total		$5,218,529

NOTE 6 AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009 GRANTS (Continued)

ARRA Capitalization Grants for Drinking Water State Revolving Funds (CFDA# 66.468) – Listed below are the borrowers that received ARRA Drinking Water State Revolving Loan Fund (SRF) assistance, the associated Data Universal Numbering System (DUNS) numbers, and the ARRA SRF loan amounts disbursed to each borrower for reimbursement of eligible expenditures.

Borrower	DUNS	Amount
South Solon	800062163	$36,003
Total		$36,003

NOTE 7 WIA Cluster

Prior to July 1, 2010, CFDA 17.260 represented both the WIA Dislocated Worker formula grant and the National Emergency Grants (NEGs). As of July 1, 2010, the CFDA 17.260 was archived and replaced with two new CFDA numbers. The WIA Dislocated Worker Formula Grant is accounted for as CFDA 17.278 and NEGs is reported as CFDA 17.277.

INDEPENDENT ACCOUNTANTS'
REPORTS ON COMPLIANCE
AND INTERNAL CONTROLS

Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

The Honorable John Kasich, Governor
State of Ohio
Columbus, Ohio

We have audited the financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Ohio (the State) as of and for the year ended June 30, 2012, which collectively comprise the State's basic financial statements, and have issued our report thereon dated March 21, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. We did not audit the financial statements of the following organizations:

<u>Primary Government</u>: Office of the Auditor of State; Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio; Office of Financial Incentives; State Treasury Asset Reserve of Ohio; Treasurer of State Lease Revenue Bonds; and Tuition Trust Authority.

<u>Blended Component Units</u>: Ohio Building Authority and State Highway Patrol Retirement System.

<u>Discretely Presented Component Units</u>: Bowling Green State University; Central State University; Cleveland State University; Kent State University; Miami University; Ohio State University; Ohio University; Shawnee State University; University of Akron; University of Cincinnati; University of Toledo; Wright State University; Youngstown State University; Cincinnati State Community College; Clark State Community College; Columbus State Community College; Edison State Community College; Northwest State Community College; Owens State Community College; Southern State Community College; Terra State Community College; Washington State Community College; Ohio Capital Fund; and Ohio Water Development Authority.

In addition, we did not audit the financial statements of the Public Employees Retirement System, Police and Fire Pension Fund, State Teachers Retirement System, and School Employees Retirement System, whose assets are held by the Treasurer of State and are included as part of the State's Aggregate Remaining Fund Information.

These financial statements reflect the following percentages of total assets and revenues or additions of the indicated opinion units:

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenues/ Additions
Governmental Activities	2%	1%
Business-Type Activities	95%	38%
Aggregate Discretely Presented Component Units	98%	94%
Aggregate Remaining Fund Information	95%	15%
Workers' Compensation	100%	100%

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Those financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these independently audited organizations, is based on the reports of the other auditors. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that those auditors separately reported.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Ohio's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the State's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the State's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and other deficiencies we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider the finding listed in the table below, identified in the summary of findings and questioned costs on page 181, and described in the accompanying schedule of findings and questioned costs to be a material weakness.

State Agency	Material Weakness Finding Number
Ohio Department of Job & Family Services	2012-JFS15-025

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the finding listed in the table below, identified in the summary of findings and questioned costs on page 181, and described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

State Agency	Significant Deficiency Finding Number
Ohio Department of Job & Family Services	2012-JFS20-030

Compliance and Other Matters

As part of reasonably assuring whether the State's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

The State of Ohio's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the State of Ohio's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the State of Ohio's management, the State of Ohio Audit Committee, the Ohio General Assembly, the federal awarding agencies and the pass-through entities. We intend it for no one other than these specified parties.

Dave Yost
Auditor of State

March 21, 2013

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INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Honorable John Kasich, Governor
State of Ohio
Columbus, Ohio

Compliance

We have audited the compliance of the State of Ohio with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the State of Ohio's major federal programs for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings and questioned costs identifies the State of Ohio's major federal programs. The State of Ohio's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the State of Ohio's compliance based on our audit.

The State of Ohio's basic financial statements include the operations of State Colleges and Universities, which received approximately $4 billion in federal awards that is not included in the State of Ohio's Federal Awards Expenditure Schedule for the year, ended June 30, 2012. Our audit of Federal awards, described below, did not include the operations of State Colleges and Universities because the component units engaged other auditors to audit their Federal award programs in accordance with OMB Circular A-133.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the State of Ohio's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State of Ohio's compliance with these requirements.

As described in findings 2012-EPA01-008 and 2012-DPS02-033, in the accompanying schedule of findings and questioned costs, the State of Ohio did not comply with requirements regarding Subrecipient Monitoring applicable to its Capitalization Grants for Clean Water State Revolving Funds and Capitalization Grants for Drinking Water Revolving Funds programs and Matching and Level of Effort applicable to its Highway Safety Cluster program. Compliance with these requirements is necessary, in our opinion, for the State of Ohio to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Ohio complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

The results of our auditing procedures also disclosed other instances of noncompliance with these requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. These instances of noncompliance are listed in the table below, identified in the summary of findings and questioned costs on pages 180 and 181, and described in the accompanying schedule of findings and questioned costs.

State Agency	Noncompliance Finding Numbers
Ohio Department of Alcohol and Drug Addiction Services	2012-ADA01-001 through 2012-ADA02-002
Ohio Department of Development	2012-DEV01-003
Ohio Department of Education	2012-EDU01-004 through 2012-EDU03-006
Ohio Department of Health	2012-DOH01-010
Ohio Department of Job & Family Services	2012-JFS01-011 through 2012-JFS14-024
Ohio Department of Mental Health	2012-DMH01-031
Ohio Department of Public Safety	2012-DPS01-032 and 2012-DPS03-034
Ohio Rehabilitation Services Commission	2012-RSC01-35 and 2012-RSC02-036

Internal Control Over Compliance

The State of Ohio's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State of Ohio's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the State of Ohio's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

We consider the items listed in the table below, identified in the summary of findings and questioned costs on pages 180 and 181, and described in the accompanying schedule of findings and questioned costs to be material weaknesses.

State Agency	Material Weakness Finding Numbers
Ohio Department of Alcohol and Drug Addiction Services	2012-ADA01-001 and 2012-ADA02-002
Ohio Department of Development	2012-DEV01-003
Ohio Department of Education	2012-EDU04-007
Ohio Environmental Protection Agency	2012-EPA01-008
Ohio Department of Health	2012-DOH01-010
Ohio Department of Job & Family Services	2012-JFS02-012 through 2012-JFS04-014, 2012-JFS06-016, 2012-JFS10-020 through 2012-JFS12-022, and 2012-JFS15-025 through 2012-JFS17-027
Ohio Department of Mental Health	2012-DMH01-031
Ohio Department of Public Safety	2012-DPS01-032 through 2012-DPS03-034
Ohio Rehabilitation Services Commission	2012-RSC01-035
Ohio Department of Transportation	2012-DOT01-037

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the items listed in the table below, identified in the summary of findings and questioned costs on pages 180 and 181, and described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

State Agency	Significant Deficiency Finding Numbers
Ohio Department of Education	2012-EDU01-004 and 2012-EDU03-006
Ohio Environmental Protection Agency	2012-EPA02-009
Ohio Department of Job & Family Services	2012-JFS07-017, 2012-JFS08-018, 2012-JFS13-023, 2012-JFS14-024, and 2012-JFS18-028 through 2012-JFS20-030
Ohio Rehabilitation Services Commission	2012-RSC02-036

The State of Ohio's responses to the findings we identified are described in the accompanying schedule of findings and questioned costs. We did not audit the State of Ohio's responses and, accordingly, we express no opinion on them. In addition, the State of Ohio's Schedule of Prior Audit Findings and Questioned Costs includes information about the status of comments subsequent to June 30, 2012, which we did not audit and, accordingly, express no opinion on.

We intend this report solely for the information and use of the audit committee, management, the State Legislature, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

Dave Yost
Auditor of State

March 29, 2013

OMB CIRCULAR A-133 § .505

1. SUMMARY OF AUDITORS' RESULTS		
(d)(1)(i)	*Type of Financial Statement Opinion*	Unqualified
(d)(1)(ii)	*Were there any material control weaknesses reported at the financial statement level (GAGAS)?*	Yes
(d)(1)(ii)	*Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?*	Yes
(d)(1)(iii)	*Was there any reported material noncompliance at the financial statement level (GAGAS)?*	No
(d)(1)(iv)	*Were there any material internal control weaknesses reported for major federal programs?*	Yes
(d)(1)(iv)	*Were there any other significant deficiencies in internal control reported for major federal programs?*	Yes
(d)(1)(v)	*Type of Major Programs' Compliance Opinion*	Qualified and Unqualified
(d)(1)(vi)	*Are there any reportable findings under § .510?*	Yes
(d)(1)(vii)	*Major Programs (list):*	See pages 175 through 179
(d)(1)(viii)	*Dollar Threshold: Type A\Risk Assessed Type B Programs*	A: >$37,066,718 B: >$ 7,413,344
(d)(1)(ix)	*Low Risk Auditee?*	No

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	2012-JFS015-025

MATERIAL WEAKNESS

See federal finding # 2012-JFS015-025 on page 241; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2012-JFS20-030

SIGNIFICANT DEFICIENCY

See federal finding # 2012-JFS20-030 on page 251; this finding is also required to be reported in accordance with GAGAS.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

The findings and questioned costs are summarized by state agency and type on pages 180 and 181.

The questioned costs are summarized by federal agency, program, and amount on page 182.

The findings and questioned costs are detailed by state agency on pages 183 through 271.

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STATE OF OHIO
JULY 1, 2011 THROUGH JUNE 30, 2012
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
U.S. Department of Agriculture			
Supplemental Nutrition Assistance Program (SNAP) Cluster			
10.551 / 10.561			
	Ohio Department of Job & Family Services	$ 3,113,145,134	
	Other Agencies (Not Tested as a Major Program)	690,439	
	Total SNAP Cluster	$ 3,113,835,573	12.60%
Child Nutrition Cluster			
10.553 / 10.555 / 10.556 / 10.559			
	Ohio Department of Education	$ 473,568,440	
	Other Agencies (Not Tested as a Major Program)	2,436,353	
	Total Child Nutrition Cluster	$ 476,004,793	1.93%
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children		
	Ohio Department of Health	$ 238,959,664	
	Total CFDA # 10.557	$ 238,959,664	0.97%
10.558	Child and Adult Care Food Program		
	Ohio Department of Education	$ 94,443,713	
	Total CFDA # 10.558	$ 94,443,713	0.38%
U.S. Department of Labor			
17.225	Unemployment Insurance		
	Ohio Department of Job & Family Services	$ 2,863,747,849	
	Total CFDA # 17.225	$ 2,863,747,849	11.59%
Workforce Investment Act (WIA) Cluster			
17.258 / 17.259 / 17.260 / 17.277 / 17.278			
	Ohio Department of Job & Family Services	$ 116,138,237	
	Other Agencies (Not Tested as a Major Program)	8,481,418	
	Total WIA Cluster	$ 124,619,655	0.50%
U.S. Department of Transportation			
Highway Planning and Construction Cluster			
20.205 / 20.219 / 23.003			
	Ohio Department of Transportation	$ 1,541,338,288	
	Other Agencies (Not Tested as a Major Program)	2,542,472	
	Total Highway Planning and Construction Cluster	$ 1,543,880,760	6.25%

STATE OF OHIO
JULY 1, 2011 THROUGH JUNE 30, 2012
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
Highway Safety Cluster			
20.600 / 20.601 / 20.610 / 20.612			
	Ohio Department of Transportation	$ 21,465,486	
	Ohio Department of Public Safety	14,948,519	
	Other Agencies (Not Tested as a Major Program)	385,774	
	Total Highway Safety Cluster	$ 36,799,779	0.15%
U.S. Environmental Protection Agency			
66.458	CAP Grants for Clean Water State Revolving Funds		
	Environmental Protection Agency	$ 378,343,775	
	Total CFDA # 66.458	$ 378,343,775	1.53%
66.468	CAP Grants for Drinking Water State Revolving Funds		
	Environmental Protection Agency	$ 78,613,611	
	Total CFDA # 66.468	$ 78,613,611	0.32%
U.S. Department of Energy			
81.041	State Energy Program		
	Ohio Department of Development	$ 25,663,120	
	Other Agencies (Not Tested as a Major Program)	8,954	
	Total CFDA # 81.041	$ 25,672,074	0.10%
81.042	Weatherization Assistance for Low-Income Persons		
	Ohio Department of Development	$ 59,165,752	
	Total CFDA # 81.042	$ 59,165,752	0.24%
U.S. Department of Education			
Title I - Part A Cluster			
84.010 / 84.389			
	Ohio Department of Education	$ 571,779,470	
	Other Agencies (Not Tested as a Major Program)	1,376,124	
	Total Title I - Part A Cluster	$ 573,155,594	2.32%
Special Education Cluster			
84.027 / 84.173 / 84.391 / 84.392			
	Ohio Department of Education	$ 477,814,818	
	Other Agencies (Not Tested as a Major Program)	4,598,732	
	Total Special Education Cluster	$ 482,413,550	1.95%
84.048	Career and Technical Education - Basic Grants to States		
	Ohio Department of Education	$ 41,364,051	
	Other Agencies (Not Tested as a Major Program)	1,377,788	
	Total CFDA # 84.048	$ 42,741,839	0.17%

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
Vocational Rehabilitation Cluster			
84.126 / 84.390			
	Ohio Rehabilitation Services Commission	$ 114,710,006	
	Total Rehabilitation Services Cluster	$ 114,710,006	0.46%
84.287	Twenty-First Century Community Learning Centers		
	Ohio Department of Education	$ 40,947,225	
	Total CFDA # 84.287	$ 40,947,225	0.17%
School Improvement Grants Cluster			
84.377 / 84.388			
	Ohio Department of Education	$ 59,985,223	
	Total School Improvement Grants Cluster	$ 59,985,223	0.24%
84.395	ARRA - State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants, Recovery Act		
	Ohio Department of Education	$ 72,891,986	
	Total CFDA # 84.395	$ 72,891,986	0.29%
84.410	Education Jobs Fund		
	Ohio Department of Education	$ 269,709,603	
	Total CFDA # 84.410	$ 269,709,603	1.09%
U.S. Department of Health and Human Services			
Temporary Assistance for Needy Families (TANF) Cluster			
93.558	Ohio Department of Job & Family Services	$ 674,118,281	
	Other Agencies (Not Tested as a Major Program)	472,381	
	Total TANF Cluster	$ 674,590,662	2.73%
93.563	Child Support Enforcement		
	Ohio Department of Job & Family Services	$ 120,811,244	
	Total CFDA # 93.563	$ 120,811,244	0.49%
Community Services Block Grant (CSBG) Cluster			
93.569	Ohio Department of Development	$ 28,541,476	
	Total CSBG Cluster	$ 28,541,476	0.12%
Child Care and Development Fund (CCDF) Cluster			
93.575 / 93.596			
	Ohio Department of Job & Family Services	$ 215,359,796	
	Other Agencies (Not Tested as a Major Program)	258,445	
	Total CCDF Cluster	$ 215,618,241	0.87%

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency		Disbursements	Percent of Total
93.658	Foster Care - Title IV-E			
	Ohio Department of Job & Family Services	$	195,589,032	
	Other Agencies (Not Tested as a Major Program)		4,918,701	
	Total CFDA # 93.658	$	200,507,733	0.81%
93.659	Adoption Assistance			
	Ohio Department of Job & Family Services	$	160,541,599	
	Total CFDA # 93.659	$	160,541,599	0.65%
93.667	Social Services Block Grant			
	Ohio Department of Job & Family Services	$	122,099,347	
	Ohio Department of Mental Health		9,107,200	
	Other Agencies (Not Tested as a Major Program)		6,217,484	
	Total CFDA # 93.667	$	137,424,031	0.56%
93.767	Children's Health Insurance Program			
	Ohio Department of Job & Family Services	$	254,660,973	
	Ohio Department of Mental Health		28,864,200	
	Other Agencies (Not Tested as a Major Program)		5,937,373	
	Total CFDA # 93.767	$	289,462,546	1.17%
<u>Medicaid Cluster</u>				
93.775 / 93.777 / 93.778				
	Ohio Department of Job & Family Services	$	9,332,795,142	
	Ohio Department of Developmental Disabilities		904,906,483	
	Ohio Department of Mental Health		380,461,030	
	Other Agencies (Not Tested as a Major Program)		107,867,412	
	Total Medicaid Cluster	$	10,726,030,067	43.41%
93.917	HIV Care Formula Grants			
	Ohio Department of Health	$	20,023,404	
	Total CFDA # 93.917	$	20,023,404	0.08%
93.959	Block Grants for Prevention and Treatment of Substance Abuse			
	Ohio Department of Alcohol and Drug Addiction Services	$	67,851,159	
	Other Agencies (Not Tested as a Major Program)		58,800	
	Total CFDA # 93.959	$	67,909,959	0.27%
93.994	Maternal and Child Health Services Block Grant to the States			
	Ohio Department of Health	$	20,007,632	
	Total CFDA # 93.994	$	20,007,632	0.08%

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
Social Security Administration			
Disability Insurance/SSI Cluster			
96.001	Social Security - Disability Insurance		
	Rehabilitation Services Commission	$ 82,634,084	
	Total Disability Insurance/SSI Cluster	$ 82,634,084	0.33%
U.S. Department of Homeland Security			
97.067	Homeland Security Grant Program		
	Ohio Department of Public Safety	$ 41,027,409	
	Other Agencies (Not Tested as a Major Program)	1,344,948	
	Total CFDA # 97.067	$ 42,372,357	0.17%
Total Major Federal Programs		$ 23,477,117,059	95.01%
Other Federal Programs		$ 1,234,028,068	4.99%
Total Federal Awards Expenditures		**$ 24,711,145,127**	**100.00%**

STATE OF OHIO
JULY 1, 2011 THROUGH JUNE 30, 2012
SUMMARY OF FINDINGS AND QUESTIONED COSTS

The findings listed below represent items which are being reported in the Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133.

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Department of Alcohol and Drug Addiction Services (ADA)			
1. SAPT - Subrecipient Monitoring	2012-ADA01-001	Noncompliance/ Material Weakness	183
2. SAPT – Reporting – Transparency Act	2012-ADA02-002	Noncompliance/ Material Weakness	185
Ohio Department of Development (DEV)			
1. Inspections - HWAP Program	2012-DEV01-003	Noncompliance/ Material Weakness	187
Ohio Department of Education (EDU)			
1. Various Programs - Earmarking	2012-EDU01-004	Questioned Costs/ Significant Deficiency	190
2. Special Education Cluster - Period of Availability	2012-EDU02-005	Questioned Costs	193
3. Various Programs – Transparency Act Reporting	2012-EDU03-006	Noncompliance/ Significant Deficiency	195
4. Special Education Cluster – Maintenance of Effort Monitoring	2012-EDU04-007	Material Weakness	197
Ohio Environmental Protection Agency (EPA)			
1. CWSRF & DWSRF – Subrecipient Monitoring	2012-EPA01-008	Noncompliance/ Material Weakness	199
2. CWSRF & DWSRF - Invoice Reviews	2012-EPA02-009	Significant Deficiency	200
Ohio Department of Health (DOH)			
1. Cash Management	2012-DOH01-010	Noncompliance/ Material Weakness	203
Ohio Department of Job & Family Services (JFS)			
1. MITS - Claims Reimbursed in Excess of OAC Limits	2012-JFS01-011	Questioned Costs	206
2. Medicaid/CHIP - Third Party Liability	2012-JFS02-012	Questioned Costs/ Material Weakness	209
3. Medicaid/CHIP - Managed Care	2012-JFS03-013	Questioned Costs/ Material Weakness	212
4. Medicaid/CHIP – Intrastate Transfer Vouchers	2012-JFS04-014	Questioned Costs/ Material Weakness	215
5. CCDF Cluster - Franklin County	2012-JFS05-015	Questioned Costs	217
6. Missing Eligibility Documentation - Various Counties	2012-JFS06-016	Questioned Costs/ Material Weakness	220
7. Child Care - Copayment Amounts	2012-JFS07-017	Questioned Costs/ Significant Deficiency	223
8. Medicaid - Ineligible Recipients – CRIS-E/MITS Variances	2012-JFS08-018	Questioned Costs/ Significant Deficiency	226
9. Medicaid - Claim Service Date	2012-JFS09-019	Questioned Costs	228
10. IEVS - Due Dates	2012-JFS10-020	Questioned Costs/ Material Weakness	229

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Department of Job & Family Services (JFS) (cont.)			
11. Medicaid/CHIP - Provider Eligibility	2012-JFS11-021	Noncompliance/ Material Weakness	232
12. CCDF - Type B Homes – Various Counties	2012-JFS12-022	Noncompliance/ Material Weakness	234
13. Medicaid/CHIP - Long Term Care Provider Eligibility	2012-JFS13-023	Noncompliance/ Significant Deficiency	237
14. Various Programs – Transparency Act Reporting	2012-JFS14-024	Noncompliance/ Significant Deficiency	238
15. IT – All Applications - Lack of Internal Testing of Automated Controls	2012-JFS15-025	Material Weakness	241
16. Various Programs - County Finance Documentation and Procedures	2012-JFS16-026	Material Weakness	244
17. Unemployment Insurance - Reporting	2012-JFS17-027	Material Weakness	246
18. Federal Revenue Controls	2012-JFS18-028	Significant Deficiency	247
19. Medicaid/CHIP – Claims Processing and Reconciliation Internal Controls	2012-JFS19-029	Significant Deficiency	249
20. IT – MITS – Audit Documentation Delays	2012-JFS20-030	Significant Deficiency	251
Ohio Department of Mental Health (DMH)			
1. Medicaid, CHIP, and SSBG – Subrecipient Monitoring	2012-DMH01-031	Noncompliance/ Material Weakness	254
Ohio Department of Public Safety (DPS)			
1. Subrecipient Monitoring	2012-DPS01-032	Noncompliance/ Material Weakness	258
2. Highway Safety Cluster – Matching and Level of Effort	2012-DPS02-033	Noncompliance/ Material Weakness	260
3. Federal Transparency Act - Subaward Reporting	2012-DPS03-034	Noncompliance/ Material Weakness	262
Ohio Rehabilitation Services Commission (RSC)			
1. Vocational Rehabilitation & Social Security Disability Insurance – Cash Management	2012-RSC01-035	Noncompliance/ Material Weakness	265
2. Vocational Rehabilitation – Determination of Eligibility	2012-RSC02-036	Noncompliance/ Significant Deficiency	266
Ohio Department of Transportation (DOT)			
1. Davis-Bacon Act – Internal Controls	2012-DOT01-037	Material Weakness	269

The findings listed below are also reported in the Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Department of Job & Family Services (JFS)			
15. IT – All Applications - Lack of Internal Testing of Automated Controls	2012-JFS15-025	Material Weakness	241
20. IT – MITS – Audit Documentation Delays	2012-JFS20-030	Significant Deficiency	251

STATE OF OHIO
JULY 1, 2011 THROUGH JUNE 30, 2012
SUMMARY OF QUESTIONED COSTS BY FEDERAL AGENCY AND PROGRAM

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE	PAGE NUMBER(S)	QUESTIONED COSTS
U.S. DEPARTMENT OF AGRICULTURE		
10.551 / 10.561 – Supplemental Nutrition Assistance Program Cluster	229*	undetermined
Total U.S. Department of Agriculture		undetermined
U.S. DEPARTMENT OF EDUCATION		
84.027 / 84.173 / 84.391 / 84.392 – Special Education Cluster	193	$19,135
84.048 – Career and Technical Education – Basic Grants to States	190	46,696
Total U.S. Department of Education		$65,831
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
93.575 / 93.596 – Child Care and Development Fund Cluster	217, 223	$14,972
93.767 – Children's Health Insurance Program	206*, 215, 220, 229*	46,356
93.775 / 93.777 / 93.778 – Medicaid Cluster	206*, 209, 212, 220, 226, 228, 229*	$3,427,861
Total U.S. Department of Health and Human Services		$3,487,156
TOTAL QUESTIONED COSTS - STATE OF OHIO		**$3,555,020**

Note: * Finding number 2012-JFS-01-011 on page 206 and 2012-JFS10-020 on page 229 reported questioned costs for which the amounts could not be determined.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF ALCOHOL AND DRUG ADDICTION SERVICES

1. SAPT – SUBRECIPIENT MONITORING

Finding Number	2012-ADA01-001
CFDA Number and Title	93.959 – Substance Abuse Prevention and Treatment
Federal Agency	Department of Health and Human Services
Compliance Requirement	Subrecipient Monitoring

NONCOMPLIANCE AND MATERIAL WEAKNESS

The Office of Management and Budget's Circular A-133 states, in part:

§__. 400 Responsibilities

. . .

(d) Pass-through entity responsibilities. A pass through entity shall perform the following for the Federal awards it makes:

. . .

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for the fiscal year.

5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

. . .

It is management's responsibility to implement policies and procedures to monitor subrecipients to help ensure they have complied with the rules and regulations related to the Federal program and have met the objectives of the program.

During State fiscal year 2012, the Department disbursed approximately $64.8 million in Federal funding for the Substance Abuse Prevention and Treatment (SAPT) program to the 50 County Alcohol and Drug Addiction (ADA) boards who are subrecipients of the Department. During the audit period, the Department had several different procedures in place to monitor the subrecipients; however, the following weaknesses existed in the process:

- The Department's Fiscal Specialist reviewed the annual Board Level Report (BLR) package (detailed board revenues, expenditures, and units of services provided) submitted by the ADA boards for accuracy, completeness and compliance with program requirements. The Budget and Subsidy Manager was then to review the procedures performed by the Fiscal Specialist for accuracy and completeness, but no documentation was maintained to evidence the Budget and Subsidy Manager's review.

- The Department completed a cash reconciliation of the disbursements reported by the ADA boards in their BLR package to the Department's disbursement records. If the ADA board's expenditures were less than the amount the Department passed through to the ADA board, the Department requested reimbursement for the difference. The Department submitted the cash reconciliation worksheet and request for payment, if applicable, to the ADA board for approval.

1. SAPT – SUBRECIPIENT MONITORING (Continued)

When the ADA boards returned the documents, the Department performed a final review and sent a close out letter to the ADA board. While cash reconciliations were completed by the Department during the audit period, no final reviews were performed and close out letters were not sent to the ADA boards.

- The Department performed on-site reviews, referred to as Stakeholder Assistance Reviews (SARs), for only seven of the 50 ADA boards during the fiscal year.

- The Fiscal Services Division received the ADA boards' Single Audit reports and reviewed them to determine whether audit findings noted pertained to the Department's programs and whether a management decision and/or corrective action would be required. However, the Department's evaluation of these audits did not include a determination of the amount of coverage obtained for Federal programs administered by the Department that were tested as a major federal program to help risk assess the extent and necessity of other monitoring procedures by the Department.

Under these circumstances, the Department may not be reasonably assured they have met the requirements of OMB Circular A-133, or that the ADA boards have met the requirements of the SAPT program. If the Department does not perform appropriate monitoring procedures, there is a risk that instances of noncompliance by subrecipients will go undetected or uncorrected. According to the Department, the issues noted were due to insufficient staffing levels.

We recommend the Department continue to develop and enhance their subrecipient monitoring process. These procedures could include, but not be limited to, the following:

- Ensuring that the BLR packages are accurately and completely reviewed. The Budget and Subsidy Manager's review should be documented to provide management with assurance controls are operating consistently and effectively.

- Confirming that cash reconciliations of ADA Board expenditures are performed timely and documented completely. The Department should also ensure closeout letters are provided to the ADA boards to document final approval of the process/reimbursement provided to the Department.

- Monitoring of the subrecipient's use of federal awards during the award period through an appropriate number of site visits or other means to provide reasonable assurance the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of the grant agreements and that performance goals are achieved.

- Identifying which federal programs were tested as major programs in the subrecipient's A-133 audit. This will help the Department to determine the amount of coverage and subsequently, the level of reliance the Department can place on these types of audits.

Official's Response and Corrective Action Plan

1. *The Monitoring & External Unit originally had three External Auditors (EAs). On 7/8/11, one EA was promoted to the Budget Manager position and the Department elected not to hire a new EA. The remaining two auditors had to assume the additional desk audits which included the Single Audit reports that were due to the Department on 9/30/11. These audit reports are used to assist us during the Stakeholder Assistance Review (SAR); therefore, it's imperative we review them in a timely manner. Also, site visits are not defined as a mandatory technique within OMB Circular A-133 §_.400 (d), therefore, the number of site visits used as a benchmark for the level of monitoring is judgmental.*

1. SAPT – SUBRECIPIENT MONITORING (Continued)

We are also in the process of consolidating with the Ohio Department of Mental Health (ODMH), therefore, we will be joining forces with more staffing/resources.

2. *As noted above, we are in the process of consolidating with ODMH and will be joining forces in our subrecipient monitoring efforts. In future years, we will identify the CFDA pass through from the Department and compare against the total amount of funds provided to determine the amount of coverage.*

Anticipated Completion Date for Corrective Action

7/1/2013

Contact Person Responsible for Corrective Action

Rosaland M. Gatewood-Tye, Chief Fiscal Officer, Ohio Department of Alcohol and Drug Addiction Services, 30 E. Broad Street, Columbus Ohio, 43215, Phone: (614) 644-9142, E-Mail: rosaland.gatewood.tye@ada.ohio.gov

2. SAPT – REPORTING – TRANSPARENCY ACT

Finding Number	2012-ADA02-002
CFDA Number and Title	93.959 – Substance Abuse Prevention and Treatment
Federal Agency	Department of Health and Human Services
Compliance Requirement	Reporting

NONCOMPLIANCE AND MATERIAL WEAKNESS

The Federal Funding Accountability and Transparency Act (Transparency Act) requires prime recipients of non-ARRA federal awards who make first-tier subawards to report the subaward on the Federal Funding Accountability and Transparency Subaward Reporting System (FSRS) website maintained by the federal Office of Management and Budget. Pursuant to 2 CFR part 170 Appendix A, prime recipients of non-ARRA federal awards made on or after October 1, 2010, are required to report subawards of $25,000 or more to an entity. Prime recipients must report by the end of the month following the month the obligation is made. If the prime recipient is not able to comply with the requirements, they must maintain evidence to support that they made a good faith effort to comply. It is management's responsibility to implement policies, procedures, and a system of internal controls to reasonably ensure that Transparency Act requirements are met.

During the audit period, the Department disbursed approximately $67.9 million in Substance Abuse Prevention and Treatment (SAPT) funding. In July of each state fiscal year, the Department awards SAPT funds to each of the 50 County Alcohol and Drug Addiction (ADA) Boards who, in turn, contract with and offer support for alcohol and other drug prevention and treatment programs in their counties. The Department issued Grants and Allocations to each of 50 County Boards on July 1, 2011; however, they did not upload this spending information into the FSRS website as required by August 31, 2011. In fact, the Department did not upload any spending information into the FSRS website during the entire audit period. Therefore, the Department did not make a good faith effort to report the award data to the federal government. In addition, the Department does not have procedures in place to ensure the information is reported completely, accurately, and timely.

2. SAPT – REPORTING – TRANSPARENCY ACT (Continued)

By not complying with federal reporting requirements, the Department risks federal funding being reduced, taken away, or other sanctions imposed by the Federal grantor agency. A lack of internal controls over federal reporting increases the risk that subawards for the SAPT program may go unreported, be reported untimely, or not in compliance with federal requirements. Management indicated that a turnover in staff had contributed to the failure to upload the required information in a timely manner.

We recommend the Department collect and report on the FSRS website all the required information regarding subawards made for all programs subject to the Transparency Act. If the Department is not able to comply with this requirement, they should maintain evidence to support their attempts to comply. We also recommend the Department implement a system of internal controls to ensure the required subaward information is uploaded to the FSRS website completely, accurately, and timely.

Official's Response and Corrective Action Plan

The Department had established a process to report this required information on a timely basis with both the Fiscal Division as well as the IT Division. The Department's two key individuals that were responsible for this task are no longer employed with ODADAS, resulting in non-compliance. The Department realizes this Federal requirement is extremely necessary and important. The Department will re-establish those functions to collect and report on the FSRS website all the required information regarding subawards made for all programs subject to the Transparency Act.

This will be accomplished by (1) reviewing previous process, functions and staffing to ascertain a status of compliance (2) obtaining and evaluate the boards DUNS number information for accuracy prior to the reporting deadline, (3) identifying potential upload errors and (4) reviewing the data upload and Transparency Act report for accuracy and completeness.

Lastly, the completeness of this procedure will be evidenced by a signature/initial by the designated staff.

These steps will provide a system of internal controls to ensure the required subaward information is uploaded to the FSRS website completely, accurately, and timely.

Anticipated Completion Date for Corrective Action

SFY 2013

Contact Person Responsible for Corrective Action

Rosaland M. Gatewood-Tye, Chief Fiscal Officer, Ohio Department of Alcohol and Drug Addiction Services, 30 E. Broad Street, Columbus Ohio, 43215, Phone: (614) 644-9142, E-Mail: rosaland.gatewood.tye@ada.ohio.gov

1. INSPECTIONS – HWAP PROGRAM

Finding Number	2012-DEV01-003
CFDA Number and Title	81.042 – Home Weatherization Assistance Program
Federal Agency	Department of Energy
Compliance Requirement	Subrecipient Monitoring

NONCOMPLIANCE AND MATERIAL WEAKNESS

31 USC 7502(f)(2)(B) requires that each pass-through entity "monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means" such as reporting and periodic contact to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

In addition, Office of Management and Budget Circular A-133, § _.300 (b) requires recipients of federal awards "[m]aintain internal controls over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Weatherization Program Notice 09-1B was issued by the U.S. Department of Energy and was effective March 12, 2009. Part 4.0 deals with Grantee program oversight and states:

> The Grantee must conduct comprehensive monitoring of each subgrantee at least once a year. The Grantee's Plan must include a monitoring plan to provide adequate oversight of use of DOE funds by subgrantees. The comprehensive monitoring must include review of client files and subgrantees records, as well as inspections of *at least* 5 percent of the completed units or units in the process of being weatherized. DOE strongly encourages a higher percentage of units be inspected. If inspection reveals quality control or other problems, Grantee shall increase the number of units monitored and frequency of inspection until all issues are resolved. Detailed review of subgrantee records and inspections must be maintained by the Grantee and be available at the request of DOE monitors.

The Department's fiscal year (FY) 2011 and FY 2012 state plans for the Home Weatherization Assistance Program (HWAP) covered the periods April 1, 2011 through March 31, 2012 and April 1, 2012 through March 31, 2013, respectively. Section III.6.3 of the plans discusses the monitoring approach to be used by the Department and states, in part:

> Each Subgrantee and Delegate will be visited by a technical field representative at least once per program year to review 5% of the completed units. Each Subgrantee will be visited by an administrative field representative at least once every year to review 5% of the completed units' files. Delegate agencies of subgrantees will be visited and reviewed at least every year by the State staff.
> . . .
> Reports of monitoring visits are to be completed within 30 days of the visit to the provider. These reports will summarize the findings and, when necessary, direct the Providers to take specific actions to correct issues of noncompliance and/or to develop a plan of action to improve performance. Reports are sent to Provider Board Chairpersons and Executive Directors who must respond within 30 days and provide evidence or assurance, as appropriate, of all actions taken.

The American Reinvestment and Recovery Act (ARRA) of 2009, was initiated by the Federal government as a direct response to the nation's economic crisis. Part of this response included providing additional Federal financial assistance for specific purposes to state and local governments through pre-existing Federal programs. During FY 2012, the Department disbursed $30.9 million in ARRA and $27.7 million in Non-ARRA funds to subgrantees from the HWAP program. During state FY 2012, the Department had

1. INSPECTIONS – HWAP PROGRAM (Continued)

58 subrecipients that were to be monitored in accordance with the procedures stated within the state plans. However, the Department did not consistently adhere to these requirements, as identified below.

- For two of 28 (7.1%) subrecipients tested, the Department was unable to locate the Field Visit Report Tracking document, which was supposed to record the occurrence of certain steps in the review process and be reviewed and approved by the Executive Director and/or Energy Coordinator to determine if the procedures were completed and any concerns noted during the review were properly addressed and corrected.

- For three of 15 (20%) subrecipients tested, the Technical Monitoring Visit Report was not completed by field representatives and issued within 30 days of the visit, in accordance with the 2011 and 2012 State Plans. The reports ranged from 52 to 164 days late.

- For six of seven (85.7%) subrecipients tested, the subrecipient did not respond to the Technical Monitoring Visit Report within 30 days after receipt in accordance with the 2011 and 2012 State Plans. These reports ranged from eight to 93 days late.

- For two of 13 (15.4%) subrecipients tested, the Administrative Monitoring Visit Reports were not completed by the field representative and issued within 30 days of the visit, in accordance to the 2011 and 2012 State Plans. The reports were12 and 20 days late.

Under these conditions, the Department did not consistently comply with the additional guidelines issued to them to appropriately administer the HWAP program. Furthermore, the Department did not comply with their State Plans, which indicate to the Federal government how administration of the program will occur. If certain guidelines are not met by the Department, then the quality of the services provided by the subrecipient may be less than the minimum standards. Also, certain guidelines may not be met if deficiencies were noted during the Department's review and not corrected timely. Without timely notice of deficiencies to the subrecipients, the Department may be lessening the subrecipients' ability to make appropriate changes to their operations in an efficient manner, which could lead to unnecessary sanctions against them.

Department management stated that a conference with the subrecipient occurred after each on-site visit. During the meeting, the subrecipient and reviewer discussed the results of the visit in summary, with the understanding that the results were to be included in the final report. Thus, the subrecipients were aware of the contents of the letter within 30 days after the visit. Management also stated the subrecipient's response to the Technical Monitoring Visit Report can be extended often times informally over the phone and not documented within the file. This lack of documentation would make it appear they didn't respond within 30 days. However, there was no documentation available to evidence if, or when, the meetings had occurred or extensions had been given for the errors noted.

We recommend the Department clarify the requirements with their staff and stress the importance of complying with applicable compliance requirements over the HWAP program by conducting technical and administrative reviews and issuing the required reports within the parameters set in the state plans for this Federal program. We also recommend the Department evaluate its internal controls over these reviews and update them as necessary to reasonably ensure compliance. These procedures should include maintaining documentation of any formal or informal responses received from the subrecipients, perhaps in a central tracking log or in each file. The Department should establish procedures to periodically monitor its compliance with the procedures to ensure these controls are performed as intended by management.

1. INSPECTIONS – HWAP PROGRAM (Continued)

Official's Response and Corrective Action Plan

The Department will implement the following changes to correct the deficiencies noted:

1) *The Community Services Division working with Human Resources to ensure all HWAP team members have position descriptions, performance plans and reviews, and sufficient guidance which align closely with agency expectations of a focus on quality and quantity in HWAP and meeting goals in a timely manner;*
2) *Updated guidance to determine acceptable pass rates for weatherized units and acceptable performance of sub-grantees and delegates;*
3) *Performance targets for both technical and administrative monitoring of HWAP sub-grantees and delegates in accordance with expected performance timelines;*
4) *A system for ensuring excellent customer service and complaint tracking utilizing the Department's Business Response Line.*
5) *Review of the HWAP State Plan to ensure timeframes for reports and responses are feasible given the funding/staffing constraints of the program.*

Anticipated Completion Date for Corrective Action

All changes have been implemented with the exception of state plan review, which will occur before July 1, 2013.

Contact Person Responsible for Corrective Action

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1. EARMARKING – VARIOUS PROGRAMS

Finding Number	2012-EDU01-004
CFDA Number and Title	84.010/84.389 - Title I Grants to Local Educational Agencies (LEAs) 84.048 - Career and Technical Education – Basic Grants to States 84.287 - Twenty First Century Community Learning Centers (CCLC)
Federal Agency	Department of Education
Compliance Requirement	Earmarking

QUESTIONED COSTS – CAREER AND TECHNICAL EDUCATION $46,696

NONCOMPLIANCE – TWENTY FIRST CENTURY CCLC and TITLE I GRANTS TO LEAs,

SIGNIFICANT DEFICIENCY – TITLE I GRANTS TO LEAs, CAREER AND TECHNICAL EDUCATION, AND TWENTY FIRST CCLC

20 USC 2322 relates to the state leadership activities earmarking requirements of the Career and Technical Education program and states, in part:

(a) In general

From the amount allotted to each State under section 2321 of this title for a fiscal year, the eligible agency shall make available—

. . .

(2) not more than 10 percent to carry out State leadership activities described in section 2344 of this title, of which—

(A) an amount equal to not more than 1 percent of the amount allotted to the State under section 2321 of this title for the fiscal year shall be made available to serve individuals in State institutions, such as State correctional institutions…

. . .

20 USC 7172 relates to the earmarking requirements of the Twenty First CCLC program and states, in part:

. . .

(b) State allotments

(1) Determination - From the funds appropriated under section 7176 of this title for any fiscal year …the Secretary shall allot to each State for the fiscal year an amount…

. . .

(c) State use of funds

(1) In general - Each State that receives an allotment under this part shall reserve not less than 95 percent of the amount allotted to such State under subsection (b) of this section, for each fiscal year for awards to eligible entities under section 7174 of this title.

. . .

(3) State activities - A State educational agency may use not more than 3 percent of the amount made available to the State under subsection (b) of this section for the following activities:

(A) Monitoring and evaluation of programs and activities assisted under this part.
(B) Providing capacity building, training, and technical assistance under this part.
(C) Comprehensive evaluation…of the effectiveness of programs and activities assisted under this part.
(D) Providing training and technical assistance to eligible entities who are applicants for or recipients of awards under this part.

. . .

1. EARMARKING – VARIOUS PROGRAMS (Continued)

20 USC 6303 relates to the school improvement earmarking requirements of the Title I program and states, in part:

(a) State reservations - Each State shall reserve…4 percent of the amount received under such subpart…to carry out the State's responsibilities…including carrying out the State educational agency's statewide system of technical assistance and support for local educational agencies.

(b) Uses - Of the amount reserved under subsection (a) of this section for any fiscal year, the State educational agency-

(1) shall allocate not less than 95 percent of that amount directly to local educational agencies…

. . .

It is management's responsibility to implement a system of internal controls to reasonably assure federal earmarking requirements are met and not exceeded for a program's grant award. To be effective, the performance of an internal control must be sufficiently documented to provide assurance that the control is in place and operating as intended by management. In addition, management must periodically monitor these control procedures to help ensure they are operating effectively and as intended.

During state fiscal year 2012, the Department disbursed approximately $636.9 million in federal funding for the Twenty First Century CCLC, Title I, and Career and Technical Education programs to eligible subrecipients. Each of these programs had federal earmarking requirements imposed upon the grant awards received from the United States Department of Education (USDE). In order to ensure earmarking requirements were met for these programs, the Department set up a project amount for each earmarking requirement for the respective program. These project amounts were then entered into OAKS, the State's accounting system, to help ensure the maximum earmarking requirements for the programs were not exceeded. These project amounts also allowed the Department to track the expenditures and calculate the remaining amount necessary to meet any minimum earmarking requirements. However, since the Department followed the First in First out (FIFO) method for grant expenditures, multiple grant awards for a program could be charged to the project, potentially resulting in earmarks being exceeded for an individual grant. In addition, the Department did not have controls in place to ensure earmarking requirements for each program's grant award were not exceeded.

Noncompliance identified with these earmarking requirements is as follows:

- The Department received $44,725,285 for the Career and Technical Education program in the Federal fiscal year 2010 grant award from the USDE. Pursuant to 20 USC 2322 (a)(2)(A), only $447,253 could be expended to serve individuals in State institutions. However, $493,949 of the award was coded to State Institutions. Therefore, the Department exceeded the federal earmarking requirement by $46,696, resulting in questioned costs.

- The Department received $40,540,890 for the Twenty First CCLC program in the Federal fiscal year 2009 grant award from the USDE. The following were noted for the Federal fiscal year 2009 grant award:

  - Pursuant to 20 USC 7172 (c)(3), only $1,216,227 of the award could be used for State-Level activities. However, $1,531,431 of the award was coded to State-Level activity expenditures for the program. Therefore, the Department exceeded the federal State-Level activities earmarking cap for the 2009 grant award by $315,204. Of the amount exceeded, $314,952 was reported as questioned costs in the state fiscal year 2011 Single Audit. The additional amount charged to this earmark during state fiscal year 2012 was less than $10,000; therefore, the costs were not questioned.

1. EARMARKING – VARIOUS PROGRAMS (Continued)

- o Pursuant to 20 USC 7172 (c)(1), a minimum of $38,513,846 of the Federal fiscal year 2009 grant award for the Twenty First CCLC program must be earmarked for subsidy payments to eligible subrecipients. However, only $38,335,742 of the award was coded to subsidy payments to subrecipients. Therefore, the Department did not meet the minimum requirement by $178,104. This did not result in questioned costs for the program as the Department underspent the earmarking requirement.

- The Department received $544,270,394 for the Title I program in the Federal fiscal year 2009 grant award from USDE. Pursuant to 20 USC 6303 (a), a minimum of $21,770,816 should be used for school improvement activities. The Department met this earmark by expending $28,076,482 of the grant award for school improvement activities. Pursuant to 20 USC 6303 (b)(1), the Department was required to pass through 95 percent of the expended amount ($26,672,658) directly to LEAs. However, the Department only passed through $26,565,146 of the grant award to LEAs and, therefore, did not meet the federal earmarking compliance requirement by $107,512. This did not result in questioned costs for the program as the Department underspent the minimum earmarking requirement.

If the Department does not have controls in place to ensure federal earmarking compliance requirements are met for each program's grant award, this puts the Department at risk for not complying with the requirements which could result in sanctions imposed by the federal grantor agency. Additionally, the Department could be required to repay those funds to the federal government and future funds could be eliminated or reduced.

According to management, the Department did not meet the minimum subsidy expenditures earmark requirement because the LEAs did not draw down all the funding allocated to them. For the other programs, management stated because they use the FIFO method, the Department does not need to track earmarking requirements by grant award as long as the Department is allocating the grant award based on that fiscal year's grant earmarking requirements and ensuring the allocation is not exceeded. Since the Department uses the FIFO method for funding these allocations, the funds are drawn from the oldest available grant, not necessarily the grant the allocation was based on. Therefore, multiple grant awards may be used to fulfill an allocation.

We recommend the Department implement internal control procedures to ensure federal earmarking requirements are met and not exceeded for each program's grant award. The internal control procedures should be sufficiently documented to provide assurance the controls are in place and operating as intended. If the Department still wants to use the FIFO methodology, they should work with the federal grantor agency to determine how the methodology may be utilized while maintaining compliance with federal earmarking requirements. Management should periodically monitor the established internal control procedures to ensure they are operating effectively and as intended by management.

Official's Response and Corrective Action Plan

The Ohio Department of Education (ODE) respectfully disagrees with the Auditor of State (AOS) interpretation of the federal earmarking requirements as it relates to expenditures and the draw of federal funds. ODE generally has used the FIFO method of drawing federal funds since around 1996, except for a limited period beginning around 2001. This method of drawing funds maximizes the educational benefits to the students of Ohio.

ODE has stringent budgetary controls on both federal grant awards and the related earmark allocations. These controls are used to ensure that expenditures attributed to these allocations are not exceeded. To meet obligation against allocations, utilizing the FIFO method, ODE draws the federal fund from the oldest eligible grant award (FIFO). The FIFO methodology has been reviewed by both state and federal auditors without question, including an extensive review in 2004 by the USDE.

1. EARMARKING – VARIOUS PROGRAMS (Continued)

ODE received a similar finding during the FY 2011 audit, and continues to work with the USDE to reaffirm its methodology. The USDE Office of Special Education and Rehabilitation Services talked with AOS personnel regarding the test methodology. As a result, noncompliance with the IDEA Preschool earmark requirements was not cited in the fiscal year 2012 Single Audit comment. Without confirmation from other USDE offices the AOS continued to test all other grants using their understanding of the earmark requirements.

ODE will continue to work with the USDE to reaffirm its understanding of the earmark requirements, especially as it relates to the methodology of drawing grants on a FIFO basis. ODE will also contact USDE to confirm the interpretation that state agencies are required to allocate funds according to the legislative mandated earmarks, but are not required to expend the funds at those levels given the limited control for the rates at which LEAs may expend funds.

Anticipated Completion Date for Corrective Action

07/30/13

Contact Person Responsible for Corrective Action

Donna Jackson, Internal Audit Administrator, Ohio Department of Education, 25 South Front Street, Ground Floor, Columbus Ohio, 43215, Phone: (614) 644-7812, E-Mail: Donna.Jackson@education.ohio.gov

Auditor of State's Conclusion

The documentation provided for audit indicates the earmarking requirements, as stated in the federal regulations, were not met. We attempted to get clarification from the federal awarding agencies regarding the Department's position on the FIFO method in relation to the earmarking requirements during the previous audit. However, the federal representatives consulted were not able to make a determination at that time and indicated they would continue to research the issue. We did not receive a response from the federal representatives with the authority to make a determination prior to the completion of fieldwork. As a result, the finding will remain as stated above.

2. SPECIAL EDUCATION CLUSTER – PERIOD OF AVAILABILITY

Finding Number	2012-EDU02-005
CFDA Number and Title	84.027/84.173/84.391/84.392 – Special Education Cluster
Federal Agency	Department of Education
Compliance Requirement	Period of Availability

QUESTIONED COSTS $19,135

2 CFR 215.71, Closeout Procedures, states, in part

…

(c) Unless the Federal awarding agency authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions.

…

2. SPECIAL EDUCATION CLUSTER – PERIOD OF AVAILABILITY (Continued)

On February 17, 2009 the Department was awarded $13.4 million in American Recovery and Reinvestment Act funding for CFDA 84.392 - Special Education Preschool Grant. According to the terms and conditions of the grant agreement, the Department had until September 30, 2011, to obligate the funds for use. According to the timeline specified in 2 CFR 215.71(b), the Department was required to liquidate these obligations no later than December 30, 2011. However, the Department disbursed three subsidy payments for the Special Education Preschool Grant, on January 5, 2012 and no extension was granted by the Federal awarding agency. Therefore, the payments were disbursed after the grant's liquidation date, resulting in questioned costs of $19,135.

Failure to liquidate its obligations within the time frame established by Federal regulations could result in the Department being required to repay those funds to the Federal government and future funding could be reduced or eliminated. According to management, the Department of Education's G5 draw system allowed the Department to draw down federal funds for this particular grant until January 3, 2012. The Department used this date as a reference and drew the funds accordingly.

We recommend the Department review the grant award balances prior to the grant's liquidation date to determine if any unpaid obligations exist. The Department should draw the funds down in a timely manner to make disbursements prior to the liquidation date. If it appears that obligations will not be liquidated within the required time frame, the Department should submit a written request for an extension to the Federal awarding agency. We further recommend the Department closely monitor cash requests and subsequent expenditures to help ensure that obligations are disbursed within the grant's liquidation period.

Official's Response and Corrective Action Plan

The Ohio Department of Education (ODE) contests the three payments in question. Funds were drawn and liquidated within the federal period of availability. The U.S. Department of Education's (USDE) grant management system, G5, denotes a grant closing date of January, 3, 2012 for award H392A09119. ODE used this date to manage the grant close process (i.e., last day to draw funds).

The timeline shows expenditures posted to the State's general ledger and funds were drawn before January, 3 2012. The Auditor of State's Office used the "payment date", as recorded in the accounts payable module of the accounting system, as the disbursement date. The "payment date" represents when vendors can expect to receive payment based on the vendor's terms. All federal funds are processed with terms "due now".

Final payments to these vendors were held by Grants Management due to final expenditure report questions. Once supporting documentation was received and approved, final payments were issued as follows:

1) *Approved payments entered in accounting system, Thursday, 12/29/2011;*
2) *Funds drawn (G5) and received, Friday, 12/30/2011;*
3) *Voucher posted to the General Ledger, 12/30/2011, revenue and expenditure recognized;*
4) *Because vouchers posted after daily payment processing, payments were created the next business day, Tuesday, 1/3/2012 (three-day holiday weekend);*
5) *All three payments were sent via EFT on Tuesday,1/3/2012 to the bank for processing;*
6) *Payments were made available to vendors on midnight of Wednesday, 1/4/2012.*

2. SPECIAL EDUCATION CLUSTER – PERIOD OF AVAILABILITY (Continued)

Anticipated Completion Date for Corrective Action

No corrective action is necessary. ODE will continue to monitor compliance with period of availability requirements through existing processes, and will enhance procedures and monitoring when holidays affect the final liquidation date.

Contact Person Responsible for Corrective Action

Donna Jackson, Internal Audit Administrator, Ohio Department of Education, 25 South Front Street, Ground Floor, Columbus Ohio, 43215, Phone: (614) 644-7812, E-Mail: Donna.Jackson@education.ohio.gov

Auditor of State's Conclusion

The stated requirements for this grant's period of availability indicate liquidation (payment) must occur within 90 calendar days; no extensions are included for holidays or weekends. Although the Department posted the transaction prior to December 31, 2011, this information was still subject to change in the State's accounting system until it had cleared all processing checks. The liquidation did not occur until processing was complete and the payment was made on January 5, 2012. Therefore, the finding will remain as stated above.

3. VARIOUS PROGRAMS – TRANSPARENCY ACT REPORTING

Finding Number	2012-EDU03-006
CFDA Number and Title	10.553/10.555/10.556/10.559 – Child Nutrition Cluster 10.558 – Child and Adult Care Food Program 84.010/84.389 – Title I Grants to Local Education Agencies (LEAs) 84.027/84.173/84.391/84.392 – Special Education Cluster 84.048 – Career and Technical Education -- Basic Grants to States 84.287 – Twenty First Century Community Learning Centers (CCLC) 84.377/84.388 – School Improvement Grants Cluster
Federal Agency	Department of Agriculture Department of Education
Compliance Requirement	Reporting

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

The Federal Funding Accountability and Transparency Act (Transparency Act) requires prime recipients of non-ARRA federal awards who make first-tier subawards to report these subawards on the Federal Funding Accountability and Transparency Subaward Reporting System (FSRS) website maintained by the federal Office of Management and Budget. Pursuant to 2 CFR part 170 Appendix A, prime recipients of non-ARRA federal awards made on or after October 1, 2010, are required to report subawards of $25,000 or more to an entity. Prime recipients must report by the end of the month following the month in which the obligation is made. Additionally, 2 CFR part 25 requires entities to ensure applicants of non-ARRA subawards provide a valid Dun and Bradstreet Data Universal Numbering System (DUNS) number in its subaward application or, if not, prior to receiving the award.

During state fiscal year 2012, the Department disbursed $1.56 billion in subawards for non-ARRA federal awards to its subrecipients under the following major federal programs, which were required to be reported under the Transparency Act:

3. VARIOUS PROGRAMS – TRANSPARENCY ACT REPORTING (Continued)

CFDA Number	Federal Program Name	Amount Disbursed
10.553/555/556/559	Child Nutrition Cluster	$433,648,880
10.558	Child and Adult Care Food Program	$93,146,821
84.010	Title I Grants to Local Educational Agencies	$528,122,293
84.027/173	Special Education Cluster	$422,597,382
84.048	Career and Technical Education -- Basic Grants to States	$37,455,349
84.287	Twenty-First Century Community Learning Centers	$40,611,019
84.377	School Improvement Grants Cluster	$812,699

However, the Department did not collect and report information on the FSRS website regarding all applicable subawards made during the fiscal year. The Department did not submit reports for any of the above listed major programs, with the exception of the Child Nutrition Cluster (CNC). In addition, the Department did not ensure that all subrecipients had a valid DUNS number prior to receiving the subawards.

The Department collected and reported subaward information on the FSRS website for the CNC, which consists of reimbursement-based programs where sponsors submit monthly claims for meal reimbursements online through the Claims Reimbursement Reporting System (CRRS). Since the reimbursements (i.e., "subawards") are made monthly, the obligations are required to be reported the following month. Instead of reporting the obligations on a monthly basis, after claims were submitted in CRRS, the Department submitted a single report in February 2012 for the federal fiscal year 2011 CNC grant award. Additionally, although the Department made $337.9 million in reimbursements during state fiscal year 2012 from the federal fiscal year 2012 CNC grant award, no reports were submitted on the FSRS website for this particular grant award.

By not complying with federal Transparency Act reporting requirements, the Department risks federal funding being reduced, taken away, or other sanctions imposed by the federal grantor agency. If valid DUNS numbers for subrecipients are not included in the transparency reports, the Federal government is not able to use the numbers to better identify organizations that are receiving federal funds and to provide consistent name and address data for other electronic grant application systems. According to management, the Department has worked to gather the required information, including subrecipient DUNS numbers, and is working on reports for state fiscal year 2012 and all awards thereafter although they have had numerous technical difficulties with the FSRS website. According to management, they chose to report for the CNC grant award after the close out process was completed the following fiscal year.

We recommend that the Department collect and report on the FSRS website the required information regarding subawards made for all programs subject to the Transparency Act. The Department should continue to work with the federal grantor agency to resolve any issues with reporting in accordance with the Transparency Act. If the Department is uncertain as to how to report for different types of grants (e.g., reimbursement-based grants such as CNC), they should seek additional clarification and guidance from the federal grantor agency to ensure their reporting approach is correct. The Department should work with subrecipients to ensure they are providing valid DUNS numbers to the Department either in the funding applications they submit or before they receive the subawards. In addition, the Department should develop a system of internal controls over the reporting process, including a review by management to help ensure the transparency reports are accurate and complete prior to submission to FSRS. These reviews should be documented in some manner to provide reasonable assurance the reviews were performed prior to submission.

3. VARIOUS PROGRAMS – TRANSPARENCY ACT REPORTING (Continued)

Official's Response and Corrective Action Plan

The Department will create a reporting database to provide the correct format and data for loading grant sub-award files into the FSRS website. The Department will obtain and evaluate recipient DUNS number information for accuracy prior to submitting the report to identify potential upload errors. The Department will also review the data upload and Transparency Act report for accuracy and completeness. This procedure will be evidenced by a signature/initial by the designated staff.

Anticipated Completion Date for Corrective Action

8/30/2013

Contact Person Responsible for Corrective Action

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4. SPECIAL EDUCATION CLUSTER – MAINTENANCE OF EFFORT MONITORING

Finding Number	2012-EDU04-007
CFDA Number and Title	84.027/84.173/84.391/84.392 – Special Education Cluster
Federal Agency	Department of Education
Compliance Requirement	Maintenance of Effort

MATERIAL WEAKNESS

34 CFR Section 300.203 relates to the maintenance of effort requirements under Part B of the Individuals with Disabilities Education Act (IDEA) for funds provided by the U.S. Department of Education to Local Education Agencies (LEA) and states, in part, that:

> (a) ...funds provided to an LEA under Part B of the Act must not be used to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds below the level of those expenditures for the preceding fiscal year.
>
> (b) ...the SEA [State Education Agency] must determine that an LEA complies with paragraph (a) of this section for purposes of establishing the LEA's eligibility for an award for a fiscal year...
> ...

In state fiscal year 2012, the Department disbursed $463.1 million in funds authorized under IDEA to LEAs throughout the State of Ohio. The Department did not have a process in place to properly monitor the maintenance of effort requirements for LEAs. The Department has been working with the Information Technology Office to create an IDEA MOE report application to be used in the future. Meanwhile, in April 2012, the Department implemented an alternate method for monitoring maintenance of effort by pulling the information from the Education Management Information System (EMIS); however, the excess cost data that was pulled from EMIS was incorrect. According to management, the Department completed a final spreadsheet which allowed them to perform a proper comparison of LEA data, identify LEAs who did not meet the maintenance of effort requirements, and obtain responses from the noncompliant LEAs; however, the final spreadsheet was not completed until August 2012 and the Department's reviews of the LEA responses are not expected to be completed until April 2013. Therefore, the Department was unable to ensure LEAs met the maintenance of effort requirement for the Special Education Cluster during state fiscal year 2012.

4. SPECIAL EDUCATION CLUSTER – MAINTENANCE OF EFFORT MONITORING (Continued)

If the MOE report application is not functioning properly and timely additional procedures are not performed to monitor the maintenance of effort, the Department and the LEAs are at risk of noncompliance with federal requirements over the Special Education Cluster. Noncompliance could result in funding reductions and/or sanctions from the grantor agency.

We recommend the Department continue to correct problems with and implement the MOE report application. We further recommend the Department continue to review responses from noncompliant LEAs identified during alternative review methods and impose sanctions where necessary. Lastly, we recommend the Department continue to monitor LEAs through alternative methods until the MOE report application is fully operational and can be used by the Department as a more efficient and effective monitoring tool.

Official's Response and Corrective Action Plan

The ODE Information Technology Office (ITO), in conjunction with the Office for Exceptional Children (OEC), has built an application in the SAFE account to test MOE for IDEA. OEC has been working with ITO on this project for about a year, and is currently testing in production and should have a live release in April. This will test FY12 against FY11 expenditures. OEC is currently writing the instructions for users and preparing presentations to share at multiple conferences this spring and fall. The application will test expenditures and inform districts through the Comprehensive Continuous Improvement Plan (CCIP) system if they do not meet MOE for IDEA. Districts can work with OEC through this application to verify expenditures and or submit evidence of allowable exceptions or other considerations to MOE. OEC will be able to approve or deny reports based on review of the uploaded evidence from the district.

Anticipated Completion Date for Corrective Action

4/30/2013

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO ENVIRONMENTAL PROTECTION AGENCY

1. CWSRF AND DWSRF – SUBRECIPIENT MONITORING

Finding Number	2012-EPA01-008
CFDA Number and Title	66.458 – Capitalization Grants for Clean Water State Revolving Funds 66.468 – Capitalization Grants for Drinking Water State Revolving Funds
Federal Agency	Environmental Protection Agency
Compliance Requirement	Subrecipient Monitoring

<u>NONCOMPLIANCE AND MATERIAL WEAKNESS</u>

The Office of Management and Budget's Circular A-133 states in part:

> §___. 400 Responsibilities
>
> …
>
> (d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:
>
> (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
>
> (4) Ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
>
> (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
>
> (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.
>
> …

In order to meet the pass through entity responsibilities specified in OMB Circular A-133, the Ohio Environmental Protection Agency (EPA) determined the Alternative Option detailed in USEPA Memo SRF07-03 would be utilized. The Alternative Option allows the Department to select certain Local Government Agency (LGA) project awards that cumulatively equal or exceed the EPA's Federal Capitalization Grant award for each year. The selected LGA projects must report the project expenditures on their Schedule of Expenditures of Federal Awards (SEFA) in the first fiscal year selected and for the remaining life of the project and are required to have a single audit conducted. Those projects not selected under the alternative approach are not required to report the program(s)/project(s) on their SEFA and are not required to have a single audit conducted.

It is management's responsibility to implement policies and procedures to monitor the subrecipients selected to reasonably ensure they have complied with the rules and regulations and met the objectives of the programs.

EPA collaborated with the Ohio Auditor of State's Office (AOS) and implemented the alternative single audit approach for the Capitalization Grants for Clean Water State Revolving Funds (CWSRF) and Drinking Water State Revolving Funds (DWSRF) programs for the selected calendar year 2010 LGA projects. EPA had subrecipient policies and procedures; however, these policies and procedures were last updated in 2004 and didn't include steps for applying the alternative single audit approach. In addition, the EPA did not perform any reviews over the LGA single audits, issue any management decisions on audit findings, or ensure subrecipients took appropriate and timely corrective action during our audit period.

1. CWSRF AND DWSRF – SUBRECIPIENT MONITORING (Continued)

If EPA does not monitor and review the single audit reports from their subrecipients, there is a risk that instances of subrecipient noncompliance will go uncorrected or undetected. Noncompliance could result in reduced Federal funding or sanctions imposed by the Federal grantor agency. According to management, EPA did not understand the importance of the A-133 requirements and how they applied due to the newness of the subrecipient monitoring requirements as they relate to EPA and LGAs.

We recommend EPA continue to develop and implement procedures to apply the alternative single audit approach, review the subrecipient single audit reports, prepare management decisions for relevant audit findings, and ensure corrective action is taken by the subrecipient. Controls should be documented and maintained to provide management with assurance the controls are operating consistently and effectively. We also recommend management implement a tracking sheet or other tool to document the receipt and review of the single audit reports, any management decisions or corrective action required, and EPA's acceptance of the corrective action.

Official's Response and Corrective Action Plan

Ohio EPA's Office of Fiscal Administration will update the sub-recipient monitoring procedure to require a review of the federal single audits conducted under the alternative single audit approach for the SRF programs. Ohio EPA's Division of Environmental Financial Assistance (DEFA) will review the audits conducted under this approach and where applicable, issue management decisions and ensure corrective action is taken by the sub-recipient. DEFA will keep a spreadsheet to track the local entities that are designated to have a federal single audit of their SRF projects, the review of those audits and where applicable, management decisions and corrective actions.

Anticipated Completion Date for Corrective Action

June 30, 2013

Contact Person Responsible for Corrective Action

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2. CWSRF AND DWSRF – INVOICE REVIEWS

Finding Number	2012-EPA02-009
CFDA Number and Title	66.458 – Capitalization Grants for Clean Water State Revolving Funds 66.468 – Capitalization Grants for Drinking Water State Revolving Funds
Federal Agency	Environmental Protection Agency
Compliance Requirement	Activities Allowed or Unallowed; Allowable Costs and Cost Principles

<u>SIGNIFICANT DEFICIENCY</u>

Sound accounting practices require management to devise and implement an adequate internal control structure capable of providing them with reasonable assurance their objectives are being achieved. As the prime recipient of the Capitalization Grants for Clean Water State Revolving Funds (CWSRF) and Drinking Water State Revolving Funds (DWSRF) programs, the Ohio Environmental Protection Agency (EPA) must include internal controls that reasonably ensure amounts paid to the borrowers (usually local

2. CWSRF AND DWSRF – INVOICE REVIEWS (Continued)

government agencies), through the Ohio Water Development Authority (OWDA), are processed accurately, completely, and in compliance with federal laws and regulations.

During state fiscal year 2012, EPA expended approximately $144.4 million from the CWSRF program and $18.7 million from the DWSRF program for local government water construction projects. EPA is the State's prime recipient of CWSRF and DWSRF and shares responsibility for the management of these programs with OWDA, as stated in Ohio Revised Code section 6111.036. An interagency agreement between EPA and OWDA describes the responsibilities to be performed by each agency.

Prior to beginning a project, the applicant submitted a loan application and, if approved and selected, entered into a loan agreement with EPA. Once the loan agreement was signed, EPA prepared a Disbursement Protocol agreement for the payment of the project's expenses. The Disbursement Protocol included the borrower, project name and identification number, eligible costs, interest, source(s) of funds for the disbursements, and the project contingency cost which is an amount that can only be disbursed after written authorization from EPA. Once the borrower completed the electronic Fund Payment Request form (FPR) via OWDA's website, OWDA reviewed the FPR for reasonableness and compliance with the contract; approved the FPR; and, sent the documentation to EPA. EPA indicated that coordinators then reviewed the documentation to ensure the disbursement was allowable and electronically saved a copy of the FPR to their hard drives. However, prior to January 2012, there was no evidence EPA reviewed the documents to ensure the costs were for allowable activities or performed additional monitoring activities to ensure OWDA was accurately ensuring grant funds requested were for allowable activities. In January 2012, EPA coordinators began documenting their review of the FPR and other supporting documentation by saving the FPR to the Financial Aid Management System (AIMS) and checking the verification box. However, the control procedures were not consistently applied. Of the 80 disbursement vouchers selected for testing:

- 56 (29 for CWSRF and 27 for DWSRF), or 70%, did not contain evidence of approval within the AIMS system.
- 24 (11 for CWSRF and 13 for DWSRF), or 30%, contained evidence of approval, but the approval was not completed timely and was completed after the date of the audit documentation request.

Without performing timely reviews of the invoices submitted for reimbursement by the borrower or performing other monitoring activities, EPA cannot be reasonably assured OWDA's review process insures payments made to borrowers were for allowable activities. In addition, if EPA does not perform timely monitoring reviews over OWDA, there is a risk that noncompliance will not be identified in a timely manner or identified at all. A misuse or abuse of federal funds could result in disallowed costs, repayment of federal funds, and fines and penalties. Management indicated the AIMS invoice review and approval process were new and they were working with staff to understand the importance of approving the disbursements within AIMS.

We recommend EPA, as the sole designated USEPA grant award recipient, expand/strengthen internal control procedures over OWDA's disbursement approval process. Specifically, we recommend EPA ensure that all reviews performed over invoices are timely and well documented. Furthermore, EPA management should perform periodic monitoring to ensure the control procedures performed by EPA staff are operating effectively and as intended.

Official's Response and Corrective Action Plan

Due to vacant positions and problems with the database (AIMS) where invoices are stored, Ohio EPA was not able to document the review of invoices during FY 2012. Now that staffing levels are stabilizing and the database is working more efficiently, the process below will be implemented in the second half of FY 2013.

2. CWSRF AND DWSRF – INVOICE REVIEWS (Continued)

When OWDA processes a payment, OWDA sends an electronic copy of the Fund Payment Request (FPR) including the supporting documentation to the appropriate Ohio EPA, Division of Environmental Financial Assistance (DEFA) staff person as a PDF.

DEFA staff will review the FPR and related documentation on a timely basis to assure the payment was allowable. Staff will then save the FPR in the AIMS computer application and check the Verification Date box to identify the date the FPR was verified. AIMS will store the FPR's, the entry date, the name of the staff person who entered the request and the amount.

If the AAS staff finds in their review of the payment request form that a payment was made to the community for an activity that is not allowable, AAS staff will contact OWDA to discuss possible remedies which could include:

1. *Requesting the amount of the unallowable funds back*
2. *Advising the community and adjusting the next payment request form to deduct the un-allowed amount.*

Anticipated Completion Date for Corrective Action

July 1, 2013

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

1. CASH MANAGEMENT

Finding Number	2012-DOH01-010
CFDA Number and Title	10.557 – Special Supplemental Food Program for Women, Infants, and Children (WIC) 93.917 – HIV Care Formula Grants (HIV) 93.994 – Maternal & Child Care Health Services Block Grant to the States (MCH)
Federal Agency	Department of Agriculture Department of Health and Human Services
Compliance Requirement	Cash Management

NONCOMPLIANCE AND MATERIAL WEAKNESS

U.S. Treasury regulations, 31 CFR part 205, which implemented the Cash Management Improvement Act of 1990 (CMIA), require state recipients to enter into agreements which prescribe specific methods of drawing down federal funds (funding techniques) for selected large programs. The WIC program is covered by such an agreement. The state fiscal year 2012 CMIA Agreement between the State of Ohio and the United States Department of the Treasury, paragraph 6.3.2, specifically requires the WIC program to use the Pre-Issuance technique of drawing federal funds. Paragraph 6.2.1 states this funding technique requires "The State shall request funds such that they are deposited in a State account not more than three days prior to the day the State makes a disbursement. The request shall be made in accordance with the appropriate Federal agency cut-off time specified in Exhibit I. The amount of the request shall be the amount the State expects to disburse. This funding technique is not interest neutral." The HIV Care and MCH Block Grant programs are covered by 31 CFR 205.33(a) Subpart B, which states, in part:

> A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

During the fiscal year, the Ohio Department of Health (the Department) drew down $185,070,455, $19,246,672, and $19,935,315 in federal funds for the WIC, HIV, and MCH federal programs, respectively. The Department utilized information primarily from the Grants Management Information System 2.0 (GMIS) and the OAKS accounting system to determine the amount of cash to be drawn. This amount was based on a cumulative calculation of immediate cash needs. However, for ten out of 67 items, the total amount of cash draw down was not disbursed within the guidelines for timely submission for each of the federal programs listed above. The total amount for these ten draws was $18,880,434, broken out as follows:

Program	Number of Draws not Disbursed Timely	Amount of Draw
WIC	3	$15,641,691
HIV	3	$2,582,246
MCH	4	$656,497
Total	10	$18,880,434

1. CASH MANAGEMENT (Continued)

Additionally, the Department utilized the OAKS Business Intelligence (BI) system to perform a reconciliation of cash draws. However, the Federal Reconciliation report did not include evidence of review and approval.

Without proper documentation to evidence review and approval, management is unable to provide reasonable assurance the Department is in compliance with the applicable requirements documented above. Specifically, the untimely disbursement of funds and not limiting draws to the Department's immediate need resulted in noncompliance with the CMIA requirements. This condition could subject the Department to sanctions or other penalties and a repayment of part of the grant award amount. In addition, noncompliance could subject the Department to paying interest charges on these draws.

According to the Cash Management Supervisor, the cash drawdowns are based on an accumulated calculation of standing data for each subrecipient. Therefore, a variety of factors could impact the timeliness of the disbursements, some of which are out of the Department's control. Also, the Cash Management Supervisor indicated the reconciliation would include proper evidence of review and approval going forward.

We recommend the Department ensure all implemented control procedures are adequately documented to provide assurance they are performed timely and consistently. We also recommend the Department continue to develop a system to reasonably ensure they are drawing federal funds only for immediate cash needs. Finally, the Department should continue to maintain documentation for the specific expenditures for which the money is being drawn and any other documentation deemed necessary to support all drawdown calculation amounts. However, this documentation could be maintained in electronic form to avoid the cost of printing and storing paper documents.

Official's Response and Corrective Action Plan

ODH spoke with the Auditors and confirmed not all payments in regards to the cash draws were paid late. The cash draws are tested on a revenue basis, whereas ODH evaluates the draw amounts on a disbursement basis. Since ODH is on the advanced method for cash management, cash draws are calculated based on the total number of payments expected at the time of the draw. Based on an analysis performed by the Cash Management Unit on the ten draws in question totaling $18,880,434, the dollar amount of late vouchers payments was approximately $200,000 or 1%.

Two main issues were identified during this review. First ODH is drawing funds for vouchers/invoices that have a payment term other than "DUE NOW". There was no report available to identify the payment terms other than running individual voucher information. This process was very time consuming and takes many hours to prepare a single draw for 100 vouchers. The second issue was due to OAKS systems control which requires other units in the agency or the Office of Budget and Management to correct. The amount of time it takes varied and resulted in vouchers not being paid within the required cash disbursement time frame. To address these issues related to the auditors' findings, the ODH Cash Management Unit has started implementing the following:

a) *The ODH Cash Management Unit has started using a new Federal draw report pulling all vouchers to be paid from the OAKS States Accounting System. The new report's data includes vouchers payment terms and payment dates. This information was not easily accessible in the past. In order to meet the recommendations of the auditors and improve efficiencies, the Cash Management team currently draws down funds for vouchers with "DUE NOW" payment term only.*

b) *The ODH Cash Management Unit has incorporated in its Federal cash draw process a way to identify vouchers that have been drawn for but were not paid in the required time frame. Cash Management staff runs the report daily to identify these vouchers, reduces/adjusts future draws for the same grant by those amounts, and add the voucher identification numbers on the comment section of the daily draw calculation sheet.*

1. CASH MANAGEMENT (Continued)

c) The ODH Cash Management Unit will develop a new process to perform a monthly reconciliation of Federal draws to OAKS deposits and disbursements. A supervisory signature section will be added per the auditor's recommendations.

d) The ODH Cash Management Unit will prepare a process flowchart to ensure consistency and accountability.

Anticipated Completion Date for Corrective Action

Corrective Action Plan Completion Dates	***Completion Date***
A review of Federal cash draws procedures has been initiated to identify the root cause of invoices not been paid in the required Cash Management Improvement time frame.	*Completed 2/15/2013*
A development of a new voucher accounting report that classifies vouchers by grant and payments terms and payment date have been developed.	*Completed 8/1/2012*
Develop a process flowchart to include all phases of a Federal draw to ensure consistency.	*3/30/2013*
Update Federal cash draw procedures to mitigate factors outside the control of Cash Management and the issue of drawing funds for vouchers that do not have a "DUE NOW" payment term. *Implement an additional weekly cash draws for vouchers and travel costs that have posted in the Accounting system but were not included in the daily cash draws.*	*4/30/2013*
Update cash reconciliation policies and procedures to include monthly reconciliation and supervisory signature.	*4/30/2013*
Train Cash Management staff on the new process and implement it incrementally.	*5/31/2013*

Contact Person Responsible for Corrective Action

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1. IT - MITS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS

Finding Number	2012-JFS01-011
CFDA Number and Title	93.767 – Children's Health Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs

<u>QUESTIONED COSTS</u> $3,302,033

42 USC 1396-1 states:

> For the purpose of enabling each State, as far as practicable under the conditions in such State, to furnish (1) medical assistance on behalf of families with dependent children and of aged, blind, or disabled individuals, whose income and resources are insufficient to meet the costs of necessary medical services, and (2) rehabilitation and other services to help such families and individuals attain or retain capability for independence or self-care, there is hereby authorized to be appropriated for each fiscal year a sum sufficient to carry out the purposes of this subchapter. The sums made available under this section shall be used for making payments to States which have submitted, and had approved by the Secretary, State plans for medical assistance.

The Federal Centers for Medicare and Medicaid Services (CMS) indicates the state Medicaid plan is the document that defines how each state will operate its Medicaid program. The state plan addresses the areas of state program administration, Medicaid eligibility criteria, service coverage, and provider reimbursement. The official plan is a hard-copy document that includes a variety of materials in different formats, ranging from federally-defined "preprint" pages on which states check program options to free-form narratives describing detailed aspects of state Medicaid policy. The state Medicaid plan for each state is an accumulation of plan pages approved by CMS since the inception of the Medicaid program.

Ohio Administrative Code (OAC) 5101:3-10-03, which is part of the Ohio state plan, states:

> The "Medicaid Supply List" is a list of medical/surgical supplies, durable medical equipment, and supplier services, found in appendix A of this rule. This list includes the following information as described in paragraphs (A) to (G) of this rule:
>
> (A) Alpha-numeric codes to be used when billing the department for medical supplier services.
>
> . . .
>
> (F) "Max Units" indicator. A maximum allowable (MAX) indicator means the maximum quantity of the item that may be reimbursed during the time period specified unless an additional quantity has been prior authorized. This quantity has been established as a guideline without a prior authorization and not to reflect a definitive amount. In all cases, the dispensing of medical supplies and equipment is based on medical necessity which can be documented in the consumer's medical record and prescribed by an eligible prescriber. If there is no maximum quantity indicated, the quantity authorized will be based on medical necessity as determined by the department.

The maximum amounts were contained in appendix A of OAC 5101:3-10-03. The Medicaid Information Technology System (MITS) was used to calculate the reimbursement to medical providers and managed care entities for services rendered to eligible recipients based on these limits. The vast majority of the programmed edits in MITS will automatically deny claims, or reduce the units allowed when a provider submits units that exceed the maximum unit limits defined in appendix A.

1. MITS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS (Continued)

During state fiscal year 2012, over 80 million claims representing approximately $15 billion in Medicaid and Children's Health Insurance Program (CHIP) benefits were paid from MITS and the legacy MMIS system (July 2011 only). However, MITS edits to prevent Medicaid and CHIP provider payments above the unit or price limits set in the OAC were either not designed or not functioning properly for 169 Medicaid procedure codes. As a result, Medicaid and CHIP providers were reimbursed in excess of the limits contained in the OAC in 39,665 instances. Because the distinction between the authorized reimbursement and the overpayments could not readily be determined for each claim reimbursed, questioned costs include both the original payment amount plus the amount of payments in excess of the limit for each procedure code. We were not able to readily determine the amounts that related to each program; therefore, the excess reimbursements for the 169 procedure codes totaling over $3.3 million were questioned for the Medicaid Cluster. The following table shows the procedure codes/descriptions related to the 10 highest dollar amounts of excess provider reimbursement.

	Procedure Code / Medical Supply	OAC Limit for Unit or Dollar Amount	Total Questioned Cost	Total Count
1.	A4354 Intermittent Urinary Catheter	60 per month	$669,597	1,273
2.	T4535: Disposable Liner/Guard/Shield/Pad/Undergarment for Incontinence	300 per month	$189,885	3,947
3.	T4528: Adult Size Disposable Incontinence Product	300 per month	$180,987	1,708
4.	T4523: Adult Size Disposable Incontinence Product	300 per month	$159,873	1,444
5.	T4527: Adult Size Disposable Incontinence Product	300 per month	$154,632	1,637
6.	T4522: Adult Size Disposable Incontinence Product	300 per month	$152,226	1,428
7.	T4526: Adult Size Disposable Incontinence Product	300 per month	$133,472	1,473
8.	T4543: Disp Bariatric Brief/Diaper	150 per month	$119,407	458
9.	A4927: Gloves, Non-Sterile	2 per month	$110,281	6,869
10.	A4222: Infusion Supplies for External Drug Infusion Pump	60 per month	$102,097	316

Because of the inability to obtain historical claims-paid data compatible with the claims-paid data from MITS for state fiscal year 2012, we were unable to perform testing for any the 21 *yearly* limits imposed by the OAC (1 per year, 1 every 3 years, 2 every 5 years, etc.). In addition, we were unable to reliably determine the amount of potential overpayments related to 1) DME procedure codes that required a prior authorization code only, 2) rental claims, and 3) repair types because prior authorization codes were not included in the data provided. Therefore, we will question an undetermined amount related to these DME/service categories, all of which have had questioned costs in prior years. These potential questioned cost amounts would not be material to the overall program.

Overpayment of state and federal claims reduces funding available for other allowable services and could subject the Department to possible federal sanctions, further limiting the amount of funding available for program activities.

1. MITS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS (Continued)

MITS was just implemented in 2012 and, as may be expected for any new system, it may take some time to get all the appropriate edits in place and operating as the OAC intended. The vendor was unable to provide the necessary claims paid data in a timely basis to allow an understanding and sufficient testing for reliable questioned cost results to occur.

We recommend ODJFS perform research on the items questioned based on OAC rules and program policy and provide results to the Surveillance and Utilization Review Section (SURS) for follow-up action. ODJFS should seek to recover all claims paid in excess of the limits established in the OAC. In addition, we recommend ODJFS evaluate and update their utilization and review edits within the new MITS system to help prohibit further overpayment of Medicaid and/or CHIP claims. ODJFS should put control procedures in place to monitor the utilization and review edits within MITS to ensure they are in compliance with state and federal standards and operating, as designed.

Official's Response and Corrective Action Plan

Testing of DME was significantly delayed due to MITS issues (see comment 2012-JFS20-030), As a result, the Department was not able to provide a corrective action plan.

Anticipated Completion Date for Corrective Action

Unknown

Contact Person Responsible for Corrective Action

Unknown

2. MEDICAID/CHIP – THIRD PARTY LIABILITY

Finding Number	2012-JF02-012
CFDA Number and Title	93.767 – Children's Health Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Allowable Costs and Cost Principles

<u>QUESTIONED COSTS AND MATERIAL WEAKNESS</u> $76,290

42 CFR 433.138 states, in part:

(a) Basic provisions. The agency must take reasonable measures to determine the legal liability of the third parties who are liable to pay for services furnished under the plan…

(b) Obtaining health insurance information: Initial application and redetermination processes for Medicaid eligibility. (1) If the Medicaid agency determines eligibility for Medicaid, it must, during the initial application and each redetermination process, obtain from the applicant or recipient such health insurance information as would be useful in identifying legally liable third party resources so that the agency may process claims under the third party liability payment procedures specified in §433.139 (b) through (f)…

…

42 CFR 433.139 (b) states, in part:

Probable liability is established at the time the claim is filed. . . (1) If the agency has established the probable existence of third party liability at the time the claim is filed, the agency must reject the claim and return it to the provider for a determination of the amount of liability. The establishment of third party liability takes place when the agency receives confirmation from the provider or a third party resource indicating the extent of third party liability…

The County Departments of Job & Family Services (CDJFS) process the application and related information for initial Medicaid eligibility and eligibility redeterminations. During the initial application or redetermination process, the CDJFS are responsible for identifying if the applicant has any third party insurance coverage and noting this in the CRIS-E system. If a potential Medicaid recipient stated that they had third party insurance but had no proof or incomplete proof of insurance, the CDJFS is responsible for entering the information into CRIS-E, setting the system to cost avoid, and marking the record as "Client Statement". An insurance verification is automatically generated and sent to the insurance company to verify the information. The Department's Cost Avoidance Unit (CAU) receives and processes the verifications. If proof of the third party insurance is provided at the time of initial application or redetermination, including the policy name and number, dates of coverage, and insurance types, then the CDJFS enters the information as "Data Verified" and sets the system to cost avoid. The system is set to cost avoid to ensure that any claims related to the third party insurance coverage were billed to that insurance company before billing Medicaid. The county-level third party liability (TPL) information uploads from CRIS-E into a TPL database in the Medicaid Information Technology System (MITS) to be used in claims processing. Beginning in January of 2012, an insurance verification was automatically generated for all third party insurance records entered at the county level and the system was set to cost avoid. In the past, several issues have been noted pertaining to inaccurate TPL information that was entered into CRIS-E by the CDJFS. Therefore, the Department changed the process to ensure insurance verifications are sent for every record entered by the CDJFS.

Prior to January 2012, the Department indicated they conducted monthly reviews of the TPL records processed by the CDJFS; however during these reviews, CAU personnel verified information through

2. MEDICAID/CHIP – THIRD PARTY LIABILITY (Continued)

applicable CRIS-E and MITS screens only. These reviews did not include an examination of proofs of insurance for recipients maintained at the county-level. In addition, no documentation was maintained to evidence these reviews. Beginning in January 2012, since all records entered by the County are set to cost avoid and insurance verifications are generated and sent to the insurance company, monthly reviews of third party liability records entered by the counties were no longer performed. The Department indicated that instead, the CAU supervisor reviewed the cases completed by CAU examiners; however, no documentation was maintained to evidence these reviews.

Of the 60 third party records selected for testing from the 14,327 TPL records entered into CRIS-E or MITS during state fiscal year 2012, 43 cases (71.7%) were identified where the information in the TPL database was not accurate, complete, and/or properly supported. For 16 of the 43 cases, (seven entered by CDJFS and nine verified by CAU), the recipient's proof of insurance or the insurance verification was not maintained or the proof of insurance on file was not adequate to determine the proper insurance company policy, insurance coverage dates or insurance coverage types; therefore, we were unable to determine if the insurance information entered in CRIS-E or MITS was accurate and complete. As a result, the related $76,290 in benefits paid on behalf of the recipients will result in questioned costs. We were not able to readily determine whether Medicaid or CHIP funds were used to reimburse the questioned claims and therefore, we will associate all questioned costs with the Medicaid program. The remaining 27 cases were instances in which the insurance coverage dates in MITS did not agree to the insurance documentation or the recipient's proof of insurance or verification was not adequate to determine the proper insurance company policy. These discrepancies did not result in claims being incorrectly billed to Medicaid/CHIP.

If third party insurance information is not accurately and completely entered into the State's systems, the risk is significantly increased that claims could be incorrectly billed to the related federal program when they were, in fact, covered by a third party insurance company. In addition, if the cost avoidance actions set up in the system are not properly supported, management may not be able to substantiate decisions to avoid Medicaid and/or CHIP claim costs which may result in disputes with insurance companies.

Management indicated there is a high level of employee turnover at the CDJFS and this may contribute to increased errors in performing cost avoidance at the county level. In addition, the county case workers are not properly following procedures which could also be attributed to the high turnover. Also, the process change in January 2012 shifted responsibility for assuring the accuracy of the insurance information to the State which resulted in missing documentation.

We recommend Department management continue to perform reviews of TPL records verified for accuracy by the CAU examiners. This could be done on a sample basis. These procedures should be performed timely, thoroughly documented, and reviewed by the appropriate supervisory personnel. In addition, management should also continue to evaluate the state examiners cost avoidance process to ensure the process is performing as management intended.

Official's Response and Corrective Action Plan

The Department disagrees with the questioned cost of $76,290. After analysis and validation, we agree to a questioned cost of $147. Documentation supporting the Departments calculation is available for review at request by CMS or OBM.

<u>*Factors Mitigating the Questioned Status of Payments Cited by AOS*</u>

1) *Usual policy coverage determined by Carrier type: Medical, Pharmacy, Vision, Dental etc.*

2) *Policy holders covering biological children not required to cover all members of household.*

2. MEDICAID/CHIP – THIRD PARTY LIABILITY (Continued)

3) *The agency must take reasonable measures to determine the legal liability of the third parties who are liable to pay for services furnished under the plan. AOS disregarded Origin Date of TPL which is the date the county is notified of coverage by client.*

4) *OHP has in place strong internal controls by contracting with HMS for the identification and recovery of identified third party resources on a post payment basis. During the MITS transition, all Sister Agency claims were part of the Pay & Chase process.*

The majority of the questioned costs arose from the Agency decision to allow all Sister Agency claims to by-pass the TPL edits during the MITS "Go Live" transition. This allowed providers to be paid and any necessary recovery was initiated through the Pay and Chase method. During FY13, most of the TPL edits were back in place, claims and diagnosis codes having been worked out allowing provider to be paid correctly.

Documentation supporting the Departments calculation is available for review at request by CMS or OBM. Due to the difference of opinion regarding the 71.7% inaccuracy of the county verifications, as of January 2012, all county data will be sent into MITS as non-verified and will generate verification letters to the carriers.

CAP: Department management will continue to perform reviews of TPL records verified for accuracy by the CAU examiners. This will be done on a sample basis, performed timely, documented and reviewed by the appropriate supervisory personnel. Department management will continue to evaluate the state cost avoidance process to ensure the process is performing as management intended. A summary of the analysis prepared by ODJFS was also provided but not included here due to size.

Anticipated Completion Date for Corrective Action

July 2014

Contact Person Responsible for Corrective Action

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Auditor of State's Conclusion

Regarding the questioned cost: Although ODJFS indicated the third party insurance would not have covered the type of claim questioned and/or the policy was not required to cover family members for some of the questioned payments, they did not provide appropriate insurance documentation to support their position. In addition, the Department indicated the origin date of some of the insurance records was after the service date of the questioned claim, therefore, the system did not cost-avoid. However, the Department provided no evidence to indicate the claim was properly adjusted or cost-avoided after the information was entered. For those claims related to the sister agency "pay and chase" process, no information was provided to indicate the claims questioned were identified for recovery on a post-payment basis by ODJFS, the sister agency, or HMS. As a result, we couldn't verify the accuracy of the explanations provided by ODJFS in their analysis and the finding will remain as stated above.

3. MEDICAID/CHIP – MANAGED CARE

Finding Number	2012-JFS03-013
CFDA Number and Title	93.767 – Children's Health Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed

QUESTIONED COSTS AND MATERIAL WEAKNESS $46,478

42 CFR Section 438.207, states, in part:

(a) Basic rule. The State must ensure, through its contracts, that each MCO, PIHP, and PAHP gives assurances to the State and provides supporting documentation that demonstrates that it has the capacity to serve the expected enrollment in its service area in accordance with the State's standards for access to care under this subpart.

(b) Nature of supporting documentation. Each MCO, PIHP, and PAHP must submit documentation to the State, in a format specified by the State to demonstrate that it complies with the following requirements:
   (1) Offers an appropriate range of preventive, primary care, and specialty services that is adequate for the anticipated number of enrollees for the service area.

   (2) Maintains a network of providers that is sufficient in number, mix, and geographic distribution to meet the needs of the anticipated number of enrollees in the service area.

…

Ohio Administrative Code 5101:3-26-09 (A), Reimbursement, states, in part:

(1) MCPs will receive a monthly premium payment for each member. For the covered families and children category as described in paragraph (B)(1)(a) of rule 5101:3-26-02 of the Administrative Code, when MCPs provide or arrange maternity coverage, a separate payment will be made for each reimbursable delivery. These payments will be in effect for the duration of the agreement unless restricted in accordance with rule 5101:3-26-10 of the Administrative Code.

(2) The premium rates are computed on an actuarially sound basis. This rate does not include any amount for risks assumed under any other existing or any previous agreement or contract. The premium rate will be reviewed at least once every two years and may be modified based on existing actuarial factors and experience.

…

Sound internal control procedures require management to monitor and oversee operations of the Managed Care program to provide reasonable assurance the Managed Care Plans (MCP) are in compliance with provider panel and provider capacity requirements. It is also the responsibility of management to implement controls policies and procedures to reasonably ensure payments made to MCPs are allowable and calculated correctly. Controls must be adequately documented to provide management with assurance the controls are performed timely and consistently.

The Department expended approximately $6.42 billion ($6.15 billion for Medicaid and $270 million for CHIP) to Managed Care Plans (MCP) during state fiscal year 2012. At the beginning of each state fiscal year, the Department enters into a new agreement with the Managed Care Plans that administer the Managed Care Program throughout the state. The agreement includes standard reimbursement rates (by calendar year), the methodology for determining those rates, and requirements for the number and types

3. MEDICAID/CHIP – MANAGED CARE (Continued)

of providers to whom the plan must contract, and the responsibilities of the Department and the MCP. The capitation rates specified in the agreement are set up in the MITS system and the capitation payments made to the MCPs are based on these rates. The MCPs submit reports identifying the number of providers for each provider type, as well as identifying the primary care physician capacity and hospital capacity. Monthly, the Senior Program Administrator creates provider panel reports with the information submitted by the MCPs. The Contract Administrator is to complete a general review over the provider panel reports, while the Senior Program Administrator is to complete a compliance review comparing the reports to the managed care plan agreements. The Senior Program Administrator did not evidence these reviews until April 2012. While management has implemented procedures to monitor managed care plans, these controls were not consistently followed for the 20 provider panel reports selected for testing, as indicated below:

- Four of 20 (20%) did not contain evidence the Contract Administrator reviewed the report.
- Two of 20 (10%) contained evidence of the Contract Administrator's review. However, the report was not reviewed timely. One report was reviewed almost four months after the report date and the other report was reviewed over six months after the report date.

In addition, three of 60 (5%) capitation payments selected for testing, totaling $46,478, did not have proper documentation maintained to support the capitation rate applied and payment made to the MCP. A MITS Cold Report, which identifies the capitation categories and rates set up for each specific MCP, was not provided. Therefore, we couldn't agree the rates applied per MITS to the MCP's agreement to ensure compliance. In addition, the three payments in OAKS were coded to the Covered Children and Families (CFC) program, but were coded to Aged, Blind or Disabled (ABD) specific payee IDs (or MCP IDs) within MITS. The Department was unable to provide support to explain the coding of these three payments. Therefore, we will question the costs associated with these payments.

Without proper documentation of management's review and approval of internal controls, there is an increased risk that procedures may not be working as intended or may not be consistently applied. If control procedures are not performed and documented thoroughly and consistently, management is unable to provide reasonable assurance the Managed Care program is in compliance with provider panel and provider capacity requirements. In addition, if the correct capitation rates are not applied and the correct amount is not disbursed, the Department may be required to reimburse HHS for payments made at the incorrect capitation rate and penalties/sanctions may be instituted that could reduce future federal funding.

According to management, the provider panel report issues were due to an oversight and a limited number of staff. The three capitation payments occurred during October and November 2011 and the Department was unable to provide the MITS Cold Reports for these months.

We recommend the Department implement and/or strengthen internal controls related to the review of the provider panel reports. The Department should select a sample of provider panel reports to review on a regular basis to ensure that information contained within the reports agrees to the requirements listed in the MCP Agreements. Evidence of such reviews should be maintained to provide management with assurance the controls are operating consistently and effectively. Also, management should ensure the correct capitation rates are applied and correct payments are made to MCPs. Proper documentation should be maintained to support the capitation rates applied, the payment's coding, and any adjustments made.

3. MEDICAID/CHIP – MANAGED CARE (Continued)

Official's Response and Corrective Action Plan

A. The Senior Program Administrator will continue to monitor the Provider Panel Reports on a quarterly basis for compliance. The Senior Program Administrator in due diligence will follow up upon issuance of the Provider Panel Reports with the Contract Administrators to be sure they have reviewed and initialed the reports.

B. We disagree with the questioned cost of $46,478. Corrective Action is not required as the agency has not been provided with detailed information from the Auditor of State so that the agency could investigate identified discrepancies. Our agency, OMA, requested through e-mail an identification of the specific recipient IDs involved so that the information could be reviewed in MITS. Please note that Managed Care capitation is paid for each recipient specific to each specific payee ID. Auditor of State staff was unable to identify the recipient level information for the questioned payments as it was not included in their testing.

The plans have a separate number for ABD and for CFC. When OMA staff reviewed the auditor's analysis of the ABD or CFC programs on the vouchers, they had from OAKS, they attributed the wrong numbers to the plans. We do not know how these were identified as CFC payments but the plans and provider numbers are ABD.

Voucher ID~ 03845586~ United Health Care~ SE Region (2693545) Voucher ID~ 03845594~ CareSource~ SE Region (2693661) Voucher ID~ 03935658~ United Health Care~ NW Region (2929568), United Health Care is not in the CFC NW Region

When you review the MITS document~ (1) PMP Information is in the top left corner, the PMP ID~03845586, Provider Name~ United Health Care, MC Program~ HMO, ABD (2) Capitation Rate Override~ MC Region SE Region, MC Region, Capitation Category AB7~ (this identifies that this payment was made in region 7), Capitation Amount, Effective Date and End Date.

Anticipated Completion Date for Corrective Action

A. Immediately

B. None needed

Contact Person Responsible for Corrective Action

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Auditor of State's Conclusion

Regarding the questioned cost: The OAKS payee IDs and the subprogram assigned to each type of ID (CFC or ABD) was determined based on the listing provided by ODJFS. The Auditors provided ODJFS personnel with the payment information/voucher numbers questioned; however, as stated above, the MITS Cold Report or other documentation necessary to determine the recipient level data and related capitation rates was not provided by ODJFS. Maintaining the required supporting documentation is the responsibility of management. Although several meetings were held with ODJFS personnel concerning this matter, no additional documentation was provided to support that payments were made using the appropriate capitation rates. Therefore, the finding will remain as stated above.

4. MEDICAID/CHIP – INTRASTATE TRANSFER VOUCHERS

Finding Number	2012-JFS04-014
CFDA Number and Title	93.767 – Children's Health Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed; Allowable Costs/Cost Principles

QUESTIONED COSTS AND MATERIAL WEAKNESS $41,155

42 CFR Section 433.10 (a), Rates of FFP for program, states, "Sections 1903(a)(1), 1903(g), and 1905(b) provide for payments to States, on the basis of a Federal medical assistance percentage, for part of their expenditures for services under an approved State plan." The United States Department of Health and Human Services (HHS) publishes the Federal Financial Participation (FFP) percentages each year within the Federal Register. The FFP percentage is the percentage of eligible Medicaid and CHIP claims that HHS will reimburse. The remaining portion of the claim is required to be covered by non-Federal funds. The Department must have adequate controls in place to reasonably ensure the amount requested for reimbursement from HHS is calculated correctly. To be effective, these control procedures must be performed regularly, be approved by a supervisory level employee, and be adequately documented to provide management with assurance the controls are performed timely and consistently.

During state fiscal year 2012, the Department processed approximately 1,058 Medicaid and CHIP Intra-state Transfer Vouchers (ISTVs) totaling approximately $1.4 billion (854 Medicaid totaling $1.3 billion and 204 CHIP totaling $37.1 million) for services provided by or processed through various state agencies (also known as "sister agencies"; the most significant of which are Department of Developmental Disabilities, Department of Mental Health, Department of Alcohol and Drug Addiction Services, and Department of Aging). As the "selling agency", the sister state agency requested reimbursement for Medicaid and CHIP claims, prepared an ISTV and submitted the ISTV along with support documentation (normally a claims report from the sister state agency's internal Medicaid system) to the Department. The claims report was uploaded into the Medicaid Information Technology System (MITS). Upon receipt of the ISTV/support documentation, the Management Health Specialist (MHS) Administrator and the Chief within the Office of Ohio Health Plans – Bureau of Long-term Care Services and Support (BLTCSS) were to verify the federal and non-federal amounts on the ISTV matched the amount on the MITS Report (which summarized the claim data submitted by the sister state agency), and then approve the ISTV. The Account Examiner 3 within the Office of Fiscal and Monitoring Services (OFMS) – Accounting was to review the ISTVs processed in the Ohio Administrative Knowledge System (OAKS) to ensure the documents entered were processed accurately. However, there were instances in which the Department's internal control structure was not adequate to reasonably assure objectives were met and instances of noncompliance were noted, as detailed below:

- Four of 60 (6.7%) ISTVs selected did not contain evidence of Bureau Chief's (BLTCSS) review for accuracy and completeness.
- Five of 60 (8.3%) ISTVs selected did not contain evidence of the Account Examiner's (OFMS) review to ensure the ISTV was properly processed in OAKS.
- There was no reconciliation of the total ISTV activity recorded in OAKS to ensure accuracy and completeness of the transactions processed.
- Eight of 60 (13.3%) ISTV amounts were not calculated correctly. We used the total claims amount from the MITS reports associated with these eight ISTVs, applied the FFP percentage, and attempted to agree the amount calculated to the amount on the ISTV and the amount requested for reimbursement from HHS. In four instances, the amount on the ISTV / amount drawn from HHS was more than should have been drawn. In the other four instances, the amount drawn was less than what should have been drawn. When netted together, a total of

4. MEDICAID/CHIP – INTRASTATE TRANSFER VOUCHERS (Continued)

$268,936 was underdrawn for Medicaid and a total of $41,155 was overdrawn for CHIP. We will question the amount of CHIP funds that were overdrawn.

Without performing a timely, thorough, and complete reconciliation of ISTV activity recorded in the state's accounting system, management cannot reasonably ensure the accuracy and completeness of the accounting records. Transactions processed in error by other state agencies and/or processing inaccuracies by the state's accounting system which may impact the Department's funds could go undetected. Furthermore, without controls being performed properly, management cannot reasonably assure the ISTVs were properly recorded and processed. In addition, if the amount requested from HHS is not accurate and too much money is drawn from HHS, penalties/sanctions which could reduce future federal funding may be instituted.

The Department indicated they reconcile every ISTV individually to OAKS; therefore, no reconciliation of the total ISTV activity was recorded. Furthermore, the control issues noted were due to oversight and the implementation of the new MITS system. In addition, the Department indicated the calculation variances between the amount of the ISTV and support documentation was also due to the implementation of MITS and inconsistencies in the determination of the FFP claim amount.

We recommend management establish and/or strengthen internal control procedures over ISTV activity recorded in the state's accounting system to ensure accuracy and completeness of the transactions processed. The Department should formally document and communicate these policies and procedures to all employees and re-evaluate and update the procedures on a regular basis to address any necessary changes. These control procedures should include reconciling total ISTV activity on a periodic basis to reasonably ensure completeness of ISTVs processed. All control procedures should be properly documented and the documentation should be maintained to provide management with assurance the controls are operating consistently and effectively. Management should periodically monitor these activities to help ensure the policies and procedures are functioning as intended. In addition, management should ensure the FFP percentage is consistently determined and the correct amount is drawn from HHS. The calculation of the ISTV amount along with sufficient support documentation should be maintained.

Official's Response and Corrective Action Plan

All staff that process ISTV's within the Office of Fiscal and Monitoring Services (OFMS) have been reminded of the complete review process which includes verification of signature authorization as evidence of Bureau Chief's (BLTCSS) review for accuracy and completeness.

All staff that process ISTV's within OFMS have been advised to initial and date the ISTV to show reconciliation to OAKS. The reconciliation process of the total ISTV activity recorded in OAKS consists of verifying mailbox activity (pending ISTV's are moved to paid file), verifying accuracy of payment amounts to ISTV total, recording the posted date and payment number to the ISTV.

In the instances where a total of $268,936 was under-drawn for Medicaid and a total of $41,155 was overdrawn for CHIP, OFMS relies on the calculations provided by the OMA program area. OFMS reviews the supporting documentation (e.g. summary of total claims) to verify accuracy with the amount reflected on the ISTV.

Anticipated Completion Date for Corrective Action

Completed 2/27/13

4. MEDICAID/CHIP – INTRASTATE TRANSFER VOUCHERS (Continued)

Contact Person Responsible for Corrective Action

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5. CCDF CLUSTER – FRANKLIN COUNTY

Finding Number	2012-JFS05-015
CFDA Number and Title	93.575/93.596 – CCDF Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed, Eligibility, Subrecipient Monitoring

QUESTIONED COSTS $13,160

Federal regulations for all federal programs require that payments made to, or on behalf of, beneficiaries be limited to those persons who have been determined eligible for such benefits. Regulations for the CCDF program are:

45 CFR 206.10(a)(5)(i) states, in part:

> Financial assistance and medical care and services included in the plan shall be furnished promptly to eligible individuals without any delay attributable to the agency's administrative process, and shall be continued regularly to all eligible individuals until they are found ineligible. . . .

In addition, Office of Management and Budget's (OMB) Circular A-133, § _.400 (d) 3 requires that a pass-through entity shall "Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved." The same Circular, in § _.300(b), requires that recipients of federal awards "Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs." It is management's responsibility to design, implement, and monitor these controls to reasonably ensure compliance with the applicable requirements by its own organization and its subrecipients. It is imperative that control procedures be adequately documented to evidence they are performed timely; consistently; as intended, and by an appropriate level of management, enabling management to place reliance on them.

During fiscal year 2012, the Department disbursed approximately $246 million related to federal awards for the Child Care and Development Fund (CCDF) Cluster and entered into subrecipient agreements with Ohio's 88 counties to help administer this program. The Department reimbursed the counties for their administrative costs and typically paid benefits directly to recipients or service providers. As part of the recipient eligibility determination for this program, the county was responsible for the intake procedures, collection and maintenance of recipient eligibility documentation, and input of that documentation into the Department's Child Care Information Data System (CCIDS) The Department maintained controls/edit checks within its related computer systems and a Bureau of Program Integrity (BPI) to audit and ensure compliance with eligibility laws and regulations on a regular basis, the controls/edit checks and BPI investigations did not detect or prevent the disbursement of benefits to ineligible beneficiaries.

However, the Calendar Year 2011 audit conducted on Franklin County reported fraud which impacted benefits paid by the Department for the CCDF program during state fiscal year 2012. A service provider falsified billing certificates and daily attendance records for day care services she did not perform. An

5. CCDF CLUSTER – FRANKLIN COUNTY (Continued)

undercover investigation conducted by a television reporter was performed on the provider via video surveillance for September 19 - 30, 2011. The investigation revealed that only one person dropped off children during the surveillance period. A subsequent investigation by the Franklin County Sheriff's Office discovered the provider had billed the State of Ohio for 10 children from four different families during the surveillance period. Detectives obtained a list of all the children and their parents/guardians that were allegedly receiving daycare services from this provider and interviewed them. These interviews resulted in the discovery that parent signatures on billing forms sent to the county had been forged or the parent had been forced to sign the billing form through threats. Additional investigation and evaluation of the electronic data of the county identified that ineligible payments to the provider were made from May 1, 2011 through October 23, 2011, from October 24, 2010 through October 23, 2011, and from September 18, 2011 through October 1, 2011, for a total of $13,160 in ineligible benefit payments, resulting in questioned costs.

This condition may indicate that preventative controls of the subrecipients and/or monitoring controls of the Department require updating to assure compliance with federal regulation and benefit payments are made for the proper amounts to or on behalf of eligible recipients. This increases the risk the Department, which is responsible for the actions of its subrecipients, may be subject to sanctions or other penalties and a repayment of part of the grant award amount or reductions in future awards.

Department management indicated that, while they perform monitoring of their subrecipients and BPI performs audits over eligibility determinations, there is no way to prevent all fraud within the public assistance programs.

We recommend Department management evaluate the circumstances that allowed this fraud to occur and the existing controls at both the State and county levels to identify where improvements should be made to minimize the risks of unallowable payments. These controls may include:

- Enhancements or additional edit checks in the automated systems used to determine eligibility and benefits.
- Requiring provider maintain sign-in/out sheets or other daily attendance records to support each eligible child's attendance.
- Requiring the counties collect all daily attendance records to support the Child Care Authorization Forms and require a specified number of surprise home inspections to confirm attendance records (more than one) and provide a deterrent to fraudulent reporting.
- Providing additional training and technical assistance to subrecipients to help facilitate compliance with laws and regulations of the federal programs.
- Requiring all subrecipients report and provide periodic status reports to the Department on any potential or actual fraud cases or illegal activities related to federal programs being investigated at the subrecipient.

We recommend the Department periodically monitor the established controls to determine if they are working as intended by management.

Official's Response and Corrective Action Plan

Franklin County Department of Job and Family Services (FCDJFS) revoked the day-care certification of the identified provider, and Ohio Department of Job and Family Services (ODJFS) cancelled the providers' contract; both agencies initiated investigations. The provider was arrested, charged with theft, forgery, and tampering with records. The case is with the Franklin County Common Pleas Courts, and as of February 2013, the case is pending further investigation. ODJFS applauds the immediate actions of the Franklin CDJFS in working the with Franklin County Sheriff's Office. We have included the corrective actions taken by FCDJFS and ODJFS.

5. CCDF CLUSTER – FRANKLIN COUNTY (Continued)

Franklin County Department of Job and Family Services (FCDJFS) Response:

Audit Identified>Daily attendance records maintained by home child care providers were not crosschecked with billing invoices submitted to the agency for payment – In immediate response to this incident in November 2011, FCDJFS directed its Child Care Certification staff to collect home provider attendance records for comparison with billing invoices submitted by home providers to ensure that invoiced services were verified by information contained on attendance records.

In January 2012, the Ohio Department of Job and Family Services (ODJFS) took over the time and attendance and billing functions of the publicly funded child care program. Accordingly, FCDJFS no longer receives or maintains regular provider billing information and primary responsible for monitoring the program integrity of provider billing has shifted to ODJFS.

Additionally, FCDJFS entered into a contract with Action for Children to do an independent audit of a sampling of home providers to compare attendance records with billing invoices from 2011; this audit reviewed approximately twenty home providers. The Action for Children audit was completed in June 2012. While that audit disclosed some discrepancies between provider attendance records and billing invoices, Action for Children concluded that all of these discrepancies were the result of inadvertence and not fraudulent activity by home providers. Where these inadvertent discrepancies disclosed a potential overpayment, FCDJFS Overpayment Recovery staff completed further review and issued notice of child care overpayment where appropriate. All of these overpayments were completed by December 2012.

Audit Identified>Unannounced inspections of home child care providers were not completed - In November 2011, FCDJFS implemented a requirement that the Child Care Certification supervisor(s) provide monthly reports to the agency executive leadership of the announce and unannounced provider home inspections that were completed. FCDJFS has communicated to its Child Care Certification staff that at least one of its two mandatory yearly inspections must be unannounced and the supervisor of that area now tracks the inspections to ensure that at least one is unannounced.

Audit Identified>Eligibility criteria were not verified, particularly employment information – The auditors noted that the provider forged eligibility verification documents on behalf of two families. Accordingly, it is FCDJFS's position that eligibility criteria were verified, but because of the provider's deliberate forgery, the two families received benefits to which they may not have been entitled. It is FCDJFS's standard practice for all child care eligibility criteria to be verified. Child Care Eligibility staff has been directed to obtain additional information to corroborate verification document where the staff has reason to believe that the document or information contained on the document may be incorrect, inaccurate, or misleading.

Anticipated Completion Date for Corrective Action

Completed in 2012 – all measures have been standardized in operations.

Contact Person Responsible for Corrective Action

Carla Williams-Scott, Assistant Director, Franklin County Department of Job & Family Services, 1721 Northland Park Avenue, Columbus Ohio, 43229, Phone: (614) 233-2107, E-Mail: cwilliams-scott@fcdjfs.franklincountyohio.gov

6. MISSING ELIGIBILITY DOCUMENTATION – VARIOUS COUNTIES

Finding Number	2012-JFS06-016
CFDA Number and Title	93.558 – TANF Cluster 93.767 – Children's Health Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed, Eligibility

<u>QUESTIONED COSTS AND MATERIAL WEAKNESS</u> $6,482

45 CFR 206.10(a)(5)(i) states, in part:

> Financial assistance and medical care and services included in the plan shall be furnished promptly to eligible individuals without any delay attributable to the agency's administrative process, and shall be continued regularly to all eligible individuals until they are found ineligible. . . .

45 CFR 206.10(a)(8) states, in part:

> Each decision regarding eligibility or ineligibility will be supported by facts in the applicant's or recipient's case record. . . .

Ohio Administrative Code (OAC) 5101:1-38-01.2 (G) (3) Annual redetermination states, in part:

> The administrative agency shall:
>
> (a) Contact the individual by telephone, mail, or electronic means to determine whether there have been any changes that may affect the individual's eligibility for medical assistance. At the individual's request, a face-to-face interview may be scheduled.
>
> (b) Determine whether any changes affect the individual's eligibility for medical assistance no less often than:
> (i) Every twelve months; or
> (ii) The time frames specified in rule 5101:1-40-05 of the Administrative Code for recipients of transitional medical assistance.
>
> . . .

When administering federal grant awards for the Department, management of each subrecipient County Department of Job and Family Services (County) is responsible for providing reasonable assurance only eligible individuals receive assistance and information reported to the Department is accurate and complete. In order for County management to ensure and verify this, it is imperative that appropriate supporting documentation be maintained for all amounts reported and case files contain all pertinent information relating to the case and be readily accessible for review and/or reference. Department management is responsible for monitoring county activities to help ensure they are in compliance with federal and State requirements.

During state fiscal year 2012, the Department provided approximately $402.3 million in TANF Ohio Works First (OWF), $335 million in Children's Health Insurance Program (CHIP), and $14.6 billion in Medicaid benefits to recipients based on information provided by the 88 Counties. However, while testing eligibility and compliance with federal rules and regulations at five selected Counties, the following missing documentation (required by Department to support eligibility determinations) and/or control weaknesses were noted, as detailed below.

6. MISSING ELIGIBILITY DOCUMENTATION – VARIOUS COUNTIES (Continued)

Medicaid, CHIP and TANF OWF (controls):

- Five of 159 (3.1%) Medicaid, CHIP, and TANF OWF case files tested (four at Hamilton and one at Cuyahoga), did not contain the required application or print-out from the CRIS-E system (documenting the questions and answers in the redetermination interview) that was signed by the recipient although the CRIS-E running record comments indicated that an annual redetermination of benefits was performed.

- One of 180 (0.56%) Medicaid, CHIP, and TANF OWF case files tested (one at Franklin County) did not contain evidence:
  - o the case worker verified the recipient's income as evidenced by the CRIS-E print-out maintained within the case file or by the case worker's documentation in the CRIS-E 'CLRC' comment screen.
  - o the case worker verified that all information necessary for making a proper eligibility determination was obtained from the recipient, as evidenced by an Application/Reapplication Verification Checklist maintained within the case file or by the case worker's documentation in the CRIS-E 'CLRC' comment screen.

Medicaid

- Eight of 60 (13.3%) cases tested did not have accurate unearned income information in CRIS-E based on the application and other documents contained within the case file as noted below:
  - o For one of the eight cases (Lucas) the recipient would not have been eligible for Medicaid if the correct unearned income amount was used. As a result, the recipient was overpaid $1,275 for the year, resulting in questioned costs (projected to an amount greater than $10,000).
  - o For six of the eight cases (three at Hamilton, two at Lucas, and one at Cuyahoga) there was no impact on the recipient's eligibility determination or payments.
  - o For one of the eight cases (Hamilton) the spend-down and benefit amount were affected and the recipient was overpaid $6 for the year, resulting in questioned costs (projected to an amount greater than $10,000).

- One of 60 (1.67%) cases tested (Montgomery) did not contain evidence the recipient's income was verified but the eligibility determination or benefits payments were not affected.

CHIP

- One of 60 (1.7%) cases tested (Cuyahoga) contained evidence the county incorrectly used the income of another member of the assistance group to determine the recipient's eligibility for CHIP. Consequently, the recipient should have been determined ineligible for CHIP, but eligible for Medicaid. As a result, the ineligible recipient was paid $3,955 in CHIP benefits for the year, resulting in questioned costs (projected to an amount greater than $10,000).

- Seven of 60 (11.7%) cases tested (one at Cuyahoga, one at Franklin, three at Hamilton and two at Lucas) did not have the correct income information in CRIS-E. For these cases the eligibility determination or benefit payments were not affected.

- One of the 60 (1.7%) case files tested (Franklin) did not contain evidence the county performed an annual redetermination between November 16, 2009, and December 19, 2011, although one was due before the end of calendar year 2010. Without the redetermination, the county did not determine or document the recipient remained eligible for benefits. The recipient was paid $1,246 in benefits for the year, resulting in questioned costs (projected to an amount greater than $10,000).

6. MISSING ELIGIBILITY DOCUMENTATION – VARIOUS COUNTIES (Continued)

Missing case files and documentation increases the risk that amounts and other information reported to the federal grantor agencies may not reflect actual program activities. Without consistently obtaining, maintaining or reviewing the required documentation on file, the Department may not be able to fully support or ensure payments were made only to or on behalf of eligible recipients and that the Department complied with all federal rules and regulations, which could and did result in questionable benefits. The exceptions were discussed with County management, who agreed with the results. According to County management, the missing case documentation and errors were due, in part, to inability to access the CRIS-E system for needed screens, inexperience or oversight of the case workers, complexity of the eligibility determination involved, and increased workload.

Department management (Office of Family Assistance) stated that training sessions have been given to county personnel, via monthly video conferences, that include the importance of maintaining all relevant and required case documentation. The large volume of documentation flowing into the metro counties, however, may contribute to some documentation being temporarily misplaced.

We recommend Department work with County management to ensure they have current policies and procedures and/or implement new control procedures to reasonably ensure all case files have adequate supporting documentation to support the benefit payments made to eligible recipients. The Department should communicate to County management and their staff the importance of these policies and procedures and ensure the procedures are carried out as intended. In addition, Department management should perform periodic reviews of the case files to reasonably ensure established controls and record retention procedures are being followed by County personnel. We also recommend the Department investigate the cases where questioned costs were identified and take steps to recover any payments made to ineligible recipients.

Official's Response and Corrective Action Plan

Hamilton
In November of 2012, Hamilton County ran a Control D report to identify all of the cases that were by-passed for the COLA mass change. The report was evenly distributed to all management staff and cases were updated prior to adverse action in December 2012.

Lucas
This error was due to a worker oversight as they did not include all child support payments before completing the budget. At this time, caseworkers are processing a large volume of cases each day due to many staff vacancies which created the oversight. We have concluded that this is not a training issue for the worker, as one child support payment was captured as required. Lucas County Job and Family Services has at least 10 vacant caseworker positions which has significantly increased the caseload for the remaining workers.

At this time, LCJFS is in a process to hire as many caseworkers from within the agency as soon as possible. The interested applicants are now being considered and a class is scheduled to begin in April 2013. With the addition of new caseworkers it is anticipated that caseloads sizes will be reduced decreasing the chance of worker error via oversight.

Cuyahoga
Cuyahoga will continue to reinforce accurate income and data entry through training, video conference attendance, reminders to staff and unit meetings.

Franklin
A response was not provided.

6. MISSING ELIGIBILITY DOCUMENTATION – VARIOUS COUNTIES (Continued)

Anticipated Completion Date for Corrective Action

Hamilton
Our agency plans to run the Control D report again in November of 2013 and update all effected cases by adverse action in December 2013.

Lucas
Class will begin in April and workers will be expected to begin their new positions by June 2013.

Cuyahoga
Training was completed annually in 2011, 2012 and is underway for 2013.

Contact Person Responsible for Corrective Action

Hamilton
Jim Ashmore, Performance Improvement Section Chief, Hamilton County Department of Job & Family Services, 222 E. Central Parkway, Cincinnati Ohio, 45202, Phone: (513) 946-1858, E-Mail: ashmoj@jfs.hamilton-co.org

Lucas
Stephanie Stoler, Associate Director, Lucas County Department of Job & Family Services, 3210 Monroe Street, Toledo Ohio, 43606, Phone: (419) 213-8571, E-Mail: stoles@odjfs.state.oh.us

Cuyahoga
Barbara T. Wright, Administrator, Program Integrity and Professional Development, Cuyahoga County Department of Job & Family Services, 1641 Payne Avenue, Room 330, Cleveland Ohio, 44114, Phone: (216) 987-6643, E-Mail: WRIGHB01@odjfs.state.oh.us

7. CHILD CARE – COPAYMENT AMOUNTS

Finding Number	2012-JFS07-017
CFDA Number and Title	93.575/93.596 – CCDF Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed, Eligibility, Subrecipient Monitoring

QUESTIONED COSTS AND SIGNIFICANT DEFICIENCY $1,803

45 CFR 98.20(b) states:

> Pursuant to §98.16(g)(5), a grantee or other administering agency may establish eligibility conditions or priority rules in addition to those specified in this section and §98.44 so long as they do not:
>
> (1) Discriminate against children on the basis of race, national origin, ethnic background, sex, religious affiliation, or disability;
> (2) Limit parental rights provided under Subpart D; or
> (3) Violate the provisions of this section, §98.44, or the Plan. In particular, such conditions or priority rules may not be based on a parent's preference for a category of care or type of provider. In addition, such additional conditions or rules may not be based on a parent's choice of a child care certificate.

7. CHILD CARE – COPAYMENT AMOUNTS (Continued)

In addition, 45 CFR 98.42(a) states "Lead Agencies shall establish, and periodically revise, by rule, a sliding fee scale(s) that provides for cost sharing by families that receive CCDF child care services." 45 CFR 98.67 (A) states "Lead Agencies shall expend and account for CCDF funds in accordance with their own laws and procedures for expending and accounting for their own funds." The Department has incorporated its laws and procedures for administering the Child Care and Development Fund (CCDF) program within Ohio Administrative Code (OAC) 5101:2-16. OAC 5101:2-16-39 relates to the counties' determination of the amount of copayment required to receive benefits under the program. Part (C) of this Code section states "The copayment shall be recalculated as part of the annual redetermination of eligibility."

During state fiscal year 2012, the Department disbursed approximately $245.9 million in federal assistance from the CCDF cluster program based on information provided by the 88 county subrecipients. The county case workers were to determine the income and other key information from each applicant and enter this information into the State's Child Care Information Data System (CCIDS) for eligibility and copay/benefit amount determinations. However, the information entered by the counties did not agree to supporting documentation resulting in an incorrect copayment amount for the parent/guardian's share of child costs in 10 of the 58 (17.2%) cases tested. In two of the cases (one in Cuyahoga County and one in Tuscarawas County) tested, the calculated copayment was more than the established copayment and resulted in the recipient receiving less in federal assistance than what was eligible. The other 8 cases did result in overpayments of federal assistance to child care providers during state fiscal year 2012, resulting in questioned costs of $1,803 (projected to be more than $10,000). The Department's controls/edit checks and BPI investigations did not detect or prevent the overpayments of benefits. The number of cases with the overpayments and the related questioned costs by county is shown below.

- <u>Tuscarawas County:</u> two cases resulting in questioned costs of $296.
- <u>Cuyahoga County:</u> three cases resulting in questioned costs of $1,192.
- <u>Franklin County:</u> one case resulting in questioned costs of $231.
- <u>Lucas County:</u> one case resulting in questioned costs of $33.
- <u>Montgomery County:</u> one case resulting in questioned costs of $51.

Under these conditions, the Department risks overpaying/underpaying federal monies to child care providers. This condition may also indicate that preventative controls of the subrecipients and/or monitoring controls of the Department require updating to assure compliance with federal regulation and benefit payments are made for the proper amounts to or on behalf of eligible recipients. This increases the risk the Department, which is responsible for the actions of its subrecipients, may be subject to sanctions or other penalties and a repayment of part of the grant award amount or reductions in future awards.

According to county management, the errors were due, in part, to miss-keying during data entry, inexperience or oversight of the case workers, new computer system (CCIDS) implemented during the year, complexity of the eligibility determination involved, and increased workload.

We recommend Department management evaluate the circumstances that allowed the overpayments to occur and the existing controls at both the State and county levels to identify where improvements should be made to minimize the risks of inaccurate copayment determinations, resulting in overpayments of federal funds. These controls may include:

- Enhancements or additional edit checks in the automated systems used to determine eligibility and benefits.

7. CHILD CARE – COPAYMENT AMOUNTS (Continued)

- Additional training and technical assistance to subrecipients to help facilitate compliance with laws and regulations of the federal programs.
- Requiring the counties randomly select cases throughout the year to help ensure the assessed copayments are accurate, especially those that are handled by inexperienced or new employees.

We recommend the Department periodically monitor the established controls to determine if they are working as intended by management. We also recommend the Department investigate the cases listed above and take whatever actions are necessary to recover inappropriately spent federal and state funds and any underpayments have been rectified.

Official's Response and Corrective Action Plan

The Ohio Department of Job and Family Services (ODJFS) has recently enhanced functionality in CCIDS to have the system, rather than the County Departments of Job and Family Services (CDJFS) eligibility staff, calculate family copayments. In addition, copayments are equally allocated among each child in care. Each time the case is updated, the system reallocates the family copayment. This has eliminated the human factor significantly in calculations of copayments.

ODJFS holds monthly video conferences in which all 88 CDJFS' are invited and most do attend. Policy revisions, interpretations and ODJFS expectations are covered. ODJFS will continue to cover the importance of entering family income into CCIDS correctly and checking their work to avoid mis-keying of information.

ODJFS also issues periodic Technical Assistance (TA) Letters) to the CDJFS'. A TA letter will be created to provide guidelines and expectations of determining family child care eligibility, with an emphasis on family income.

Within the video conference and TA letters, guidance will be provided to have CDJFS staff randomly select cases throughout the year to determine if copayments and family income were assessed correctly, especially those handled by inexperienced or new employees.

As part of its eligibility monitoring, the Department, will include a more thorough check of family income determinations. Currently a random sample of 276 cases per three years is required by the federal office of child care (OCC). The Department reviews 550 cases every year, although only reports to OCC every third year.

ODJFS will investigate, with each affected CDJFS, the named cases to recoup any overpayment and to provide any funds owed to the family and/or child care provider if underpaid.

Anticipated Completion Date for Corrective Action

The CCIDS enhancements are already functional. The video conferences have been covering proper family income determinations for the past year. ODJFS will continue to highlight this topic in the following months. A TA letter will be created on this topic and issued prior to the end of the fiscal year.

The CDJFS child care eligibility monitoring is an ongoing function. We will continue this practice of oversight with focus on family income determinations and proper data entry.

ODJFS will contact the named CDJFS and work with them to resolve the over or underpayments by the end of this fiscal year.

7. CHILD CARE – COPAYMENT AMOUNTS (Continued)

Contact Person Responsible for Corrective Action

Michelle Albast, Bureau of Child Care and Development Chief, Ohio Department of Job & Family Services, 50 W Town Street, 6th Floor, Columbus Ohio, 43218, Phone: (614) 752-0582, Email: michelle.albast@jfs.ohio.gov

8. MEDICAID – INELIGIBLE RECIPIENT - CRIS-E/MITS VARIANCES

Finding Number	2012-JFS08-018
CFDA Number and Title	93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Eligibility

QUESTIONED COSTS AND SIGNIFICANT DEFICIENCY $1,677

42 CFR 435.10 Subpart A, State Plan requirements, states:

A State plan must---

(a) Provide that the requirements of this part are met; and
(b) Specify the groups to whom Medicaid is provided, as specified in subparts B, C, and D of this part, and the conditions of eligibility for individuals in those groups.

It is management's responsibility to implement policies and procedures to provide reasonable assurance that only persons who meet all eligibility criteria as specified in the State Plan and subparts B, C, and D of 42 CFR 435.10 are able to receive benefits.

During state fiscal year 2012, the Department disbursed approximately $14.6 billion in Medicaid funds to or on behalf of recipients who were determined eligible. Under the current process, the County Departments of Job & Family Services (CDJFS) are responsible for processing the application and related information for initial Medicaid and CHIP eligibility and eligibility redeterminations and entering the information into the State's Client Registry Information System – Enhanced (CRIS-E). The CRIS-E system is programmed with State Plan recipient eligibility requirements to determine whether the recipient is eligible to receive Medicaid or CHIP. Once the determination is made, the CRIS-E system uploads the eligibility information to the Medicaid Information Technology System (MITS). The Department utilizes MITS to determine whether payments for medical services are allowable and to verify recipient and provider eligibility. As medical claims are received from providers, they are uploaded in MITS. However, the information isn't always exchanged with CRIS-E. Therefore, the eligibility determination in CRIS-E does not always match the information in MITS. This appears to be the case for two of 90 (2.2%) recipients tested where the recipient was not eligible to receive benefits on the date of service per CRIS-E. In one of these instances, the recipient was eligible for Specified Low-Income Medicare Beneficiary (SLMB) per CRIS-E, however, Medicaid should only pay Medicare Part B premiums. The reason for the other exception was not readily apparent. Because CRIS-E is the State's official eligibility determination system, we will question costs for all claims paid for services provided to these two individuals during the time they were ineligible for Medicaid, totaling $1,677 (projected to be more than $10,000).

Without insuring eligibility information in MITS is accurate and MITS is only reimbursing allowable Medicaid claims, there is an increased risk that Medicaid claims processed and paid will not be accurate or allowable. Payments on behalf of ineligible recipients may subject the Department to penalties or sanctions which may jeopardize future federal funding and limit their ability to fulfill program requirements to provide benefits to those in need.

8. MEDICAID – INELIGIBLE RECIPIENT - CRIS-E/MITS VARIANCES (Continued)

The Department indicated one of the recipients was eligible at the time of services and an error by the case worker was to blame. The Department also indicated the other recipient was not eligible at the time of services and the claim was paid in error as a result of a failure within MITS. In April 2012, the Department corrected MITS to stop reimbursements on behalf of SLMB recipients.

We recommend the Department evaluate all claims that were incorrectly paid based on the MITS system error and seek reimbursement from the provider. We also recommend the Department implement procedures to regularly evaluate a sample selection of Medicaid and CHIP payments to verify the recipient's eligibility and that reimbursements are properly computed within MITS based on CRIS-E's eligibility determination. Any problems noted should be promptly corrected to reduce the risk that payments will be made on behalf of ineligible individuals. In addition, we recommend the Department institute additional automated procedures to ensure eligibility information is accurately, completely, and timely shared between the CRIS-E and MITS systems.

Official's Response and Corrective Action Plan

MITS went live on August 2nd 2011. The CRIS-E eligibility system feeds eligibility information to the MITS system via an electronic interface every several hours. The ELG-0013-D, 'Transaction Error Report', is generated daily to list transaction errors between the two systems. OHP analysts will continue to monitor this report to identify and correct any errors occurring during the systems' interface. This monitoring process will be ongoing.

OHP management meets with the MITS vendor, HP, several times a week to discuss 'trouble tickets' submitted by stakeholders through the MITS Non-Provider Help mailbox. This mailbox allows county agencies, state agencies, vendors, contractors, managed care plans, and ODJFS staff to submit eligibility issues for resolution. OHP and HP continue to work to identify issues, request prioritization to have the issues corrected in an upcoming system update (or release), plan and execute user acceptance testing and implementation of the release, and communication to stakeholders of the release.

Meetings will continue to be scheduled as needed until recipient eligibility interface issues are resolved.

When counties identify cases where eligibility in CRIS-E are not reflected in the MITS system, they submit an electronic form (JFS 07102) to the OHP Buy-In Unit. Staff in this unit have MITS access enabling them to correct MITS eligibility spans so they reflect the status of eligibility maintained by the CRIS-E system. OHP management monitors the submission of 07102 forms and the timely completion of the MITS eligibility changes.

Anticipated Completion Date for Corrective Action

Each of these corrective action measures has been in effect since the implementation of the MITS system. These measures will be ongoing.

Contact Person Responsible for Corrective Action

Shawn Lotts, Medicaid Eligibility Section Chief, Ohio Department of Job & Family Services, 50 W. Town Street 4th Floor, Columbus Ohio, 43215, Phone: (614) 752-3585 E-Mail: Shawn.Lotts@Medicaid.ohio.gov

9. MEDICAID – CLAIM SERVICE DATE

Finding Number	2012-JFS09-019
CFDA Number and Title	93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed, Period of Availability

QUESTIONED COSTS $102

42 CFR 447.45(d), Timely processing of claims, states, in part:

1) The Medicaid agency must require providers to submit all claims no later than 12 months from the date of service.

. . .

It is management's responsibility to ensure that provider claims submitted later than 12 months from the service date are not approved and paid.

During state fiscal year 2012, providers submitted claims data via a web portal, Electronic Data Interchange (EDI), or hard copy. The claims data was then uploaded into the Medicaid Information Technology System (MITS) for processing. For one of 90 (1.1%) claims selected for testing, totaling $102, the Department did not receive the claim within 12 months of the service date but paid the provider for the claim. The claim's service date was September 1, 2010 and the claim wasn't submitted by the provider until October 14, 2011, approximately a month and a half late. Therefore, the Department did not comply with the requirements of 42 CFR 447.45(d)(1), resulting in questioned costs of $102 (projected to be more than $10,000).

If claims received later than 12 months after the service date are paid, the Department is not in compliance with 42 CFR 447.45 and may have to reimburse the Department of Health and Human Services for the claim amount. In addition, payments made for claims received late could subject the Department to penalties or sanctions which may jeopardize future federal funding and limit their ability to fulfill program requirements. The Department indicated the claim in question was submitted during the time MITS went live, which may have resulted in the claim being held a while before it could be uploaded into MITS and processed.

We recommend the Department review all claims to identify claims received later than 12 months from the service date. The Department should ensure adequate controls are in place to stop the payment of late claims. We further recommend the Department review their records, especially records processed during the time MITS went live, and ensure claims were received within 12 months. If late claims are identified, the Department should seek restitution from the provider.

Official's Response and Corrective Action Plan

The MITS system does have claims processing controls embedded via system edits that prevent claims paying if they are over the 365-day or 2-year timely filing OAC requirements. Immediately after go-live of the MITS system, the timely filing edits were relaxed to reduce the administrative burden on the provider network, given the conversion errors in eligibility that directly impacted continued payment. OMA will initiate an administrative review.

Anticipated Completion Date for Corrective Action

Yet to be determined

9. MEDICAID – CLAIM SERVICE DATE (Continued)

Contact Person Responsible for Corrective Action

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10. IEVS – DUE DATES

Finding Number	2012-JFS10-020
CFDA Number and Title	10.551/10.561 – SNAP Cluster 93.558 – TANF Cluster 93.767 – Children's Health Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Eligibility, Special Tests and Provisions

<u>QUESTIONED COST AND MATERIAL WEAKNESS</u> Undetermined Amount

7 CFR 272.8(c)(2) states the following regarding SNAP (formerly Food Stamps) IEVS alerts:

> State agencies must initiate and pursue the actions on recipient households specified in paragraph (c)(1) of this section so that the actions are completed within 45 days of receipt of the information items. Actions may be completed later than 45 days from the receipt of information if:
>
> (i) The only reason that the actions cannot be completed is the nonreceipt of verification requested from collateral contacts; and
>
> (ii) The actions are completed as specified in § 273.12 of this chapter when verification from a collateral contact is received or in conjunction with the next case action when such verification is not received, whichever is earlier.

In addition, OAC 5101:4-7-09 (F)(4) outlines the following guidelines for SNAP IEVS alerts:

> County agencies shall initiate, pursue and complete the actions specified in this paragraph within ninety days from receipt of the information.

45 CFR 205.56(a)(1) (iv) states the following regarding TANF:

> For individuals who are recipients when the information is received or for whom a decision could not be made prior to authorization of benefits, the State agency shall within forty-five (45) days of its receipt, initiate a notice of case action or an entry in the case record that no case action is necessary, except that: Completion of action may be delayed beyond forty-five (45) days on no more than twenty (20) percent of the information items targeted for follow-up, if:
>
> (A) The reason that the action cannot be completed within forty-five (45) days is the nonreceipt of requested third-party verification; and
>
> (B) Action is completed promptly, when third party verification is received or at the next time eligibility is redetermined, whichever is earlier. If action is completed when eligibility is redetermined and third party verification has not been received, the State agency shall make

10. IEVS – DUE DATES (Continued)

its decision based on information provided by the recipient and any other information in its possession.

42 CFR 435.952 states the following regarding Medicaid IEVS alerts:

(c) Except as specified in §435.953 of this subpart and paragraph (d) of this section, for beneficiaries, the agency must, within 45 days of receipt of an item of information, request verification (if appropriate), determine whether the information affects eligibility or the amount of medical assistance payment, and either initiate a notice of case action to advise the recipient of any adverse action the agency intends to take or make an entry in the case file that no further action is necessary.

(d) Subject to paragraph (e) of this section, if the agency does not receive requested third party verification with-in the 45-day period after receipt of in-formation, the agency may determine whether the information affects eligibility or correct amount of medical assistance payment after the 45-day period. . . .

(e) The number of determinations delayed beyond 45 days from receipt of an item of information (as permitted by paragraph (d) of this section) must not exceed twenty percent of the number of items of information for which verification was requested.

The Department has implemented the Income and Eligibility Verification System (IEVS) which compares income, as reported by the recipients, to information maintained by outside (i.e. collateral) sources for the SNAP, TANF, CHIP, and Medicaid programs with total expenditures of approximately $3.1 billion, $675 million, $289 million, and $10.7 billion, respectively, in fiscal year 2012. Information that does not appear to agree is communicated in the form of a CRIS-E alert, which is forwarded to the appropriate county for investigation.

During the state fiscal year 2012 audit, five counties were selected for testing for the timely completion of IEVS alerts in accordance with the federal regulations and ODJFS standards set forth in the IEVS CRIS-E Alert Processing Instruction Guide. These five counties (Cuyahoga, Franklin, Hamilton, Lucas, and Montgomery) represented approximately 41% of the nearly 3.1 million IEVS high priority alerts issued in state fiscal year 2012. However, 12 of 60 IEVS high priority alerts tested at these five counties (20 %) were not resolved by the mandated timeframe and there was no documentation to indicate a third-party verification was pending. These unresolved alerts were for SNAP and Medicaid benefits: two alerts from Cuyahoga, three from Franklin, and seven from Hamilton counties. Of the 12 delinquent high priority alerts:

- Four were resolved one to 50 days beyond the due date; no additional recipient benefits appeared to be issued as a result of these errors.

- Five were resolved 51 to 500 days beyond the due date; no additional recipient benefits appeared to be issued as a result of these errors.

- Three of the matches were not resolved and additional examination by the ODJFS Bureau of Program Integrity validated that two of the unresolved alerts would not likely cause potential overpayments. However, one of the unresolved alerts would likely result in potential overpayments. The Bureau stated the amount could not be quantified at this time. Therefore an undetermined amount is questioned for the Medicaid and SNAP programs.

Not completing the IEVS alerts within the established timelines increases the risk that benefits given to ineligible recipients or for inappropriate amounts will not be identified timely. This condition could adversely affect the Department’s ability to comply with Special Tests and Provisions required by the Federal programs and could result in federal sanctions or penalties.

10. IEVS – DUE DATES (Continued)

ODJFS management indicated the alert resolution delinquencies were caused by:

- A lack of staff to complete the alerts timely.
- A lack of time for existing staff to complete the alerts in conjunction with their other assigned duties.

We recommend the Department work with the counties to implement control policies and procedures to reasonably ensure matches are completed by the due dates specified in the Federal regulations and IEVS CRIS-E Alert Processing Instruction Guide. These procedures must include reviews by the County IEVS Coordinator or other supervisory personnel (through CRIS-E) to monitor the status of IEVS alerts. Such requirements should be explicitly identified in the sub-grant agreements with the counties and include appropriate ramifications for noncompliance with the stated requirements. We also recommend the Department, as the pass-through entity, monitor the activities of their county subrecipients during the award period to determine if they are following the established controls and are complying with the due date requirements.

Official's Response and Corrective Action Plan

BPI has reported its internal control procedures to AOS regarding its continuous reviews of IEVS processing. These procedures include monitoring completion rates monthly and following up with counties that miss the required completion deadlines. Counties that miss the target for four consecutive months are required to develop and implement a CIP. The Fraud Control Specialists also provided state-wide video training on June 19, 2012. This training was also conducted at several counties during the review period. The tools needed for supervisory review for monitoring at the local level are included in the IEVS CRIS-E Alert Processing Instruction Guide and in the BPI training materials. We will continue to refine our methods to assist the counties' compliance with the Federal regulations.

A provision requiring compliance with state and federal requirements for all public assistance programs is already in the sub-grant agreement.

Anticipated Completion Date for Corrective Action

These efforts are ongoing. We will continue to work with counties to help ensure they have appropriate training and technical assistance to process IEVS matches in a timely manner.

Contact Person Responsible for Corrective Action

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11. MEDICAID/CHIP – PROVIDER ELIGIBILITY

Finding Number	2012-JFS11-021
CFDA Number and Title	93.767 – Children's Health Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Special Tests and Provisions

<u>NONCOMPLIANCE AND MATERIAL WEAKNESS</u>

In order for a provider to enroll in the Medicaid program, they must comply with applicable laws and regulations pertaining to Medicaid, including Section 1902 of the Social Security Act; Title 42, Chapter IV, Parts 442, 482 through 489 of the Code of Federal Regulations; and Chapter 5101:3 of the Ohio Administrative Code. The Provider Enrollment Unit has created a Provider Enrollment Manual which adheres to the Administrative Code and combines all the requirements for a provider to be enrolled in the Medicaid program. It is imperative that management monitor and oversee the process of granting Medicaid eligibility to new providers to reasonably ensure compliance with applicable laws and regulations. Controls must be adequately documented to provide management with assurance the controls are performed timely and consistently.

The Department disbursed approximately $14.9 billion to providers for Medicaid ($14.6 billion) and CHIP ($335 million) during state fiscal year 2012. The Provider Enrollment Unit is responsible for enrolling providers in the Medicaid/CHIP programs. During state fiscal year 2012, the Unit enrolled 7,127 providers. To apply for enrollment in the program, each provider must complete and submit an online application using the Medicaid Information Technology System (MITS) for review and approval by the Provider Enrollment Unit. The online application in MITS is used in conjunction with the Provider Enrollment Manual to identify the required documentation for enrollment based on the provider type and specialty selected. The Customer Service Assistant within the Provider Enrollment Unit is to ensure that all applicable requirements were met and documentation was submitted, as specified in the Provider Enrollment Manual. Once the application and appropriate documentation was reviewed, the Customer Service Assistant approved the provider in MITS as evidenced by the 'Enrolled' status. While the Department has established certain internal controls and practices to verify requirements are met, these controls were not consistently followed and were not always effective, as indicated below:

- The Customer Service Assistant generally received, reviewed and approved the application and documentation. There was not a second level supervisory review of applications during the audit period. However, the Provider Enrollment Unit indicated a Quality Assurance process was put in place during the audit period, but was not efficient and required adjustments; therefore, no reviews were completed during the audit period.

- Three of 60 (5%) provider files selected for testing did not contain all information required for provider approval as specified by the Provider Enrollment Manual. In one instance, the W-9 tax form was not produced and in the remaining two instances, the Internal Retrieval Number (IRN) utilized for the Medicaid Schools Program was not maintained. The IRN identifies the type of school entity and the Department is required to obtain the IRN as part of the enrollment process. The errors did not result in any ineligible payments to the providers and therefore, we will not question costs.

- One of 60 (1.7%) provider files selected for testing had an effective date in MITS that did not match the effective date on the provider application. The error did not result in any ineligible payments to the providers and therefore, we will not question costs.

11. MEDICAID/CHIP – PROVIDER ELIGIBILITY (Continued)

- 47 of 60 (78.3%) provider files selected for testing did not contain evidence to support that the Provider Enrollment Unit verified the provider was not federally excluded, as required by the Provider Enrollment Manual. The errors did not result in any ineligible payments to the providers and therefore, we will not question costs.

If a supervisory review of completed provider enrollments is not performed, management cannot ensure that providers are accurately and properly enrolled. In addition, if documentation to support provider eligibility determination is not maintained, the Department may not be able to fully support or ensure payments were only made to eligible providers which could result in questioned costs. Management indicated the cause of the issues could be related to the current changes in the application process and the implementation of MITS.

We recommend the Department implement and/or strengthen internal controls related to the review and maintenance of provider application information. The method for selection of the provider applications to review should be formally documented so management can ensure that reviews are accurately and consistently performed. The application and evidence of the control procedures performed should be maintained to provide management with assurance the controls are operating consistently and effectively.

Official's Response and Corrective Action Plan

1. *We don't believe this is an audit finding based on new Provider Enrollment Desk Procedures and the implementation of the MITS paperless application process. We had over 30,000 applications submitted during the audit period and all staff were trained to complete an enrollment using the new MITS workflow process. A new desk reference was developed and completed in July 2012 describing staff processing protocols. We did not continue the practice of having lead workers review every application before an enrollment was complete. Instead we re-instituted a quality assurance process where a compliance staff member who does not work in Provider Enrollment reviews 20 new enrollments and 20 changes per week. This information of pass/fail applications is tracked and maintained by the QA staff. Any inconsistencies or errors found are returned to the original worker for correction or remediation and reviewed the by QA staff before the enrollment passes this test.*

2. *We have a QA process as described above to catch errors such as the w-9. An important note with MITS and attachments; if a form is submitted by paper mail (there are instances when an applicant doesn't have ability to scan and upload, but elect to mail hard copies), it is possible that the form is uploaded to the provider record instead of the application record in MITS during the EDMS scanning process. While that may not be the case in the instance sited by the auditors, it is possible the w-9 may have been attached to the file in a different place. IRN for schools are not collected on the current web portal application panels or MITS interchange. This is a defect and a request to change this has been submitted. However, provider enrollment staff (one lead worker is assigned to schools) verify the IRN information on the Ohio Department of Education website before completing the enrollment. They will enter the IRN in a comment field.*

3. *We are implementing a QA process as described in number 1 above.*

4. *Staff verifies all required exclusion lists for all provider types. It is an activity described in the Provider Enrollment Desk Reference. In MITS today, the enrollment checklist does not include the exclusion activity for verification except for waiver providers (i.e., provider type 25); in a way that will leave evidence for an auditor or a subsequent reviewer to see at a later period but the activity is always completed. This is a MITS change order that will be implemented in the latter part of calendar year. In the meantime, staff will insert a comment in the application indicating they've checked the exclusion lists. Staff verifies all required exclusion lists for all provider types. It is an activity described in the Provider Enrollment Desk Reference. In MITS today, the enrollment checklist does not include the exclusion activity for verification except for waiver providers (i.e., provider type 25); in a way that*

11. MEDICAID/CHIP – PROVIDER ELIGIBILITY (Continued)

will leave evidence for an auditor or a subsequent reviewer to see at a later period but the activity is always completed. This is a MITS change order that will be implemented in the latter part of calendar year. In the meantime, staff will insert a comment in the application indicating they've checked the exclusion lists.

Anticipated Completion Date for Corrective Action

1. *The Provider Enrollment Desk Reference is available for review or reference at any time.*

2. *IRN defect has been submitted for correction (MITS system change) but we don't have an implementation date. In the meantime, staff will include the IRN number in a comment field in MITS indicating it has been verified.*

3. *The QA process was implemented in April 2012.*

4. *MITS system change: Updating the MITS Enrollment Checklist for all provider types to include an exclusion list verification activity to evidence a date each was checked. Implementation is expected by November 2013. In the meantime, staff will continue to manually verify exclusion websites for each new enrollment processed and will insert a comment in the application as evidence effective April 1, 2013.*

Contact Person Responsible for Corrective Action

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Auditor of State's Conclusion

The Department indicated new Quality Assurance procedures have been implemented. However, no evidence was provided to indicate any reviews were conducted based on the initial changes made in April 2012. Any changes made to the procedures after June 30, 2012, were outside the scope of our testing and, as such, we did not evaluate their design or operating effectiveness. Therefore, the finding will remain as stated above.

12. CCDF - TYPE B HOMES – VARIOUS COUNTIES

Finding Number	2012-JFS12-022
CFDA Number and Title	93.575/93.596 – CCDF Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed, Eligibility

NONCOMPLIANCE AND MATERIAL WEAKNESS

45 CFR 98.67 (a) states "Lead Agencies [primary grantee] shall expend and account for CCDF funds in accordance with their own laws and procedures for expending and accounting for their own funds." The Department has incorporated its laws and procedures for administering the certification of Type B homes within Ohio Administrative Code (OAC) 5101:2-14 which contains numerous requirements an applicant must meet to be certified as a Type B home. OAC 5101:2-14-01 (LL) defines Type B homes as "the permanent residence of the provider in which child care is provided for one to six children at one time and in which no more than three children are under two years of age."

12. CCDF - TYPE B HOMES – VARIOUS COUNTIES (Continued)

OAC 5101:2-14-03 (A) states, in part:

> The county department of job and family services (CDJFS) shall:
>
> (1) Inspect each type B home prior to the initial issuance of a certificate and at least twice within each twelve-month certification period whether or not children are enrolled. A minimum of one inspection shall be unannounced and all inspections may be unannounced.
>
> . . .

When administering federal grant awards for the Department, management of each County Department of Job and Family Services (County) is responsible for providing reasonable assurance only eligible entities are certified as a child care provider and information reported to the Department is accurate and complete. In order for County management to ensure and verify this, it is imperative that appropriate supporting documentation be maintained for all amounts reported and case files contain all pertinent information relating to the case and be readily accessible for review and/or reference. Department management is responsible for monitoring County activities to help ensure they are in compliance with federal and state requirements.

During state fiscal year 2012, the Department provided approximately $245.9 million in CCDF benefits to recipients based on information provided by the 88 Counties. However, the selected Type B Home files at the five tested counties did not contain all the documentation required by Department to support Type B home eligibility determinations. Therefore, we could not determine if the County complied with these requirements, as detailed below.

- For 19 of 60 (31.7%) Type B homes selected for testing, the County did not document it performed the required number or type of inspection in accordance with OAC 5101:2-14-03 (A) (1), as follows.
  - 11 had two announced inspections, but no documentation of an unannounced inspection (six at Cuyahoga and five at Franklin).
  - One (Cuyahoga) had no documentation of any inspections.
  - Four (three at Montgomery and one at Lucas) had one announced inspection, but no documentation of an unannounced inspection.
  - Three (Montgomery) documented only one inspection which was unannounced.

- For nine of 60 (15%) Type B homes selected for testing, the County could not locate the "Statement of Nonconviction for Type B Home and In-Home Aides" for the applicant, emergency caregiver, substitute caregiver and each adult residing in the type B home (four at Cuyahoga, four at Montgomery, and one at Franklin),

- For five of 60 (8.3%) Type B homes selected for testing, the County could not locate the "Request for Child Abuse and Neglect Report Information" forms (three at Cuyahoga, one at Franklin, and one at Montgomery).

Missing case files and documentation increases the risk that amounts and other information reported to the federal grantor agencies may not reflect actual program activities. Without consistently performing the required reviews, and obtaining, maintaining or reviewing the required documentation on file, the Department may not be able to fully support or ensure payments were made only to eligible providers and the Department complied with all federal rules and regulations, which could result in questioned payments. According to County management, the missing case documentation and errors were due, in part, to inexperience or oversight of the staff, complexity of the eligibility determination involved, missing case files, and increased workload.

12. CCDF - TYPE B HOMES – VARIOUS COUNTIES (Continued)

We recommend the Department work with County management to ensure they have current policies and procedures and/or implement new control procedures to reasonably ensure the required number and type of reviews of Type B homes are performed and all case files have adequate supporting documentation to support the benefit payments made to eligible recipients. We also recommend the Department communicate to County management and their staff the importance of these policies and procedures and ensure the procedures are carried out as intended. In addition, Department management should perform periodic reviews of the case files to reasonably ensure the required reviews are being performed and established controls and record retention procedures are being followed by County personnel.

Official's Response and Corrective Action Plan

The Ohio Department of Job and Family Services (ODJFS) has created a curriculum on proper inspection protocols. This curriculum will be implemented via training to all county departments of job and family services (CDJFS) child care certification staff, which includes those identified in this audit review. This training will strengthen the expectation of proper documentation and procedures when conducting Type B Home inspections.

In addition, Amended Substitute Senate Bill 316 of the 129th General Assembly establishes that all certified Type B Home providers must be licensed effective January 1, 2014. With the transition from certification to licensure, the Ohio Department of Job and Family Services (ODJFS) will strengthen its oversight of CDJFS actions. Effective January 1, 2014 CDJFS' will recommend providers for licensure. ODJFS will review, approve or deny all necessary documentation prior to licensure.

ODJFS is building an IT system to provide CDJFS staff with automation tools and data capturing functions in order to streamline the inspection process. Documents will be uploaded into this IT system and other data captured to assist both CDJFS in their recommendations and the ODJFS in their oversight. This system is planned to be available January 1, 2015.

Anticipated Completion Date for Corrective Action

The regulatory curriculum is planned to be finalized in June 2013. Training will occur with CDJFS certification staff in the summer/fall of 2013. Policies for licensed Type B Home providers will be effective January 1, 2014 with training on these policies to CDJFS staff occurring during that time. The IT system is planned for implementation January 2015.

Contact Person Responsible for Corrective Action

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13. MEDICAID/CHIP – LONG TERM CARE PROVIDER ELIGIBILITY

Finding Number	2012-JFS13-023
CFDA Number and Title	93.767 – Children's Health Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Special Tests and Provisions; Suspension and Debarment

<u>NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY</u>

42 CFR § 455.436, Federal Database Checks, states, in part:

> The State Medicaid agency must do all of the following:
>
> (a) Confirm the identity and determine the exclusion status of providers ... through routine checks of Federal databases.
>
> (b) Check the… Excluded Parties List System (EPLS), and any other such databases as the Secretary may prescribe.
>
> …

It is management's responsibility to implement control procedures to reasonably ensure disbursements are not made to excluded providers. Controls must be adequately documented and maintained to provide management with assurance the controls are performed timely and consistently.

The Department disbursed approximately $14.9 billion to providers for Medicaid ($14.6 billion) and CHIP ($335 million) during state fiscal year 2012. The Bureau of Provider Services – Network Management Unit is responsible for enrolling providers in the Medicaid/CHIP programs. During state fiscal year 2012, the Unit enrolled five long-term care providers. To apply for enrollment in the program, each provider was required to complete and submit an online application using the Medicaid Information Technology System (MITS). The Network Management Unit maintained a Long-Term Care Provider Enrollment manual listing all documentation required and steps to be taken during the enrollment, review and approval process. Upon receipt of the provider's application documentation, the Enrollment Coordinator was to ensure the provider was not excluded per the EPLS. However, the Department did not maintain evidence to support that the Coordinator verified the provider was not federally excluded, as required by the Long-term Care Provider Enrollment Manual. Therefore, we could not determine whether the Department checked the EPLS prior to enrolling the providers. The errors did not result in any payments to excluded providers; therefore, we will not question costs.

If documentation to support the provider's exclusion status is not maintained, the Department may not be able to fully support or ensure payments were only made to eligible providers which could result in questioned costs. The client indicated the cause of the issues was related to the current changes in the application process and MITS.

We recommend the Department check the EPLS for each provider applying for Medicaid and CHIP certification. Documentation to support this verification should be maintained. Management should monitor the procedures to assure the controls are operating consistently and effectively.

Official's Response and Corrective Action Plan

This is a required activity before we complete an enrollment of all provider types. Our enrollment manuals all specify that exclusion lists must be verified. Until we make system changes to MITS to include this as an activity on the "enrollment checklist", staff will be advised to insert a comment in the application comment field indicating they've completed verification.

13. MEDICAID/CHIP – LONG TERM CARE PROVIDER ELIGIBILITY (Continued)

Anticipated Completion Date for Corrective Action

Staff will be instructed to insert a comment in the application confirming they've checked provider exclusion lists beginning April 1, 2013.

Contact Person Responsible for Corrective Action

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14. VARIOUS PROGRAMS – TRANSPARENCY ACT REPORTING

Finding Number	2012-JFS14-024
CFDA Number and Title	10.551/10.561 - SNAP Cluster 17.258/17.259/17.260/17.277/17.278 - WIA Cluster 93.558 - TANF Cluster 93.563 - Child Support Enforcement 93.575/93.596 - CCDF Cluster 93.658 - Foster Care – Title IV-E 93.659 - Adoption Assistance 93.667 - Social Services Block Grant 93.767 - Children's Health Insurance Program 93.775/93.777/93.778 - Medicaid Cluster
Federal Agency	Department of Agriculture Department of Labor Department of Health and Human Services
Compliance Requirement	Reporting

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

The Federal Funding Accountability and Transparency Act (Transparency Act) requires prime recipients of non-ARRA (American Recovery and Reinvestment Act) federal awards who make first-tier subawards to report the subaward on the Federal Funding Accountability and Transparency Subaward Reporting System (FSRS) website maintained by the federal Office of Management and Budget. Pursuant to 2 CFR part 170 Appendix A, prime recipients of non-ARRA federal awards made on or after October 1, 2010, are required to report subawards of $25,000 or more to an entity. Prime recipients must report by the end of the month following the month in which the obligation is made. Additionally, 2 CFR part 25 requires entities to ensure applicants of non-ARRA subawards provide a valid Dun and Bradstreet Data Universal Numbering System (DUNS) number in its subaward application or, if not, prior to receiving the award.

During state fiscal year 2012, the Department disbursed $17.55 billion in sub-awards for non-ARRA federal awards to its subrecipients under the following major federal programs, which were required to be reported under the Transparency Act.

14. VARIOUS PROGRAMS – TRANSPARENCY ACT REPORTING (Continued)

CFDA Number	Federal Program Name	Amount Disbursed
10.551/10.561	SNAP Cluster	$110,711,424
17.258/17.259/17.260/17.27717.278	WIA Cluster	$98,040,005
93.558	TANF Cluster	$910,185,806
93.563	Child Support Enforcement	$128,209,379
93.575/93.596	CCDF Cluster	$267,363,545
93.658	Foster Care – Title IV-E	$173,888,916
93.659	Adoption Assistance	$177,598,011
93.667	Social Services Block Grant	$124,437,441
93.767	Children's Health Insurance Program	$335,968,363
93.775/93.777/93.778	Medicaid Cluster	$15,222,866,956

The Management Analyst provided each of the program contacts a listing of the purchase orders issued and processed in the Contracts and Acquisitions Tracking System (CATS) and finalized during the prior month, the FSRS awardees' work list which identifies all the awards the Department is responsible for as the prime recipient, and a blank FSRS Reporting Template. Each program contact compared the FSRS awardees' work list to the CATS purchase order listing and completed the FSRS Reporting Template for any awards required to be reported under the Transparency Act. The program contacts then forwarded either the completed FSRS Reporting template or a statement that there were no awards to report to the Management Analyst who, in turn, entered the information into the FSRS website. During the audit period, the Department had 201 sub-awards from the SNAP Cluster, WIA Cluster, TANF Cluster, CCDF Cluster, and Foster Care – Title IV-E programs that exceeded $25,000 and were required to be reported on the FSRS website in accordance with the Transparency Act. However, of 20 sub-awards tested, the following errors were identified:

- 20 (100%) did not include the correct obligation/action date, according to the sub-award agreement.
- 15 (75%) were not reported on the FSRS website by the end of the month following the month in which the obligation was made pursuant to 2 CFR part 170 Appendix A.
- 13 (60%) did not include the correct the sub-award/sub-grant number assigned by the Department.
- Eight (40%) did not include the correct 9-digit DUNS number for the subrecipient.

In addition, the Management Analyst did not maintain documentation from the program areas showing there were no sub-awards greater than $25,000 to report in the FSRS website for the Child Support Enforcement, Adoption Assistance, Social Services Block Grant, Children's Health Insurance Program, and Medicaid Cluster programs.

By not complying with federal Transparency Act reporting requirements, the Department risks federal funding being reduced, taken away, or other sanctions imposed by the federal grantor agency. If valid DUNS numbers for subrecipients are not included in the transparency reports, the Federal government is not able to use the numbers to better identify organizations that are receiving federal funds and to provide consistent name and address data for other electronic grant application systems. According to management, the errors were a combination of not realizing the documentation from program personnel should be maintained, incorrect information received from the program personnel, and lack of the appropriate program knowledge by the person who had been responsible for submitting these reports, though they have since transferred these duties to someone more appropriate.

14. VARIOUS PROGRAMS – TRANSPARENCY ACT REPORTING (Continued)

We recommend the Department collect and report on the FSRS website complete and accurate information regarding sub-awards made for all programs subject to the Transparency Act, including the use of the correct DUNS number. The Department should maintain the documentation received from the program personnel stating that there is no information required to be entered into FSRS. We also recommend the Department evaluate its Transparency Act reporting control procedures and update them as necessary to ensure they promote compliance with the Federal regulations, as well as accuracy and completeness of information submitted. We further recommend the Department provide training for program personnel responsible for providing information for the report, personnel responsible for preparing and submitting the report, and personnel responsible for reviewing the report for accuracy, completeness, and compliance prior to submission to the FSRS website. Lastly, the Department should develop a system of internal controls over the reporting process, including a review by management to help ensure the reports are accurate and complete prior to submission to the FSRS website. These controls should be documented in some manner to provide management reasonable assurance they were performed as intended.

Official's Response and Corrective Action Plan

Upon receiving the audit findings and recommendations, ODJFS has revised existing reporting procedures as to strengthen and ensure compliance with the Transparency Act requirements. The revised procedures will be distributed to the reporting program areas during the fiscal period via training sessions (revised procedures are available upon request). The identified reporting issues will be researched and amended as needed, and the Bureau of Grants Management and Federal Reporting (BGMFR) will develop a system of internal controls over the reporting process that will be monitored by management to help ensure the reports are accurate and complete prior to submission to the FSRS.

Along with revising the reporting procedures, and instituting stronger internal controls, BGMFR will validate data received prior to the submission to the FSRS website, supporting documentation will be BGMFR have developed corrective actions to address the identified audit findings as noted below.

- *13 (60%) incorrect sub-award/sub-grant number assigned by the Department.*
  ODJFS grant agreements will be obtained from the reporting program areas, the agreement number and signature date will be reviewed and compared to the reported data for accuracy. The agreements will be maintained along with other supporting documentation provided by the program areas. BGMFR staff will also obtain training in the use of the ODJFS internal contracts/agreement system (Contracts and Acquisitions Tracking System (CATS)), as this will allow staff to obtain agreements from the system as needed.

- *20 (100%) incorrect obligation/action date, according to the sub-award agreement.*
  As BGMFR staff will be obtaining and housing the sub-award agreements (related to FFATA) from the program area, or directly from the CATS system, the signature date of the actual agreements will be accurately captured and recorded per FFATA requirements.

- *15 (75%) were not reported on the FSRS website by the end of the month following the month in which the obligation was made pursuant to 2 CFR part 170 Appendix A.*
  BGMFR staff will submit the FFATA report within the compliance guidelines. If an amendment or correction is needed BGMFR will submit an amended report.

- *Eight (40%) did not include the correct 9-digit DUNS number for the sub-recipient.*
  BGMFR staff will validate the reported DUNS numbers against the System for Award Management (SAMS) website to ensure that the correct DUNS number is entered into the FSRS reporting system. The (SAM) is a Federal Government owned and operated free web site that consolidates the capabilities in CCR/FedReg, ORCA, and EPLS. Users register their entity data (business, individual, or government agency) to do business with the Federal Government.

14. VARIOUS PROGRAMS – TRANSPARENCY ACT REPORTING (Continued)

Anticipated Completion Date for Corrective Action

Bureau of Grants Management and Federal Reporting Services (BGMFR) will complete this corrective action plan by June 29, 2013.

Contact Person Responsible for Corrective Action

Marvene Mitchell, Bureau of Grants Management and Federal Reporting Services Chief, Ohio Department of Job & Family Services, 30 E. Broad Street, 37th Floor, Columbus Ohio, 43215, Phone: (614) 387-0464, E-Mail: Marvene.Mitchell@jfs.ohio.gov

15. IT – ALL APPLICATIONS – LACK OF INTERNAL TESTING OF AUTOMATED CONTROLS

Finding Number	2012-JFS15-025
CFDA Number and Title	All Programs Administered by the Department
Federal Agency	Department of Agriculture Department of Health and Human Services Department of Labor
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Eligibility, Reporting, Special Tests and Provisions

<u>MATERIAL WEAKNESS</u>

Federal regulations allow, and in some cases require, states to utilize computer systems for processing individual eligibility determinations and delivery of benefits. Often, these computer systems are complex and separate from the agency's regular financial system. Typical functions of complex computer systems may include evaluating applicant information and determining eligibility and/or benefit amounts; maintaining eligibility records; determining the eligibility of services; tracking the period of time an individual is eligible; and maintaining financial, statistical, and other data that must be reported to grantor federal agencies. It is management's responsibility to establish and implement internal control procedures to reasonably ensure program objectives and requirements are met and information (both financial and non-financial) is accurately and completely processed and maintained. Management should also monitor controls to assure the manual and automated controls are operating effectively.

Additionally, to help meet the conditions under which the Department of Health and Human Services will approve federal financial participation with various programs, 45 CFR 95.621 (f)(2)(iii) requires states to perform risk analyses to ensure appropriate safeguards are incorporated into new and existing systems on a periodic basis and whenever significant system changes occur. Also, 45 CFR 95.621 (f)(3) requires states to review the ADP system security biennially. At a minimum, the reviews are to include the evaluation of physical and data security, operating procedures, and personnel practices.

The Ohio Department of Job and Family Services (ODJFS) places immeasurable reliance on a number of complex information systems as part of their operations to aid in processing benefit payments to eligible recipients. To help satisfy the requirements of 45 CFR 95.621 and Department responsibilities to evaluate system risks and integrity, the Department contracted with the State's Office of Internal Audit (OIA) to test certain key systems. The scope of this work was to include Information Technology General Controls (ITGC) and applications controls based on risk assessments performed by OIA, as outlined in their *Fiscal Year 2012 Annual Audit Plan*. The audit programs for the ITGC work were to be developed using the National Institute of Standards (NIST) security framework found in Special Publication 800-53. The Control Objectives for Information and Related Technology (COBIT) security framework was to be used to guide both the general and application control testing of three systems. In fiscal year 2012, OIA

15. IT – ALL APPLICATIONS – LACK OF INTERNAL TESTING OF AUTOMATED CONTROLS (Continued)

issued a report related to testing of three information systems (CRIS-E, OJI, and SETS). In fiscal year 2013, OIA issued a report related to two additional systems (SACWIS and ERIC). As a reaction to the internal audit reviews, ODJFS provided corrective action plans, remediation owners, and estimated due dates for any control weaknesses included in the final OIA assurance memos.

The Department indicated it does have plans to conduct similar reviews for all remaining systems. However, as of the date of our report, ITGC and application control testing and risk assessments had not been conducted for the following critical systems:

- Medicaid Information Technology System (MITS; used to process Medicaid and CHIP benefits totaling nearly $15 billion during fiscal year 2012);
- OAKS Financial Interface System (OFIS; used to interface with OAKS, the State's general accounting system for recording all transactions processed by the Department);
- Child Care Information Data System (CCIDS; used to process eligibility related to Child Care totaling approximately $246 during fiscal year 2012); and
- County Finance Information System (CFIS) applications/business processes (used to process, record, and report all transactions between the Department and its 88 county subrecipients).

Although a Service Organization Control, SOC-1, report for the period of September 1, 2011 to July 31, 2012 was completed for the Data Site Orlando facility that houses the MITS hardware and software, this report primarily covered physical and environmental IT security controls related to the physical MITS processing environment. It did not provide a complete and comprehensive review of ITGC for MITS.

If appropriate risk assessments and testing are not conducted for these complex information systems by experienced personnel possessing the appropriate technical skills, ODJFS management may not be reasonably assured these systems are processing transactions accurately, completely, and in accordance with federal compliance requirements. In addition, if assessments are not performed regularly and timely, the Department may not be in compliance with the requirements of 45 CFR 95.621 for the applicable programs. This increases the risk of noncompliance with federal regulations and of material errors or misstatements within the data processed, resulting in improper posting of transactions and/or inappropriate determinations regarding eligibility, allowability, and/or benefit amounts.

According to management, the Department and OIA established a schedule for conducting internal audits of all systems that determine eligibility for benefits; however, the schedule did not allow for testing the remaining CCIDS, CFIS, and OFIS systems until state fiscal year 2014. ODJFS dedicated numerous key staff and had dedicated vendor (and IV&V) contract staff on the MITS project during FY12. Additional independent review of MITS, while it was being developed and tested by ODJFS expert personnel, could have actually caused further delay of the implementation as key resources would be distracted from critical path project activities.

We recommend the Department ensure OIA, in conjunction with knowledgeable ODJFS program staff, or other qualified personnel complete an independent evaluation for the remaining material applications in accordance with program guidelines and established OIA schedules within the next fiscal year. This testing must include appropriate risk assessments, general control testing, and testing of automated application controls for these systems, including transaction testing of critical operations and functions to help provide assurance all components of the systems are operating as designed, payments and eligibility determinations are accurate, and all financial and other reports are produced with integrity.

We also recommend the Department develop and implement a schedule that would allow all critical systems to be reviewed on a regular basis. This schedule should incorporate the requirements of 45 CFR 95.621 to evaluate physical and data security, operating procedures, and personnel practices on a biennial basis for the applicable programs. ODJFS should ensure appropriate and timely corrective action is taken to address all risk areas and/or control weaknesses identified as part of this testing.

15. IT – ALL APPLICATIONS – LACK OF INTERNAL TESTING OF AUTOMATED CONTROLS (Continued)

Official's Response and Corrective Action Plan

The Ohio Department of Job and Family Services (ODJFS) and the State's Office of Internal Audit (OIA) has established a schedule for conducting internal audits for all ODJFS systems that determine eligibility for benefits in accordance with 45 CFR 95.621. The Office of Internal Audit provides independent evaluations for state agencies according to the annual plan. The reports, findings, and recommendations of these audits are reported to the State Audit Committee in accordance with ORC 126.46.

The IT general controls and application processing testing of CRIS-E, SETS and OJI was conducted in FY 2012 and the SACWIS, ERIC audits were conducted in FY 2013. The remaining systems CCIDS, CFIS and OFIS will be audited in FY 2014. In accordance with federal requirements, ODJFS and OIA have agreed to coordinate continued system reviews for subsequent fiscal years.

Although an internal controls audit of MITS was not conducted in FY 2012 or FY 2013 by OIA, ODJFS dedicated numerous key staff and had dedicated vendor (and IV&V) contract staff on the MITS project during FY2012. Additional independent review of MITS, while it was being developed and tested by ODJFS subject matter experts, could have actually caused further delay of the implementation as key resources would be distracted from critical path project activities. Internal testing performed by expert ODJFS staff during development and, specifically, during user acceptance testing, was the reason MITS was not reviewed independently in FY 2012. Coordination of an independent review of MITS in FY2014 will require coordination between the Office of Internal Audit and the Office of Medical Assistance (OMA). The administration of this system is scheduled to be transferred to the Office of Medical Assistance (OMA) at the beginning of FY2014. OBM-OIA will coordinate any audit activity related to MITS with OMA management beginning in FY 2014. It is noted that although the authority of this system will be transferred to a new state agency, ODJFS will receive this material weakness for the Single State Audit FY 2013 since the MITS system was not tested by OIA.

Anticipated Completion Date for Corrective Action

The IT general controls audit of CCIDS, OFIS and CFIS will be conducted in FY2014 with a target completion date of December 10, 2013. OIA will present the results of the findings to the ODJFS Director, Chief Information Officer and senior administrators. ODJFS management will evaluate these findings and corrective action plans will be developed by Office of Information Services and the business area staff. OBM-OIA will track the results of the corrective action plans and report the status of the remediation plan to the Audit Executive Committee. ODJFS and OIA will begin a new cycle of independent system review in FY15.

ODJFS believes that the day-to-day business processes supplemented by the annual IT audits conducted by OIA, along with the recurring federal reviews conducted by the Internal Revenue Service and the Department of Health and Human Services provide management with reasonable assurance that program objectives and requirements are being met and that manual and automated controls are operating effectively.

Contact Person Responsible for Corrective Action

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16. VARIOUS PROGRAMS – COUNTY FINANCE DOCUMENTATION AND PROCEDURES

Finding Number	2012-JFS16-026
CFDA Number and Title	10.551/10.561 – SNAP Cluster 17.258/17.259/17.260/17.277/17.278 – WIA Cluster 93.558 – TANF Cluster 93.563 – Child Support Enforcement 93.575/93.596 – CCDF Cluster 93.658 – Foster Care – Title IV-E 93.659 – Adoption Assistance 93.667 – Social Services Block Grant 93.767 – Children's Health Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Labor Department of Health and Human Services
Compliance Requirement	Allowable Costs

<u>MATERIAL WEAKNESS</u>

Office of Management and Budget Circular A-133, § _.300 requires recipients of federal awards "[m]aintain internal controls over Federal programs that provide reasonable assurance they are managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs." It is management's responsibility to design, implement, and monitor these controls to reasonably ensure compliance with the applicable requirements. These controls must include maintaining appropriate supporting documentation for all transactions and performing timely reconciliation procedures to help ensure the transactions processed are accurate and complete.

The Department distributed approximately $786 million during fiscal year 2012 from the major programs listed above to subrecipient county agencies/WIA local areas in the form of reimbursements, advance-funded draws, and/or earned incentives. The Department used the County Finance Information System (CFIS) to assist in providing grant management controls and oversight in this draw and disbursement process. However, the Department did not consistently apply its established controls during the year, as noted below.

County agencies/WIA local areas submit their requests for revenue to the Department each Friday. The requests are summarized in the State's accounting system, OAKS, and undergo edit checks, such as purchase order matching and voucher budget checks. Before the Department disburses funds to the county agencies/WIA local areas on the following Friday, an employee is responsible for tracking the draw vouchers in OAKS and ensuring any necessary changes are made to coding or the amount of draw requests based on the edit check results. The employee and the Unit Supervisor are required to sign the State Wide Weekly Voucher Approval Signature Page to document their review and approval of the payments. However, the Department could not locate the related Signature Page for four of 21 (19.1%) payments tested. Consequently, we could not verify the payments were properly reviewed and approved. Department management indicated the missing documents were possibly lost or destroyed by a former employee.

Without consistent performance and documentation of internal controls, the risk exists that draws and subsequent disbursements or expenditures for the federal programs may be processed inaccurately or for unallowable activities. In addition, management cannot reasonably be assured the accounting records are accurate. This also increases the risk that internal controls may not be established or working in a manner intended by management.

16. VARIOUS PROGRAMS – COUNTY FINANCE DOCUMENTATION AND PROCEDURES (Continued)

We recommend Department management evaluate their current processes and procedures related to documenting control procedures performed and retention of supporting documentation and update them as necessary to reasonably ensure controls are in place and operating as intended on a consistent basis which reasonably ensure payments to the counties are accurate, complete, and representative of actual program activity. The Department should amend, as needed, its written policies and procedures so they address all significant aspects in the disbursement process. These policies and procedures should include, but not be limited to, requiring evidence be maintained to document the occurrence of the established controls, such as document reviews and sign-offs. These written policies and procedures should be formally approved and communicated to all affected employees in the disbursement process. In addition, management should periodically monitor the established control procedures to help ensure they are performed timely, consistently, and effectively.

Official's Response and Corrective Action Plan

Beginning on July 1, 2012 the process for the Weekly Statewide Draws/Advances to the counties changed. The process is now automated and weekly totals are checked every Monday and any adjustments balanced on Friday. We no longer require signature pages; the process uses automated reports from OAKS and CFIS Web.

BCFTA sends the weekly draw advance request to the Bureau of Cash Management and Federal Reporting (BCMFR) every Friday afternoon with the following week's payment date and the draw totals detailed by Fund, Grant and Budget Reference (from CFIS Web).

Each Monday BCFTA runs two reports to use for verification: The first report is the OAKS Draw Sampling Report and the second one is the OAKS 58CF Report (this report shows totals by Fund, Grant and Budget Reference). These are e-mailed to the Operations Section Chief and Unit Supervisor and any necessary adjustment to the vouchers/draw request are brought to Management's attention immediately.

In addition, each Monday and Tuesday, Operations Staff review the CFIS Daily Report (which is automated and delivered to their e-mail accounts). This report shows all vouchers for the week and any PO (Purchase Order) matching errors, voucher budget checks, vendor locations and any other checks that validate that the draw from CFIS Web and OAKS do match. Any change in the draw that results from cash or budget availability issues are brought to management's attention immediately. Once management staff has verified the issue, staff completes a cash request change form and sends it to BCMFR. At that point, staff notifies the counties of the change through the CFIS HelpDesk.

Anticipated Completion Date for Corrective Action

This corrective action plan was established and put into place on 7/1/2012 with the implementation of CFIS Web.

Contact Person Responsible for Corrective Action

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17. UNEMPLOYMENT INSURANCE – REPORTING

Finding Number	2012- JFS17-027
CFDA Number and Title	17.225 – Unemployment Insurance
Federal Agency	Department of Labor
Compliance Requirement	Reporting

MATERIAL WEAKNESS

UI Reports Handbooks No. 336 and No. 401 contain instructions for completing and submitting various reports for the Unemployment Insurance (UI) program. Included in the handbook is the ETA 227 report, described in section IV-3 of the Handbook, which states:

The ETA 227 report provides information on overpayments of intrastate and interstate claims under the state unemployment compensation (UI), and under federal UI programs; i.e., programs providing unemployment compensation for federal employees (UCFE) and ex-service members (UCX), established under Chapter 85, Title 5, U.S. Code. This report will include claims for regular, state additional, and federal-state extended benefits (EB). ... The ETA 227 report is due quarterly on the first day of the second month after the quarter of reference.

It is management's responsibility to implement control policies and procedures to reasonably ensure the federal reports they submit are accurate, complete, and in compliance with program requirements. It is imperative that management be able to provide the underlying data and related program documentation required to prepare and support these reports.

The Department reported approximately $69 million in overpayments during state fiscal year 2012 as part of the ETA 227 Overpayment Detection and Recovery Activities, and reported approximately $142 million in outstanding overpayments as of year-end. The ODJFS Benefit Payment Control management staff was to reconcile the ETA 227 report to information from the OJI (Ohio Job Insurance) computer system via the Audit Check spreadsheet. However, the reconciliations were incomplete since, for all four quarterly reports submitted for state fiscal year 2012 (100% error rate), the Audit Check spreadsheet did not include support for Section C (Recovery/Reconciliation) of the ETA 227 reports (amounts in Section C are used to determine the cumulative outstanding overpayments total). As such, it appears some of the amounts were pulled from the OJI computer system and sent to the U.S. Department of Labor without any verification of the accuracy of the amounts.

If the underlying data for the submitted reports cannot be readily verified, the Department and the federal government may not be reasonably assured the information is accurate and complete. Reporting inaccurate or incomplete information could subject the Department to federal sanctions, limiting the amount of funding for program activities.

ODJFS management indicated the numbers not being included on the Audit Check spreadsheet were due to oversights during the tracking process.

We recommend the Department update their policies and procedures to provide better assurance the federal reports, including the ETA 227, are accurate, complete, submitted timely, and in compliance with federal requirements. At a minimum, the procedures should include a review of the reports and verifying all amounts on them before the reports are submitted.

17. UNEMPLOYMENT INSURANCE – REPORTING (Continued)

Official's Response and Corrective Action Plan

On December 20, 2012 BPC leadership hired a new management staff person assigned to review and reconcile the ETA 227 report. Additionally, BPC program partners in OJI System Support recently completed system updates that result in passing applicable data validation within most populations. The system enhancements coupled with the new staff person will make reconciliation differences easily and immediately identified so that corrective action can be taken timely and report submission to USDOL can be made timely. BPC leadership will continue to monitor the effectiveness of the new measures put in place, address issues as they arise and work with parties (IT) to ensure compliance with federal reporting.

Anticipated Completion Date for Corrective Action

Completed December 20, 2012

Contact Person Responsible for Corrective Action

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18. FEDERAL REVENUE CONTROLS

Finding Number	2012-JFS18-028
CFDA Number and Title	All Federal Programs of the Department
Federal Agency	Department of Agriculture Department of Labor Department of Health and Human Services
Compliance Requirement	Cash Management

SIGNIFICANT DEFICIENCY

Office of Management and Budget Circular A-133, § _.300(b) requires recipients of federal awards "[m]aintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs." It is management's responsibility to design, implement, and monitor these controls to reasonably ensure compliance with the applicable requirements. These controls must include maintaining appropriate supporting documentation for all transactions and performing timely reconciliation procedures to help ensure the transactions processed are accurate and complete.

During fiscal year 2012, the Department received and processed through the state accounting system, OAKS (Ohio Administrative Knowledge System), approximately $12.9 billion in federal revenue related to the 11 major federal programs it administered. Although the Department had established controls over the federal revenue / cash management process, it did not apply the controls consistently throughout the audit period, as noted below.

A control procedure required, on a daily basis, the Federal Cash Draw Unit Supervisor or authorized individual review and approve the Request for Payment (Smartlink II or ASAP Confirmation) printout to verify the amounts and account numbers on them corresponded to the Revenue Direct Journal Entry spreadsheet, OAKS Payment Detail Report, and supporting documentation for accuracy and

18. FEDERAL REVENUE CONTROLS (Continued)

completeness, by signing the Smartlink II or ASAP Confirmation printout. However, eight of 60 (13.3%) federal draws tested did not contain evidence the Federal Cash Draw Unit Supervisor or authorized individual reviewed and approved the Smartlink II or ASAP Confirmation printout.

Without consistent performance and documentation of internal controls, and the maintenance of required records to support the draw and receipt of federal funds, the risk exists that revenues for the federal programs may not be processed accurately, recorded for the proper program in a timely manner, or in compliance with federal requirements. In addition, management cannot reasonably be assured the accounting records are accurate or federal reports produced from those records are accurate. This also increases the risk that internal controls may not be working in a manner intended by management. Department management stated the lack of the reviewed/approved Smartlink II or ASAP Confirmation printout was due to an oversight.

We recommend Department management periodically evaluate their current processes and procedures related to federal draw drawdowns and update them as necessary to reasonably ensure federal revenues are processed accurately, recorded in a timely manner, and in compliance with federal requirements. These controls should include a secondary review for any modifications that may occur to verify the changes are accurate and appropriate. In addition, management should periodically monitor the established control procedures to help ensure they are being performed timely, consistently, effectively, and as management intended.

Official's Response and Corrective Action Plan

Ohio Department of Job and Family Services (ODJFS), Office of Fiscal and Monitoring Services is committed to meeting the Office of Management and Budget; Circular A-133, § _.300(b) requirements.

Cash Management will strengthen existing procedures to review documents for signature requirements prior to scanning into the FileNet system by having the FS2 responsible for prepping the documents for scanning do a cursory review of daily draw documents for signature requirements prior to sending to the File room for FileNet scanning. If the signatures are not present then they are returned to the approver for appropriate signature. The above mentioned procedure is documented.

Also, Cash Management believes the appropriate procedures are in place to prevent future findings, but will conduct appropriate procedure training with current and new employees, to discuss the approval/signature procedures with the responsible employees who are reviewing, approving, and signing the daily draw documents to ensure adherence to the procedures.

To further strengthen control procedures, Cash Management has instituted a daily reconciliation process that began December 2012 as part of the automation of the daily cash draw. The daily reconciliation sheets are included in the draw documents and are signed by the Fiscal Specialist 2 completing the reconciliation and Fiscal Officer or designee who reviews the reconciliation. This reconciliation process has allowed for a review of CAPIS to OAKS entry to catch any data entry errors (that were missed by the reviewer/approve) that can be corrected prior to sending the daily draw requests to the Treasurer of State. This process is in its infancy stage and is undergoing constant review and modification to ensure its effectiveness.

As part of the automation process, a reconciliation process is being developed that will reconcile the CAPIS document to OAKS entry and to the SMARTLINK/ASAP entry. This reconciliation will further enhance and strengthen control procedures.

Anticipated Completion Date for Corrective Action

Upon completion of all pertinent testing, BGMFR will complete this corrective action plan by March 29, 2013.

18. FEDERAL REVENUE CONTROLS (Continued)

Contact Person Responsible for Corrective Action

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19. MEDICAID/CHIP – CLAIMS PROCESSING AND RECONCILIATION INTERNAL CONTROLS

Finding Number	2012-JFS19-029
CFDA Number and Title	93.767 – Children's Health Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed; Allowable Costs/Cost Principles

<u>SIGNIFICANT DEFICIENCY</u>

It is management's responsibility to implement control policies and procedures to reasonably ensure compliance with federal and state laws and regulations. It is imperative that management monitor and oversee the process of entering Medicaid/CHIP claims to reasonably ensure compliance with applicable laws and regulations. Controls must also be adequately documented to provide management with assurance the controls are performed timely and consistently.

The Claims Processing Section within the Department's Bureau of Provider Services is responsible for processing paper claims submitted by medical providers that include attachments. In addition, following the adjudication process in MITS, the Claims Processing and Claims Reconciliation sections process all claims that go into suspension (did not pass one or more edit checks), regardless of whether the claim was keyed internally, processed by the Department's vendor (for paper claims without attachments), or submitted by the provider through Electronic Data Interchange (EDI). During the audit period, the Department processed approximately 36,000 claims with an override code (approved for payment) from those initially suspended. Under the current system, the Claims Processing Section Chief is to perform a monthly review of claims that went into suspension and have an override or deny code. However, prior to May 2012, the Department did not document these reviews. There was also no review performed on internally processed claims that did not go into suspension (passed all MITS edit checks) for potential keying errors. As of May 2012, the Claims Processing Section indicated they began performing reviews over suspended claims processed and internally processed claims and documentation of these reviews is to be maintained in each staff member's personnel file. However, the Claims Processing section did not maintain a listing of reviews performed, any action taken as a result, or other support to document which claims were reviewed. Therefore, there would be no method for ensuring all claims sampled were actually reviewed and evidenced.

In addition, the Claims Reconciliation section within the Department's Bureau of Provider Services processes claims adjustments. These claims adjustments are usually submitted by the provider, but they can also be submitted by the Office of Ohio Health Plan's section. While the Claims Examiners are in their probationary period, the Lead Worker is to conduct periodic reviews, varying in frequency for up to six months depending on the findings of previous batches and supervision needs of the individual. However, after the probationary period, periodic reviews are not conducted over adjustments made by the claims examiners. Since there were no probationary employees during our audit period, no reviews were performed over any claims adjustments.

19. MEDICAID/CHIP – CLAIMS PROCESSING AND RECONCILIATION INTERNAL CONTROLS (Continued)

Without performing proper reviews of the claims and adjustments entered into the MITS system and maintaining documentation of the reviews, management cannot be reasonably assured that control activities were operating effectively or consistently. If a complete listing of claims sampled and reviewed is not maintained, management cannot ensure that all claims selected for review were actually reviewed. In addition, there is an increased risk the Department will make payments that are unallowable, incorrect, or incomplete. Claims processed in error and/or processing inaccuracies by the electronic systems which may impact Department funds could go undetected.

Management indicated they weren't aware of the need to maintain a listing of reviews performed over suspended and manually entered claims. Pertaining to the claims adjustment issue noted, management indicated staff is experienced and they do not believe a review of the staff's work is required.

While the Department should not assume that all employees are dishonest, assuming that all of them are honest is imprudent. Generally accepted auditing standards (AU-C 240.04) provides this advice:

"It is important that management, with the oversight of those charged with governance, places a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating a culture of honesty and ethical behavior, which can be reinforced by active oversight by those charged with governance."

We recommend the Department emphasize this both when designing its own controls, and also when advising subrecipients.

We recommend the Department implement and/or strengthen internal controls related to the review of the claims and claims adjustment processing. Evidence of such reviews should be consistently maintained to provide management with assurance the controls are operating consistently and effectively. Management should ensure the sample selected for review is sufficient. Additionally, we recommend management maintain a master listing of all reviews performed, when they were performed, who conducted the review, and any additional action taken as a result of the reviews. Management should consider maintaining the review documentation in one location, instead of distributed among different personnel files.

Official's Response and Corrective Action Plan

OMA disagrees with the finding. SSA12 identified this issue and OHP CAP stated we would incorporate a system of monitoring starting in May 2012 and that deadline was met. An audit form created by the Claims Processing Section chief is called "Claims Processing Suspense Resolution Audit form" to document the reviews. The Claims Processing Section does perform monthly reviews of claims that have been overridden by staff. Random claims are selected and verified that procedures and rules were followed Staff is shown the audits that are performed and it is discussed during each "one on one" staff /supervisor meeting that is held monthly. The section chief met with one of the auditors and provided her a copy of the audit form and reviewed one of the actual audits that were completed.

The MITS has significantly changed the way we do adjustments. Most adjustments are now done by the provider through the void and rebill process. They can also make adjustments either through EDI or the Web Portal. The Claims adjustment Unit only receives those that cannot be done by the provider. Many more edits and audits have been built into the system and are no longer at the discretion of the claims examiner. The adjustments that come to us are those that are mostly partial take backs. Any adjustment that results in an expenditure or reimbursement are required to be preapproved by the supervisor, lead

19. MEDICAID/CHIP – CLAIMS PROCESSING AND RECONCILIATION INTERNAL CONTROLS (Continued)

worker or section chief. These are initialed on the request form and recorded on a spreadsheet maintained by the lead worker. The supporting documentation for all of these are maintained in a unit file to be accessed by anyone needing to review the documentation. This file is available for CMS or OBM to view upon request to support this CAP.

Anticipated Completion Date for Corrective Action

This action is already in place and performed monthly.

Contact Person Responsible for Corrective Action

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Auditor of State's Conclusion

This comment, which was included in both the fiscal year 2010 and 2011 single audit reports, states that procedures were changed in May 2012 (more than 10 months into the audit period) to require reviews over suspended claims processed and internally processed claims. However, since these procedures did not include an overall listing of claims selected, management could not demonstrate that all claims sampled were actually reviewed and evidenced. Therefore, we could not determine if this control was operating effectively. In addition, the automation of many claims adjustments does not alleviate the need to ensure manual claims adjustments are correctly entered and processed. Therefore, the finding will remain as stated above.

20. IT – MITS – AUDIT DOCUMENTATION DELAYS

Finding Number	2012-JFS20-030
CFDA Number and Title	93.767 – Children's Health Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Special Tests and Provisions

<u>SIGNIFICANT DEFICIENCY</u>

IT outsourcing may be defined as the use of vendors or service providers to develop, maintain, or reengineer an entity's IT architecture and systems. Outsourcing of mission critical functions can have a significant impact on an agency's internal control. Effective management of outsourcing risks considers the needs of users and other stakeholders, including auditors.

Ohio's Medicaid Information Technology System (MITS) replaced the legacy Medicaid Management Information System (MMIS) during state fiscal year 2012. MITS was a strategic, multi-year project to develop and implement an IT system to support the business needs of Ohio's Medicaid health plans. MITS was designed, developed, and tested by a vendor service provider contracted by ODJFS and went live on August 2, 2011. The service provider was also contracted to maintain, secure, and administer the

20. IT – MITS – AUDIT DOCUMENTATION DELAYS (Continued)

application software until a date, agreeable by both parties, which would allow for the transition of total software control over to ODJFS. The new automated MITS was designed to process eligible claims related to the Medicaid and Children's Health Insurance (CHIP) programs from providers.

During state fiscal year 2012, the Department disbursed approximately $10.7 billion in Medicaid and $289 million in CHIP benefit payments. Audit and compliance requirements necessitated testing of IT General Controls (ITGC) and key MITS application controls. Testing of these key MITS controls required use of detailed transaction data files, including Medicaid and CHIP claims paid through MITS. Despite early and frequent communication with the ODJFS, the Department was not appropriately prepared to respond to, or compel the vendor to respond to, the requests for critical information needed to complete the audit. Audit staff experienced significant delays in meeting with client and vendor personnel, receiving documentation, and obtaining data necessary to conduct the audit. Although the Auditor of State's Office (AOS) ultimately received the requested information, the delays postponed the State of Ohio CAFR opinion date from January to March. Because the delays also jeopardized the successful completion of the State Single Audit, significant additional effort was required on the part of the AOS, the Department, and the vendor to provide documents and data to complete the audit within the required time frame.

Without proper and adequate support of audit objectives from both the Department and vendor service provider, required audits may not be completed on time. The lack of timely financial reporting limits effective oversight of State finances, adversely affects the State's bond rating, and jeopardizes federal funding.

According to OHP management, significant differences existed in the design and the processing of data between the new and the old systems. In addition, the vendor's priorities focused on contractual obligations to administer, secure, and maintain the MITS application during the first full year of production. Timeframes for providing information to the AOS were affected by several factors including additional time being required to: understand and communicate system differences, identify internal control processes, and work with AOS staff members to define and re-define, as necessary, documentation needed to facilitate testing. Significant time was also spent working with the vendor to identify claim files and other needed documentation.

We recommend the Department require the involvement of internal auditors throughout all key phases of the systems development and implementation process for current and future, large scale, projects. The approved and followed system development life cycle should provide for internal control documentation, process explanations, and transaction data for independent audit purposes. One of the internal audit objectives should be to ensure the needs of all stakeholders, including internal and external auditors, are clearly addressed and formalized in contracts with service providers. Contracts should include clauses that provide the agency with well-defined rights to audit processes, controls, and results associated with the outsourced activity.

Official's Response and Corrective Action Plan

The implementation of a new claims payment system created a significant change in the approach of identifying files and reports necessary for testing the controls and payments issued by MITS. Additional challenges resulted from the fact that AOS auditors were unfamiliar with the technology, file layout, and actual data. In recognition of the need to establish a governance process for identifying and exchanging data, JFS worked collaboratively with AOS, OBM and HP to develop and maintain a process for identifying files and reports that satisfied data requests of the AOS. In anticipation of the SSA for FY 13 a list of reports and files used to satisfy inquiries of the AOS has been maintained and it is anticipated to expedite future exchanges of data.

20. IT – MITS – AUDIT DOCUMENTATION DELAYS (Continued)

Anticipated Completion Date for Corrective Action

All data has been transferred to AOS. As this was the initial audit of MITS, it is anticipated these delays will be minimized in future engagements.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF MENTAL HEALTH

1. MEDICAID, CHIP, AND SSBG – SUBRECIPIENT MONITORING

Finding Number	2012-DMH01-031
CFDA Number and Title	93.667 – Social Services Block Grant 93.767 – Children's Health Insurance Program 93.778 – Medical Assistance Program
Federal Agency	Department of Health and Human Services
Compliance Requirement	Subrecipient Monitoring

NONCOMPLIANCE AND MATERIAL WEAKNESS – SOCIAL SERVICES BLOCK GRANT AND CHIP

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY - MEDICAID

The Office of Management and Budget's Circular A-133 states, in part:

§__. 400 Responsibilities

. . .

(d) Pass-through entity responsibilities. A pass through entity shall perform the following for the Federal awards it makes:

…

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for the fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

. . .

It is management's responsibility to implement policies and procedures to monitor subrecipients to help ensure they have complied with the rules and regulations related to the programs and have met the objectives of the programs.

During state fiscal year 2012, the Department received and disbursed approximately $347.4 million in federal funding for the Medical Assistance Program, $28.9 million for the Children's Health Insurance Program (CHIP) and $9.1 million for the Social Services Block Grant (SSBG) to the 50 Community Mental Health (CMH) boards who are subrecipients of the Department. Currently, the Department requires each CMH board to submit their single audit report to the Community Audit Program Manager.

The Community Audit Program Manager reviews these audit reports and enters the information from each report, including whether a Corrective Action Plan (CAP) will be required, in an access database. From this access database, the Community Audit Program Manager has the ability to generate various reports, including which CMH boards have not submitted their single audit report and which CMH boards still have not submitted a CAP. Once information is entered into the access database, the reports are evaluated utilizing the Risk Assessment Tool developed by the Community Audit Program Section. Based upon the Risk Assessment Tool, the Community Audit Program Manager determines whether or not an on-site visit

1. MEDICAID, CHIP, AND SSBG – SUBRECIPIENT MONITORING (Continued)

is necessary for the CMH boards. However, the following weaknesses and instances of noncompliance existed during state fiscal year 2012:

- Based on the access database report, there were 16 CMH boards that were required to submit a CAP and none of them had been received; however, the Department did not follow up with the CMH boards to determine the status of the CAPs and did not determine whether the finding related to funding the Department passed through to them or funding passed through from other state agencies. Consequently, the Department did not issue management decisions on the audit findings and CAPs in accordance with OMB Circular A-133, Section 400(d)(5).

- The Department performed on-site reviews for only four of the 50 CMH boards.

- Even though a limited amount of on-site visits were conducted, the Department did not perform sufficient additional during-the-award monitoring procedures to increase coverage and ensure the accuracy and allowability of payments reported by the subrecipient. The Department placed primary reliance on the A-133 audits of the boards. However, the Department's evaluation of these A-133 audits did not include (1) determining which federal programs were tested as a major federal program in the A-133 audit to help determine the amount of coverage obtained from A-133 audits and (2) ensuring that program funding passed through to subrecipients was included on the subrecipient's federal schedule and appeared to be accurate.

Under these circumstances, the Department may not be reasonably assured they have met the requirements of OMB Circular A-133, or that the CMH boards have met the requirements of the Medicaid, CHIP, and SSBG programs. If the Department does not perform appropriate monitoring procedures, there is a risk that instances of noncompliance by the subrecipient will go undetected or uncorrected. According to the Department, follow-up action was not taken on the CAPs and only a limited amount of on-site reviews were performed due to insufficient staffing levels.

We recommend the Department continue to develop and enhance their subrecipient monitoring process. These procedures could include, but not be limited to, the following:

- Ensuring that all audit findings in the subrecipient's A-133 audit reports relating to funding the Department passed through are identified and investigated. A corrective action plan should be obtained from the subrecipients relating to each of these findings and a management decision should be made to determine whether the corrective action is sufficient.

- Monitoring of the subrecipient's use of federal awards during the award period through an appropriate number of site visits or other means to provide reasonable assurance the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of the grant agreements and that performance goals are achieved. The reviews conducted via on-site visits should include evaluations of the subrecipients' processes and procedures over critical single audit compliance requirements such as allowable costs, matching, cash management, and period of availability. Supervisory reviews should be performed to determine the adequacy of subrecipient monitoring performed. Other procedures could include requesting the board provide supporting documentation for certain transactions or compliance requirements and reviewing this information.

- Identifying which federal programs were tested as major programs in the subrecipient's A-133 audit. This will help the Department to determine the amount of coverage and subsequently, the level of reliance the Department can place on these types of audits. The determination of coverage could be used within the Department's risk assessment tool to help identify subrecipients for potential on-site visits.

1. MEDICAID, CHIP, AND SSBG – SUBRECIPIENT MONITORING (Continued)

Official's Response and Corrective Action Plan

1. *In SFY 2012, ODMH assumed more responsibilities due to Medicaid Elevation and in the process one monitoring technique was missed. The 16 Boards were identified from a report generated from our in-house developed MS Access database, however, only three (3) Boards had findings related to ODMH as the pass through entity. As part of our desk review process, a Board's Single Audit goes through two levels of review (a level 1 review and a level 2 review). The level 1 review consists of a personnel that inputs all data into our database. During the level 1 review, the personnel will flag Single Audits in the database for any reason. The level 2 reviewer will identify why the Single Audits were flagged (i.e. – audit findings, internal control weaknesses, etc.). Majority of the flags (13 out of 16) were issues not related to funds pass through from ODMH (i.e. – the finding was related to another entity as part of that County) because their A-133 audit is part of their County's Single Audit. During this audit period, the level 2 review was not conducted in a timely manner. We have taken corrective action to prevent this issue from reoccurring in the future.*

2. *Within our process, we have designated on-site visit as an increased monitoring technique since ODMH does not have the staffing/resource levels to visit all 50 Boards annually and site visits are not defined as a mandatory technique within OMB Circular A-133 §_.400 (d). With our current staffing/resource levels, our focus is to monitor by utilizing various tools during our desk review. We gather much information on all 50 Boards during our desk review to understand how funds are being spent. Only when information we are not able to figure out while conducting our desk review will grant a special site visit to obtain the missing information in order for us to obtain reasonable assurance that we have monitored our subrecipients. We believe that this is the most effective way to maximize our resources based on our staffing level. The monitoring of allowability of use of funds is through the process of community plan, budget, and reporting of actual activities from our subrecipients. As mentioned, we gather much data so we can conduct various financial analyses during our desk reviews to assist us in finding "red flags" so we can determine if it warrants a site visit. Otherwise, we believe we would be diverting our scarce resources to lower risk Boards and delaying our efforts toward material weaknesses (high risk). We understand that if we had more staffing/resources, we would be able to address more weaknesses (that may include more site visits), however, we believe we need to find the right balance and understand how much risk ODMH is willing to accept. We are also in the process of consolidating with the Ohio Department of Alcohol and Drug Addiction Services (ODADAS), therefore, we will be joining forces with more staffing/resources.*

3. *Responses to the auditor's concerns (1) as part of our desk reviews we have determined which Federal Programs were tested as a Major Federal Program in the OMB Circular A-133 audit. As part of our process, we make a copy of the "Schedule of Findings" page from the audit that identifies which Major Programs under the "Summary of Auditor's Results" and place it in a three-ring binder sorted by Boards. This binder was provided to the auditor for review. (2) As discussed in the previous years, since the SEFA reports the Expenditures and not the Receipts, ODMH cannot perform a true reconciliation process during our desk review based on the disbursements that we made to Boards due to timing issues (i.e. – timing from when they received it vs. when it was expended and reported on their SEFA). However, as part of our desk review, we refer to the section of the A-133 audit whereas the Ohio Auditor of State who audited our subrecipients that specifically addresses the SEFA in a separate paragraph within their report to provide us any indications of improprieties. We are relying on the professional work from the Ohio Auditor of State and the various testing that they performed within their audit program to assist us in monitoring that the reported SEFA appears accurate. We do review the SEFA in a more detailed manner during our site visits.*

Anticipated Completion Date for Corrective Action

July 1, 2013

1. MEDICAID, CHIP, AND SSBG – SUBRECIPIENT MONITORING (Continued)

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF PUBLIC SAFETY

1. SUBRECIPIENT MONITORING

Finding Number	2012-DPS01-032
CFDA Number and Title	20.600/20.601/20.610/20.612– Highway Safety Cluster
Federal Agency	National Highway Safety Traffic Administration
Compliance Requirement	Subrecipient Monitoring

NONCOMPLIANCE AND MATERIAL WEAKNESS

Pass-through entities are responsible for monitoring their subrecipients' activities to provide reasonable assurance that subrecipients are aware of federal requirements imposed on them and that subrecipients administer federal awards in compliance with those requirements. These regulations are defined in Office of Management and Budget's (OMB) Circular A-133, Subpart D § .400, which states, in part:

> **(d) Pass-through entity responsibilities.** A pass-through entity shall perform the following for the Federal awards it makes:
>
> …
>
> 3. Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
> 4. Ensure that subrecipients expending $300,000 *($500,000 for fiscal years ending after December 31, 2003)* or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
> 5. Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
> 6. Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

In addition, OMB Circular A-133, § _.300(b) requires recipients of federal awards "maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs." It is management's responsibility to design, implement, and monitor these controls to reasonably ensure compliance with the applicable requirements. It is imperative that control procedures be adequately documented to evidence they are performed timely; consistently; as intended, and by an appropriate level of management, enabling management to place reliance on them.

During state fiscal year (SFY) 2012, the Ohio Department of Public Safety administered the Highway Safety Cluster (HSC) federal program and distributed $8.9 million of the $21.1 million total spent of these funds directly to 150 subrecipients. The Department initially made the subrecipients aware the funds they received were federal funds of the HSC program, came from the National Highway Safety Traffic Administration, and the subrecipients are subject to the laws and regulations of OMB Circular A-133, as stated in grant agreements. The Department's subrecipient monitoring procedures were to be performed by their Ohio Traffic Safety Office (OTSO) through February 2012, and then transferred to the Grants Monitoring and Fiscal Compliance Section. However, these procedures were not performed consistently, as noted below.

- OTSO did not maintain a way to centrally track or identify which subrecipients had received a site visit. Management indicated each of the three reviewers may have utilized their own method of identifying what subrecipients they visited. Only one of the reviewers was still with the

1. SUBRECIPIENT MONITORING (Continued)

Department and she listed the entities on her Outlook Calendar. However, the Department could not identify if, or how, the other two former employees tracked site visits, and could not readily identify how many subrecipients had been monitored through site visits.

- OTSO identified from the employee calendar noted above that six site visits were to be performed in SFY 2012. However, one of these six site visits did not include the completed OTSO Monitoring Report to evidence the review was performed.
- The Grants Monitoring and Fiscal Compliance Section performed 25 site visits in SFY 2012. However, one of the five site reviews tested did not include page two of the Onsite Monitoring Review Form to evidence the monitor evaluated the Single Audit Report and Management Letter to determine if there were findings or any other issues that would impact the processing of federal grant dollars.
- The Department received and reviewed audit reports from only 26 of the 150 subrecipients, all of which were supposed to submit a report. The Department reviewed only those subrecipients that appeared on the Federal Clearing House website. It did not inquire or take other action to determine if the other subrecipients complied with the single audit requirement.
- The Department did not take any action for either of the two of six subrecipients' audit reports tested that contained findings, although it was required to timely issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient took appropriate and timely corrective action.

If the Department does not comply with subrecipient monitoring requirements, as well as have adequate documented controls in place over this monitoring, the risk exists that instances of subrecipient noncompliance will not be identified by the Department or that timely and appropriate corrective actions are taken for issues identified. Any noncompliance may cause federal funding to be reduced/terminated or sanctions to be imposed by the federal grantor agency. Noncompliance could also result in the Department having to repay part or all of the grant awards to the federal government if questioned costs would be identified. In addition, if controls are not in place and properly evidenced, the Department cannot be reasonably assured that controls are operating as intended and the Department is adequately performing its responsibilities as a pass-through entity of federal funds.

Management stated it had not made the instances noted above a high priority given other administrative changes happening in OTSO.

We recommend the Department:

- Be more proactive in contacting the subrecipients to determine the status of their audit report submission. All communication with subrecipients should be documented in some manner for evidential purposes.

- Devise and implement specific policies and control procedures over the receipt and review of subrecipient audit reports, and utilize these controls on a consistent basis to help ensure compliance with its responsibilities as a pass-through entity per OMB Circular A-133. Controls should be documented to evidence the Department reviewed the subrecipients' audit reports, provided adequate follow-up on any audit comments received by the subrecipients, and determined if the subrecipients accurately included federal programs on their Schedule of Expenditures of Federal Awards with the appropriate Catalog of Federal Domestic Assistance (CFDA) title, number, federal awarding agency, at the correct amounts and that the audits tested programs passed through by the Department as major federal programs.

- Put appropriate monitoring controls in place to help ensure the process is being conducted appropriately.

- Issue timely management decisions on audit findings within six months after receipt of the subrecipient's audit report and ensure the subrecipient takes appropriate and timely corrective action.

1. SUBRECIPIENT MONITORING (Continued)

Official's Response and Corrective Action Plan

The Ohio Traffic Safety Office (OTSO) will implement the necessary controls outlined below to assure compliance and to correct the deficiencies noted in the audit finding.

The OTSO will develop and maintain a central tracking system that will identify which sub recipients have been monitored through site visits. This tracking system will be made available for quick reference and updated once the visit has been completed.

The OTSO policies and procedures will include obtaining the sub recipient's most recent single audit report, a review of the single audit report and notate any finding to determine if it would have a negative impact on OTSO funding. If a finding is identified, a follow up along with any action that was taken will be noted to the file. Not only will a copy be placed in the grant file, but a master tracking form will be available for quick reference and review of all sub recipients that have been audited and noted with what action if any is taken.

To strengthen monitoring controls the OTSO policy will be to address all sub receipt audit findings within six months after receipt of the audit report. A monthly review of sub recipients that have been identified to have findings will be reviewed to assure a timely and appropriate correction action has been completed. A master spreadsheet of the sub recipients that have been identified will be made available and updated as needed.

Anticipated Completion Date for Corrective Action

All corrective controls listed above will be in place by 04/15/13.

Contact Person Responsible for Corrective Action

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2. HIGHWAY SAFETY CLUSTER – MATCHING AND LEVEL OF EFFORT

Finding Number	2012-DPS02-033
CFDA Number and Title	20.600/20.601/20.610/20.612– Highway Safety Cluster
Federal Agency	National Highway Safety Traffic Administration
Compliance Requirement	Matching, Level of Effort and Earmarking

NONCOMPLIANCE AND MATERIAL WEAKNESS

The Highway Safety Cluster (HSC) contains eight individual federal programs within it. These programs have various matching and maintenance of effort (MOE) requirements, which are specified in the following documents: for matching - 23 USC sections 120(b) and 402(d); 23 USC 405 and 410; 23 USC 406(g); and 23 USC 408(e)(4); and for MOE - 23 CFR part 1350; 23 USC 410(a)(2); 23 USC 405(a)(2); and 23 USC 408(e)(3). The matching and MOE percentages vary by program, type of cost, and range between 20% and 80%, while the matching requirements vary year to year depending on the number of years a state has received an award. The National Highway Traffic Safety Administration (NHTSA) requires the matching requirements be satisfied each federal fiscal year (FFY). It is management's responsibility to implement control policies and procedures designed to assure compliance with these requirements for each FFY and award received.

2. HIGHWAY SAFETY CLUSTER – MATCHING AND LEVEL OF EFFORT (Continued)

During fiscal year 2012, the Department reported information in the NHTSA's Grant Tracking System (GTS) indicating they had met the matching and MOE requirements. However, the Department did not establish any internal control procedures and could not provide documentation, other than the GTS data, that determined whether or how they met the matching or MOE requirements for the programs in the HSC. The Department was not able to readily provide any related documents, records or data to track, monitor, or support its compliance for matching and maintenance of effort. In addition, the federal agency typically awards HSC program funds each FFY, which begins October 1 and ends on the following September 30, and assigns a separate grant number for each year. The Department used this grant number to report program activity in GTS, but did not distinguish the individual award years by fund and account number in the state accounting system. Instead, it used the same grant number from year to year. Therefore, the auditors were not able to test the Department's compliance with the matching and level of effort requirements and could not agree the amounts reported in GTS to the state accounting system.

Without obtaining the related data on an adequately detailed level and applying appropriate internal controls on a consistent basis, management cannot reasonably be assured that all matching and MOE requirements of the programs within the HSC are met. Noncompliance could result in federal funding being reduced or taken away, or sanctions imposed by the federal grantor agency. Noncompliance could also result in the Department having to repay part or all of the grant awards to the federal government.

The Department indicated the matching information was not readily available, but was able to provide back-up reports and support documents. Also, the Department indicated they gather the MOE requirements only once every three years, when NHTSA visits for a management review, which did not occur in FY 2012.

We recommend the Department design, implement, and consistently utilize appropriate internal controls to monitor and reasonably ensure the federal matching and MOE requirements are met. All documentation evidencing the completion of the controls should be maintained. These procedures should include a thorough supervisory review of any documentation used to monitor compliance with specific requirements, as well as effective communication (with response) between Grant Support Services/Fiscal and the program divisions receiving the information. In addition, management should periodically monitor the established control procedures to help ensure they are being performed timely, consistently, and effectively. We also recommend management ensure that applicable employees are aware of all matching and MOE requirements so that proper monitoring over meeting specific requirements can be accomplished.

Official's Response and Corrective Action Plan

DPS plans a 'four stage' approach to taking corrective action, as follows:

- *Stage One: Prior to the beginning of each state fiscal year or federal grant fiscal year (or more often as needed), the Ohio Traffic Safety Office (OTSO) grant program staff will send written communication to DPS Fiscal staff indicating NHTSA's MOE [1] and estimated Matching [2] requirements.*

- *Stage Two: Based upon OTSO's written communication, DPS Fiscal staff will assure that NHTSA's MOE/Matching requirements can be identified by OAKS General Ledger activity.*

- *Stage Three: OTSO's communicated NHTSA's MOE/Matching needs (Stage One) along with Fiscal's general ledger identification plan (Stage Two), will come together into a final written MOE/Matching Implementation Plan, and will be reflected in OTSO and Fiscal files and include signatures of agreement from both areas.*

2. HIGHWAY SAFETY CLUSTER – MATCHING AND LEVEL OF EFFORT (Continued)

- *Stage Four:* *On a quarterly basis and at the end of a MOE/Matching cycle, DPS Fiscal staff will run Cognos/BI reports using OAKS general ledger records and prepare status reports as to how much MOE/Match has been made as compared to the approved MOE/Matching Implementation Plan (Stage Three). Fiscal will certify the status report (as will be evidenced by Fiscal signatures) and send it to OTSO for review and approval (as will be evidenced by OTSO signatures). [3]*

MOE and Matching amounts will be entered into the NHTSA's Grant Tracking System after the amounts are verified by both the Ohio Traffic Safety Office and Grant Support Services (refer to Stage Four). OTSO will maintain MOE/Matching documentation in their grant files in accordance A-133 and NHTSA requirements.

Footnotes:

[1] MOE is completed based upon the Ohio's fiscal year and the level of effort required is a baseline of Ohio's effort as recorded by spending in the average of FY's 2003/2004. NHSTA can change the baseline years and/or other MOE requirements.

[2] Matching requirements are based upon the federal fiscal year. Amounts needed for Match are estimated, and can only be finalized after the federal fiscal year is been complete therefore may go past the September 30.

[3] Amounts entered in NHTSA's Grant Tracking System will reflect actual match amounts needed, but the OAKS General Ledger may reflect additional spending (i.e 'overmatching').

Anticipated Completion Date for Corrective Action

Implementation for the corrective action will begin in April, 2013.

Contact Person Responsible for Corrective Action

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3. FEDERAL TRANSPARENCY ACT – SUBAWARD REPORTING

Finding Number	2012-DPS03-034
CFDA Number and Title	20.600/20.601/20.610/20.612– Highway Safety Cluster
Federal Agency	National Highway Safety Traffic Administration
Compliance Requirement	Reporting

NONCOMPLIANCE AND MATERIAL WEAKNESS

The Federal Funding Accountability and Transparency Act (Transparency Act) requires prime recipients of non-ARRA (American Recovery and Reinvestment Act) federal awards who make first-tier subawards to report the subaward on the Federal Funding Accountability and Transparency Subaward Reporting System (FSRS) website maintained by the federal Office of Management and Budget. Pursuant to 2 CFR part 170 Appendix A, prime recipients of non-ARRA federal awards made on or after October 1, 2010, are required to report subawards of $25,000 or more to an entity. 2 CFR Part 170, Appendix A, section I.a.2.11 states prime recipients must:

3. FEDERAL TRANSPARENCY ACT – SUBAWARD REPORTING (Continued)

For subaward information, report no later than the end of the month following the month in which the obligation was made. (For example, if the obligation was made on November 7, 2010, the obligation must be reported by no later than December 31, 2010.)

It is management's responsibility to implement control policies and procedures to reasonably ensure the federal reports they submit are accurate, complete, submitted timely, and in compliance with the Federal Transparency Act requirements for the Highway Safety Cluster.

During state fiscal year 2012, the Department disbursed to subrecipients approximately $8.8 million (42% of total expenditures) from the Highway Safety Cluster program. The Department received four grant awards under the program, but only two of the awards were required to be reported under the Transparency Act. For these two subawards, the Department obligated approximately $9 million to 120 subrecipients; 110 subrecipients were obligated $3.1 million from the Section 408 award and 100 subrecipients were obligated $5.1 million from the Section 410 award in subgrants effective October 1, 2011. As such, the Department was required to report on the subawards in FSRS by November 30, 2011; however, it did not enter the subgrantee data for the 410 award until March 15, 2012, three and a half months late. In addition, the Department did not track when the subaward reporting was due and did not have controls in place to ensure if all subawards had met the requirements to be entered, all the subawards had been entered, and the amounts were reported correctly.

Without adequate management reviews, the Department cannot reasonably ensure the information reported to the awarding agency is accurate and complete. If all subawards are not accurately and timely reported within FSRS, the risk exists that those using the Transparency Reports could be relying on inaccurate information. In addition, noncompliance with federal reporting requirements could result in a reduction in program funds and/or penalties from federal grantor agencies. Department management indicated the delay in submission was caused by a malfunction in the system and the amount of time it took to make each entry.

We recommend management implement controls over compliance with the Transparency Act and ensure all requirement elements are being reported in a timely manner. This could include preparing a checklist or spreadsheet of subawards and their respective dates of obligation of funds, their amounts, and date entered into FSRS. We also recommend the Department periodically monitor its compliance with the federal requirement and maintain documentation of this monitoring review. If the FSRS website is not available for data entry, the Department should maintain evidence of this condition and an explanation why it could not enter the data timely, as documentation of its good faith effort to comply with the requirement.

Official's Response and Corrective Action Plan

The Ohio Traffic Safety Office (OTSO) will implement the necessary controls outlined below to assure compliance with the Transparency Act in a timely manner.

To correct the deficiency noted in the audit finding, the OTSO will establish a time sensitive file that will track the date all grant related funds are received and obligated that are subject to the Transparency Act. This file will contain a spreadsheet of the appropriate sub awards, dates the funds were obligated, the individual amounts and the date the information was entered into Federal Funding Accountability and Transparency Act Sub- award Reporting System. This file will be maintained by the OTSO Business Manager and monitored by the OTSO Commander on a monthly basis. The file will also contain documentation of this monitoring along with any additional justification should any type of delay occur. These controls will eliminate any late reporting of grant awards in the future.

3. FEDERAL TRANSPARENCY ACT – SUBAWARD REPORTING (Continued)

Anticipated Completion Date for Corrective Action

All corrective controls listed above will be in place by 04/01/13.

Contact Person Responsible for Corrective Action

Lt. Steven Rine, Traffic Safety Commander, Ohio Department of Public Safety, 1970 West Broad Street, Columbus Ohio, 43223, Phone: (614) 466-3017, E-Mail: srrine@dps.state.oh.us

1. VOCATIONAL REHABILITATION AND SOCIAL SECURITY DISABILITY INSURANCE – CASH MANAGEMENT

Finding Number	2012-RSC01-035
CFDA Number and Title	84.126/84.390 – Vocational Rehabilitation Cluster 96.001 – Social Security Disability Insurance
Federal Agency	Department of Education Social Security Administration
Compliance Requirement	Cash Management

NONCOMPLIANCE AND MATERIAL WEAKNESS

The Cash Management Improvement Act (CMIA) Agreement between the State of Ohio and the U.S. Commission of Treasury requires the Ohio Rehabilitation Services Commission to utilize the Ohio Pre-issuance Methodology (OPM) when requesting federal funds for the Vocational Rehabilitation and Social Security Disability Insurance programs. Section 6.2.1 of the agreement regarding OPM states, in part:

> The State shall request funds such that they are deposited in a State account not more than three days prior to the day the State makes a disbursement. . . The amount of the request shall be the amount the State expects to disburse. . .

During state fiscal year 2012, the Ohio Rehabilitation Services Commission (the Commission) drew down approximately $109.9 million and $81.2 million in federal funding for the Vocational Rehabilitation (VR) and the Social Security Disability Insurance (SSDI) programs, respectively. The Commission prepares a daily cash forecast to determine the amount of federal funds to draw that includes the beginning cash balance, estimated expenditures, and pending deposits. The estimated expenditure amounts include the actual subsidy expenses for the VR and SSDI programs and estimated expenses for payroll and administrative costs. The Commission was unable to provide a listing of the accounts payable transactions supporting the amount of federal funds being drawn. As a result, the Commission's federal revenue draws were compared to actual expenses paid three days following the receipt of the federal revenue draw. However:

> Vocational Rehabilitation:
> For three of thirteen (23% or $29.7 million of the population) revenue draws selected for testing, the Commission did not disburse the federal funds within three days of receipt, totaling $7,534,009. The Commission disbursed these federal funds within one to eight business days late.
>
> Social Security Insurance Disability:
> For ten of twelve (83% or $37.3 million of the population) revenue draws selected for testing, the Commission did not disburse the federal funds within three days of receipt, totaling $20,920,000. The Commission disbursed these federal funds within one to nine business days late.

As a result, it appears as the Commission's internal controls over Cash Management were not operating effectively to reasonably ensure compliance with the CMIA Agreement.

Without timely disbursement of funds, interest penalties may be incurred by the State of Ohio for the funds drawn and not disbursed in accordance with federal requirements and the CMIA Agreement. According to management, the Commission drew additional federal funds in July to cover the necessary expenses in the event that the federal government would shut down due to the debt ceiling debate. In addition, the Commission changed the timing of their payroll draws during the second half of the fiscal year to correlate with the payroll's pay date instead of the posted date. Furthermore, payments that were processed through the Shared Services interface were not paid out as expected; as a result, the Commission is analyzing the timing of these interfaced payments and will adjust the draw process if necessary to ensure compliance with the cash management requirements.

1. VOCATIONAL REHABILITATION AND SOCIAL SECURITY DISABILITY INSURANCE – CASH MANAGEMENT (Continued)

We recommend the Commission reinforce and strengthen their existing controls to reasonably ensure all requests for Vocational Rehabilitation and Social Security Disability Insurance federal funds are disbursed timely in accordance with the guidelines set forth in the CMIA Agreement. We also recommend the Commission establish and document procedures to monitor cash balances and reconcile estimated expenditures to actual expenditures to reasonably ensure federal funds are drawn down consistent with the Commission's immediate cash needs.

Official's Response and Corrective Action Plan

RSC shares the AOS concerns and has already taken several steps to resolve this issue. First, RSC has already consulted with OBM to determine when deposits received by the Treasurer of State are available in the fund's cash balance and, therefore, eligible for disbursements. In addition, RSC is using OAKS reports and queries to analyze the timing of payments. This information is being used to evaluate what adjustments are needed to the draw schedule.

Also, RSC eliminated the "cushion" routinely maintained to cover Social Security Insurance expenses that are not approved by Finance staff, such as travel reimbursements and payment card expenditures. The potential impact of this action is that the invoices could be held an extra day before being paid.

Finally, RSC is developing a procedure to use daily reports to monitor cash flow to ensure timely expenditure of grant dollars. Utilization of these reports will assist in identifying immediately when there is a potential of non-compliance.

Anticipated Completion Date for Corrective Action

RSC will start testing changes to its draw schedule immediately with the expectation that a final solution will be determined no later than March 31, 2013.

Contact Person Responsible for Corrective Action

Jenny D. Jones, Finance Manager, Ohio Rehabilitation Services Commission, 400 E. Campus View Blvd., Columbus Ohio, 43235, Phone: (614) 433-8279, E-Mail: jenny.jones@rsc.ohio.gov

2. VOCATIONAL REHABILITATION – DETERMINATION OF ELIGIBILITY

Finding Number	2012-RSC02-036
CFDA Number and Title	84.126/84.390 – Vocational Rehabilitation Cluster
Federal Agency	Department of Education
Compliance Requirement	Eligibility

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

34 CFR 361.42 states, in part:

> In order to determine whether an individual is eligible for vocational rehabilitation services . . . the designated State unit must conduct an assessment for determining eligibility and priority for services -

2. VOCATIONAL REHABILITATION – DETERMINATION OF ELIGIBILITY (Continued)

(a) Eligibility requirements . . . The designated State unit's determination of an applicant's eligibility for vocational rehabilitation services must be based only on the following requirements:

. . .

(i) A determination by qualified personnel that the applicant has a physical or mental impairment . . .

29 USC 722(a)(6) states, in part:

The designated State unit shall determine whether an individual is eligible for vocational rehabilitation services . . . within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services unless –

(A) exceptional and unforeseen circumstances beyond the control of the designated State unit preclude making an eligibility determination within 60 days and the designated State unit and the individual agree to a specific extension of time; or

(B) the designated State unit is exploring an individual's abilities, capabilities, and capacity to perform in work situations . . .

It is management's responsibility to implement control policies and procedures to provide reasonable assurance proper documentation supporting eligibility determinations are reviewed, approved, and maintained in the consumer's case file.

During state fiscal year 2012, the Commission disbursed approximately $65 million of federal funds, or 57% of total program expenditures, for subsidy benefit payments for the Vocational Rehabilitation (VR) Program. VR subsidy payments are for services that may benefit an individual with mental or physical disabilities to obtain or maintain employment. However, the eligibility for these individuals was not always properly documented or evaluated timely, as detailed below.

- Two of 60 (3%) consumer case files selected for testing did not include the signed Certificate of Eligibility. However, the consumer's eligibility was subsequently determined based on the physician's evaluations of physical or mental disability or substantial handicap documented in the consumer's case file.

- Nine of 60 (15% or $5.2 million of the population) consumer case files selected for testing were not determined eligible within 60 days of the application for services as required by the federal laws and regulations. The days late ranged from 1 to 285 days. However, eligibility for all nine individuals was subsequently determined and since an extension for eligibility was not included within the consumer's case file, it was difficult to determine the reason for the untimely eligibility determinations.

By not maintaining required documentation within the case file or performing untimely eligibility determinations, the Commission increases the risk of inaccurate information being entered into the case management system (AWARE) and delaying Vocational Rehabilitation services to eligible applicants. According to management, the Commission implemented a new case management system, AWARE, in October 2011 to enforce compliance with documenting eligibility and extensions; unfortunately, the missing eligibility documents were an oversight.

We recommend the Commission reinforce their current policies and procedures to reasonably ensure the Vocational Rehabilitation program's counselor and/or supervisor ensures the proper supporting documentation is maintained in the consumer's case file verifying all eligibility determinations. The Commission should develop a checklist for each counselor or supervisor to utilize as case reviews are

2. VOCATIONAL REHABILITATION – DETERMINATION OF ELIGIBILITY (Continued)

performed to help ensure all of the required eligibility documents are maintained. We also recommend the Commission ensure all eligibility determinations are made within 60 days of applying for services as required by federal law for the Vocational Rehabilitation program. If an eligibility determination is not completed within 60 days, the Commission's management should follow-up with the case workers to ensure proper documentation is maintained and an explanation of the delay is documented within the case file.

Official's Response and Corrective Action Plan

RSC will take several actions to address the concerns regarding eligibility:

Immediately, RSC will modify existing reports in order to more effectively target cases for action. RSC will issue procedural guidance to ensure that managers and supervisors are monitoring these reports on a bi-weekly basis and take appropriate action where necessary.

Additionally, RSC is in the process of revising the agency's eligibility policy and procedure. This policy outlines the required steps to complete and document eligibility decisions within 60 days or to complete time extensions for determining eligibility, when necessary, in AWARE (the Vocational Rehabilitation case management software program). While the current policy is accurate, revision will focus on providing detail to help the Vocational Rehabilitation Counselors understand the required screens needed for completion in the case management system.

Finally, at the beginning of the next state fiscal year, RSC will revise its Memorandum of Understanding with the vendor of the AWARE case management system and will provide a new prioritization of enhancement requests. With this request, RSC will receive a cost quote and expected timetable related to the vendor's ability to force compliance with time extensions.

Anticipated Completion Date for Corrective Action

Updated reports and procedural guidelines will be in place no later than April 30, 2013. The policy will be finalized and implemented by June 2013. These two actions should address the immediate concerns outlined in the finding. Work with the AWARE system vendor will provide additional safeguards to ensure compliance in the long-run.

Contact Person Responsible for Corrective Action

Jenny D. Jones, Finance Manager, Ohio Rehabilitation Services Commission, 400 E. Campus View Blvd., Columbus Ohio, 43235, Phone: (614) 433-8279, E-Mail: jenny.jones@rsc.ohio.gov

1. DAVIS-BACON ACT – INTERNAL CONTROLS

Finding Number	2012-DOT01-037
CFDA Number and Title	20.205/20.219/23.003 – Highway Planning and Construction Cluster
Federal Agency	Department of Transportation Appalachian Regional Commission
Compliance Requirement	Davis-Bacon Act

MATERIAL WEAKNESS

The Davis-Bacon Act requires laborers and mechanics employed on federally assisted construction contracts in excess of $2,000 to be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (40 USC 276a to 276 a-7). It is management's responsibility to implement policies and procedures to help ensure compliance with this requirement and management's directives.

The Ohio Department of Transportation (the Department)'s Enforcement of Prevailing Wage Policy requires the District Prevailing Wage Coordinators (DPWC) communicate prevailing wage requirements to the contractor at a preconstruction conference, conduct and document wage interviews of workers from various classifications on each active project, and perform a detailed review of 30% of the certified weekly payrolls from contractors to ensure compliance with prevailing wage rates. The DPWCs are to document this review and verification by initialing and/or check marking the certified weekly payroll sheet. During fiscal year (FY) 2012, the Department had 815 federal projects subject to the employee interview and preconstruction conferences. While procedures were in place, these procedures were not consistently followed during FY 2012. Specifically, for 29 of the 60 (48.3%) projects selected for testing, there was no evidence the DPWC had performed the appropriate wage rate interviews.

Without documenting the procedures performed, there is a risk that internal controls may not be established or working in the manner intended by management. The Department's risk of noncompliance with prevailing wage laws could increase without the implementation of a consistently applied review and reporting process by each of the districts. According to the Department's State Prevailing Wage Coordinator, the Department changed their policy relating to the wage rate interview process. They also stated the lack of documentation was a result of staff turnover and interviews not being properly documented.

We recommend the Department ensure policies and procedures regarding the Davis-Bacon Act prevailing wage requirements are established, communicated to all appropriate personnel, and consistently applied by all the districts and divisions. In addition, the Department should:

- Perform some type of wage rate interview and maintain documentation to support the performance of these wage rate interviews.

- Perform technical process reviews to verify the DPWCs are in compliance with federal and state prevailing wage requirements through interviews, project file reviews, and onsite visits. Results of these reviews should be communicated to the DPWCs.

Official's Response and Corrective Action Plan

In response to the State's Single Audit, the Department disagrees with the audit finding regarding the wage rate interviews specifically and would like to provide the following explanation and reasoning.

The Department does have procedures regarding the Davis-Bacon Act prevailing wage requirements established, and they are communicated to all appropriate personnel on a routine basis.

1. DAVIS-BACON ACT – INTERNAL CONTROLS (Continued)

Effective October 4, 2010, the following requirements were implemented:

Project Visit Requirements for District Prevailing Wage and EEOCC's

During the construction season (May 1st – November 1st) District Prevailing Wage and EEOCC's are required to perform a minimum of 30 project visits per month. During the off-season, this field visit requirement defaults to 100% of the current active working projects in each district. Below is a comprehensive listing of items that can be counted towards meeting this requirement. Please note that while these items may be applied towards the field visit requirement, a minimum of 15 actual project field visits must be conducted. Additionally, interviews of multiple sub-contractors on a project, whom are working in the same geographical area, will only be counted as 1 project visit.

Project related items that may be counted in meeting the project visit requirement:

- *Pre-Construction Meetings*
- *Pre-Bid Meetings*
- *Progress Meetings*
- *Actual Project Field Visits*
- *Project Related Meetings (outside of the District facility)*
- *LPA Visits (QAR's)*
- *Training Provided by the DPWC/EEOCC (outside of the District facility)*
- *Investigations (outside of the District facility)*

******Contract Compliance Reviews will not be counted*

These were the requirements that were in place during the subject audit period. There was no specific requirement that the DPWCs conduct and document wage interviews of workers from various classifications on each active project.

The requirements have since been revised and have been consolidated and incorporated in the Department's 2013 Construction Administration Manual of Procedures.

The current requirements state the DPWC is responsible for visiting the projects in his/her area on a regular basis. These site visits are conducted primarily as a tool to "spot check" the prime and subcontractors for prevailing wage compliance, as well as responding to a complaint or problems found on submitted payrolls. The District's minimum monitoring schedule shall be based on the duration of the project as follows:

a. If the actual project is less than two months, the minimum required site visits is one.
b. If the actual project duration is two or more months, the minimum required site visits is every other month beginning with the first month.

It should be noted that this is a minimum requirement for monitoring. Circumstances may dictate that more site visits be required on a particular project.

The DPWCs have already been trained on the revised requirements. In addition, twice a year, the Department holds a semi-annual meeting for all DPWCs. These meetings will continue to be used to educate the DPWCs on these revisions and to ensure consistency throughout the State. It should be noted the Department is exploring centralizing these functions.

The Central Office performs technical process reviews of the Districts in order to verify the DPWCs are completing the monthly prevailing wage reports, including the specifics of the payrolls examined, and conducting the necessary site visits, and submitting the information to the Central Office Prevailing Wage Coordinator for review.

1. DAVIS-BACON ACT – INTERNAL CONTROLS (Continued)

Anticipated Completion Date for Corrective Action

N/A

Contact Person Responsible for Corrective Action

Sarah S. Lee, DBE Program Manager, Ohio Department of Transportation, 1980 W. Broad Street, Columbus Ohio, 43223, Phone: (614) 466-7699, E-Mail: sarah.lee@dot.state.oh.us

Auditor of State's Conclusion

The issues identified in this finding relate to the documentation maintained by the Department regarding their controls; no noncompliance was identified. We performed our testing based on the processes and procedures identified to us by Department personnel during our fieldwork. The changes referred to in the Corrective Action Plan were not identified to us until fieldwork was completed and the results were discussed with management. The audit team did perform a cursory review of the documentation maintained under the additional processes described and identified similar results. Therefore, the finding will remain.

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STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JULY 1, 2011 THROUGH JUNE 30, 2012

AGENCY/FINDING	CURRENT STATUS

Ohio Department of Commerce

2011-COM01-001 IT – Change Management	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.

Ohio Department of Administrative Services

2011-OAKS01-002 IT – OAKS IT Security	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.

Ohio Department of Alcohol and Drug Addiction Services

2011-ADA01-003 SAPT – Board Assurances	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.
2011-ADA02-004 SAPT – Reporting – Transparency Act	The finding was repeated for fiscal year 2012. The Ohio Department of Alcohol and Drug Addiction Services reports the finding is anticipated to be remediated by June 2013. Finding first reported in fiscal year 2011.
2011-ADA03-005 SAPT – Level of Effort	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.

Ohio Office of Budget and Management

2011-OBM01-006 Schedule of Expenditures of Federal Awards	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.

Ohio Development Services Agency (formerly Ohio Department of Development)

2011-DEV01-007 Cash Management	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.
2011-DEV02-008 Inspections – HWAP Program	The finding was repeated for fiscal year 2012. The Ohio Development Services Agency considers the finding partially remediated as of March 2013 with full remediation expected by June 2013. Finding first reported in fiscal year 2011.
2011-DEV03-009 Matching – SEP Program	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.
2011-DEV04-0010 Earmarking – CSBG Program	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.

AGENCY/FINDING	CURRENT STATUS

Ohio Department of Developmental Disabilities

2011-DDD01-011 Medicaid – Timely Reviews	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.
2011-DDD02-012 Medicaid – Medical Billing System Changes	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.

Ohio Department of Education

2011-EDU01-013 Various Programs – Earmarking	The finding was repeated for fiscal year 2012. The Ohio Department of Education reports the finding is anticipated to be remediated by July 2013. Finding first reported in fiscal year 2011.
2011-EDU02-014 Child Nutrition Cluster and Child Adult Care Food Program – Subrecipient Monitoring	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.
2011-EDU03-015 Child Nutrition Cluster and Child Adult Care Food Program – Reporting	The finding was repeated for fiscal year 2012. The Ohio Department of Education reports the finding is anticipated to be remediated by August 2013. Finding first reported in fiscal year 2011.
2011-EDU04-0016 Schedule of Expenditures of Federal Awards	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.
2011-EDU05-017 Special Education Cluster – Maintenance of Effort Monitoring	The finding was repeated for fiscal year 2012. The Ohio Department of Education considers the finding partially remediated as of March 2013 with full remediation expected by June 2013. Finding first reported in fiscal year 2011.
2011-EDU06-018 Special Education Cluster – Subrecipient Monitoring	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.
2011-EDU07-019 Twenty First Century Community Learning Centers – Subrecipient Monitoring	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.

Ohio Environmental Protection Agency

2011-EPA01-020 Invoice Reviews	The finding was repeated for fiscal year 2012. The Ohio Environmental Protection Agency reports the finding is anticipated to be remediated by June 2013. Finding first reported in fiscal year 2011.

AGENCY/FINDING	CURRENT STATUS

Ohio Department of Health

2011-DOH01-021 Cash Management	The finding was repeated for fiscal year 2012. The Ohio Department of Health considers the finding partially remediated as of March 2013 with full remediation by May 2013. Finding first reported in fiscal year 2008.
2011-DOH02-022 Federal Reporting – MCH	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.
2011-DOH03-023 Indirect Cost – MCH	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.
2011-DOH04-024 Earmarking – MCH	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.

Ohio Department of Job and Family Services

2011-JFS01-025 Various Programs – Period of Availability	The finding was repeated for fiscal year 2012. The Ohio Department of Job and Family Services reports partial remediation with full remediation contingent on IT programming changes. Finding was first reported in fiscal year 2009.
2011-JFS02-026 MMIS – Claims Reimbursement in Excess of OAC Limits	The finding was repeated for fiscal year 2012. The Ohio Department of Job and Family Services reports partial remediation with no anticipated resolution date. Finding was first reported in fiscal year 2006. **
2011-JFS03-027 Missing Eligibility Documentation – Various Counties	The finding was repeated for fiscal year 2012. The Ohio Department of Job and Family Services reports remediation is currently ongoing with full remediation anticipated by December 2013. The U.S. Department of Health and Human Services Division of Systems Policy and Audit Resolution, in a letter received October 19, 2012, stated the organization's planned action will satisfy the recommendations. Finding first reported in fiscal year 2006.
2011-JFS04-028 Medicaid/CHIP – Third Party Liability	The finding was repeated for fiscal year 2012. The Ohio Department of Job and Family Services reports remediation is currently ongoing with full remediation anticipated by July 2014. Finding first reported in fiscal year 2010.
2011-JFS05-029 CHIP – Ineligible Recipient – Over 19	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.
2011-JFS06-030 Medicaid/CHIP – Ineligible Recipients – CRIS-E/MITS Variance	The finding was repeated for fiscal year 2012. The Ohio Department of Job and Family Services reports the finding remediated as of August 2011. Finding first reported in fiscal year 2010.

*** This is draft information provided by State of Ohio management since a CAP was not provided.*

Ohio Department of Job and Family Services (Continued)

AGENCY/FINDING	CURRENT STATUS
2011-JFS07-031 TANF – Refusal to Work – Montgomery County	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.
2011-JFS08-032 IEVS – Alert Resolution/Inadequate Documentation	The finding was repeated for fiscal year 2012. The Ohio Department of Job and Family Services reports remediation is an ongoing effort with its subrecipients. Finding first reported in fiscal year 1997.
2011-JFS09-033 IEVS – Due Dates	The finding was repeated for fiscal year 2012. The Ohio Department of Job and Family Services reports remediation is an ongoing effort with its subrecipients. Finding first reported in fiscal year 1997.
2011-JFS10-034 Medicaid/CHIP – Provider Eligibility	The finding was repeated for fiscal year 2012. The Ohio Department of Job and Family Services Management reports remediation is currently ongoing with full remediation expected by November 2013. Finding first reported in fiscal year 2010.
2011-JFS11-035 Supplemental Nutrition Assistance Program Cluster – Report	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.
2011-JFS12-036 SSBG and WIA – Subrecipient Monitoring	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.
2011-JFS13-037 Child Care Cluster – Cash Management	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.
2011-JFS14-038 Federal Financial Reports	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.
2011-JFS15-039 All Applications – Lack of Internal Testing of Automated Controls	The finding was repeated for fiscal year 2012. The Ohio Department of Job and Family Services Management reports remediation is currently ongoing with full remediation expected by June 2014. The U.S. Department of Labor, in a letter received November 13, 2012, determined this finding closed. The U.S. Department of Health and Human Services Division of Systems Policy and Audit Resolution, in a letter received October 19, 2012, stated the organization’s planned action will satisfy the recommendations. Finding first reported in fiscal year 1999.

AGENCY/FINDING	CURRENT STATUS

Ohio Department of Job and Family Services (Continued)

2011-JFS16-040 Revenue Reconciliations – Lack of Controls	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.
2011-JFS17-041 IT – MMIS Eligibility – Expired Recertification Date	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.
2011-JFS18-042 IT – MMIS Eligibility – PMF Code Changes	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.
2011-JFS19-043 County Adjustments	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.
2011-JFS20-044 Various Programs – County Finance Documentation and Procedures	The finding was repeated for fiscal year 2012. The Ohio Department of Job and Family Services reports the finding remediated as of July 2012. The U.S. Department of Labor, in a letter received November 13, 2012, determined this finding closed. The U.S. Department of Health and Human Services Division of Systems Policy and Audit Resolution, in a letter received October 19, 2012, stated the organization's planned action will satisfy the recommendations. Finding first reported in fiscal year 2009.
2011-JFS21-045 Medicaid/CHIP – Managed Care	The finding was repeated for fiscal year 2012. The Ohio Department of Job and Family Services reports remediation is currently ongoing and additional information is needed for full remediation. Finding first reported in fiscal year 2010.
2011-JFS22-046 TANF – Internal Control Deficiencies – Various Counties	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report
2011-JFS23-047 Unemployment Insurance – Reporting	The finding was repeated for fiscal year 2012. The Ohio Department of Job and Family Services reports the finding remediated as of December 2012. The U.S. Department of Labor, in a letter received November 13, 2012, determined this finding closed. Finding first reported in fiscal year 2009.
2011-JFS24-048 Foster Care – Private Agency Administrative Procedures	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.

AGENCY/FINDING	CURRENT STATUS

Ohio Department of Job and Family Services (Continued)

2011-JFS25-049 Federal Revenue Controls	The finding was repeated for fiscal year 2012. The Ohio Department of Job and Family Services reports remediation is currently ongoing with full remediation as of March 2013. The U.S. Department of Labor, in a letter received November 13, 2012, determined this finding closed. Finding first reported in fiscal year 2010.
2011-JFS26-050 Medicaid – Drug Rebate Monitoring	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.
2011-JFS27-051 Medicaid/CHIP – Claims Processing and Reconciliation Internal Controls	The finding was repeated for fiscal year 2012. The Ohio Department of Job and Family Services reports the finding is considered remediated as of May 2012. Finding first reported in fiscal year 2010.
2011-JFS28-052 Supplemental Nutrition Assistance Program Cluster – EBT Cards	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.

Ohio Department of Mental Health

2011-DMH01-053 Subrecipient Monitoring	The finding was repeated for fiscal year 2012. The Ohio Department of Mental Health considers the finding partially remediated as of March 2013 with full remediation expected by June 2013. The U.S. Department of Health and Human Services Division of Systems Policy and Audit Resolution, in a letter received October 19, 2012, stated the organization's planned action will satisfy the recommendations. Finding first reported in fiscal year 2001.
2011-DMH02-054 SSBG – Community Mental Health Board Assurances	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.

Ohio Department of Public Safety

2011-DPS01-055 Subrecipient Monitoring	The finding was repeated for fiscal year 2012. The Ohio Department of Public Safety reports the finding is anticipated to be remediated by June 2013. Finding first reported in fiscal year 2011.

Ohio Board of Regents

2011-BOR01-056 Subrecipient Monitoring	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.

AGENCY/FINDING	CURRENT STATUS

Ohio Rehabilitation Services Commission

2011-RSC01-057 Vocational Rehabilitation and Social Security Disability Insurance – Cash Management	The finding was repeated for fiscal year 2012. The Ohio Rehabilitation Services Commission reports the finding is considered remediated as of March 2013. Finding first reported in fiscal year 2011.
2011-RSC02-058 Vocational Rehabilitation – Determination of Eligibility	The finding was repeated for fiscal year 2012. The Ohio Rehabilitation Services Commission reports the finding is anticipated to be remediated by June 2013. Finding first reported in fiscal year 2011.

Ohio Department of Transportation

2011-DOT01-059 Davis-Bacon Act – Internal Controls	The finding was repeated for fiscal year 2012. The Ohio Department of Transportation considers this finding remediated. Finding first reported in fiscal year 2011.

AGENCY/FINDING	CURRENT STATUS

Ohio Department of Job and Family Services (Continued)

2011-JFS25-049 Federal Revenue Controls	The finding was repeated for fiscal year 2012. The Ohio Department of Job and Family Services reports remediation is currently ongoing with full remediation as of March 2013. The U.S. Department of Labor, in a letter received November 13, 2012, determined this finding closed. Finding first reported in fiscal year 2010.
2011-JFS26-050 Medicaid – Drug Rebate Monitoring	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.
2011-JFS27-051 Medicaid/CHIP – Claims Processing and Reconciliation Internal Controls	The finding was repeated for fiscal year 2012. The Ohio Department of Job and Family Services reports the finding is considered remediated as of May 2012. Finding first reported in fiscal year 2010.
2011-JFS28-052 Supplemental Nutrition Assistance Program Cluster – EBT Cards	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.

Ohio Department of Mental Health

2011-DMH01-053 Subrecipient Monitoring	The finding was repeated for fiscal year 2012. The Ohio Department of Mental Health considers the finding partially remediated as of March 2013 with full remediation expected by June 2013. The U.S. Department of Health and Human Services Division of Systems Policy and Audit Resolution, in a letter received October 19, 2012, stated the organization's planned action will satisfy the recommendations. Finding first reported in fiscal year 2001.
2011-DMH02-054 SSBG – Community Mental Health Board Assurances	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.

Ohio Department of Public Safety

2011-DPS01-055 Subrecipient Monitoring	The finding was repeated for fiscal year 2012. The Ohio Department of Public Safety reports the finding is anticipated to be remediated by June 2013. Finding first reported in fiscal year 2011.

Ohio Board of Regents

2011-BOR01-056 Subrecipient Monitoring	This finding is no longer reportable in the 2012 State of Ohio Single Audit Report.

AGENCY/FINDING	CURRENT STATUS

Ohio Rehabilitation Services Commission

2011-RSC01-057 Vocational Rehabilitation and Social Security Disability Insurance – Cash Management	The finding was repeated for fiscal year 2012. The Ohio Rehabilitation Services Commission reports the finding is considered remediated as of March 2013. Finding first reported in fiscal year 2011.
2011-RSC02-058 Vocational Rehabilitation – Determination of Eligibility	The finding was repeated for fiscal year 2012. The Ohio Rehabilitation Services Commission reports the finding is anticipated to be remediated by June 2013. Finding first reported in fiscal year 2011.

Ohio Department of Transportation

2011-DOT01-059 Davis-Bacon Act – Internal Controls	The finding was repeated for fiscal year 2012. The Ohio Department of Transportation considers this finding remediated. Finding first reported in fiscal year 2011.

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STATE OF OHIO SINGLE AUDIT

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 2, 2013

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