Ohio Office of Budget and Management

State of Ohio

George V. Voinovich

Governor

OHIO

COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 1998

STATE OF OHIO

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

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INTRODUCTORY SECTION

State of Ohio · Office of Budget and Management
30 East Broad Street · Columbus, Ohio 43266-0411

November 20, 1998

To the Governor, the Honorable Members of the General Assembly, and the Citizens of Ohio:

It is my privilege to issue the *Ohio Comprehensive Annual Financial Report* (CAFR) on the financial condition of the State of Ohio for the fiscal year ended June 30, 1998. The report is prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

This report was prepared by the Ohio Office of Budget and Management pursuant to Section 126.21, Ohio Revised Code, which requires that an official financial report of the State be issued annually. The report includes General-Purpose Financial Statements, which provide an overview of the State's financial position and the results of financial operations by fund type.

The Office of Budget and Management is responsible for the accuracy of the data presented and the completeness and fairness of its presentation, including all disclosures. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the State of Ohio. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities have been included.

The State's General-Purpose Financial Statements include all funds and account groups that comprise the State's legal entity or primary government. The State's reporting entity is also comprised of its component units for which the elected officials of the State's primary government are financially accountable. We followed the criteria of GASB Statement No. 14, *The Financial Reporting Entity,* to determine the organizations for which the State is financially accountable. NOTE 1A. to the financial statements explains more fully which financial activities are included in the State's reporting entity.

The CAFR includes the following: introductory section; financial section that presents the General-Purpose Financial Statements, combining financial statements, supporting schedules, and fund descriptions; and a statistical section that presents financial, economic, and demographic data for Ohio.

FINANCIAL PRESENTATION

The data in the financial statements are presented in accordance with a fund classification system prescribed by the GASB. The purpose of this system is to improve the comparability of the financial reports of different governmental units. Funds reported for the State's primary government and its component units are classified into four categories: governmental, proprietary, fiduciary, and college and university. Each category reported for the primary government is divided into the following "fund types."

Governmental fund types are those through which State functions are financed. Governmental fund types include the General, special revenue, debt service, and capital projects funds.

Proprietary fund types account for activities that are commercial in nature — similar to those often found in the private sector. Proprietary fund types include the enterprise and internal service funds.

Fiduciary fund types include trust funds, which account for assets held by the primary government in a trustee capacity, and agency funds, which account for assets held by the primary government as an agent for individuals, private organizations, other governments, and/or other funds.

The reporting format for our CAFR is significantly different from the way the State more typically presents its finances on a non-GAAP budgetary basis. The most obvious difference is that the "General Fund" in the CAFR includes more than just the State's General Revenue Fund. The General Fund also includes other funds such as the reimbursement-supported funds used for activities administered by State agencies and departments for which special revenue or proprietary fund classifications were considered to be inappropriate. Furthermore, the majority of budgetary expenditures reported in the General Revenue Fund for the support of higher education have been reclassified on a GAAP basis to "operating transfers to component units," as required by the reporting requirements of GASB Statement No. 14.

INDEPENDENT AUDIT RESULTS

The General-Purpose Financial Statements have been audited by the Office of the Auditor of State, Jim Petro. The outcome of the audit conducted by the Auditor of State, in accordance with generally accepted auditing standards, was an unqualified auditors' report. Such an opinion indicates there was no limitation on the scope of the auditors' examination and the financial statements were presented fairly, in all material respects, in conformity with GAAP.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

The State's management is responsible for establishing and maintaining internal control designed to ensure that the State's assets are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with GAAP. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived, and 2) the valuation of costs and benefits requires estimates and judgments by management.

In fiscal year 1992, an executive order initiated the Internal Accounting Control Program (IACP). The IACP establishes written guidelines for state agencies to follow during periodic management reviews of their accounting operations. Under the program, agencies are required to formally establish, maintain, and annually evaluate and report on internal accounting controls.

The State's Central Accounting System (CAS) achieves budgetary control over the various accounts of the State's funds. Ohio's bicameral legislature, the General Assembly, authorizes expenditures by appropriating funds in biennial and supplemental appropriation acts. The Office of Budget and Management uses CAS to control departmental obligation and expenditure activity to ensure authorized appropriations are not exceeded.

The State's non-GAAP budgetary financial statements are prepared on a modified cash basis of accounting. This means that revenues are recognized when cash is received and expenditures are recognized when cash is paid. Encumbrances, reservations of appropriation authority, as of June 30, the end of the State fiscal year, are reflected as expenditures on the budgetary basis of accounting.

The State's GAAP financial statements for the governmental, expendable trust, and agency funds have been prepared on a modified accrual basis of accounting. This means that revenues are recognized when measurable and available; expenditures are recognized when goods or services are received or liabilities are incurred. The proprietary, pension trust, and investment trust funds are accounted for on the accrual basis of accounting. This means that revenues are recognized when earned and expenses are recognized when incurred. Additional discussion of the budgetary and GAAP bases of accounting is provided in NOTE 1 to the financial statements.

The CAS maintains all non-GAAP budgetary basis transactions and most GAAP basis adjustments. In addition to the information obtained from the CAS for financial reporting, selected financial information provided by the State's agencies and departments is compiled to complete the GAAP basis financial statements.

Differences between the two bases of accounting (GAAP vs. non-GAAP budgetary) include: 1) entity differences — the GAAP reporting entity may include organizations such as financing authorities and other com-ponent units that are not included in the State's budget; 2) basis differences — the GAAP basis results in the reporting of accruals while the non-GAAP budgetary basis results in the reporting of cash transactions; and 3) timing differences — for example, GAAP recognizes expenditures for payables for goods and services received, whereas the non-GAAP budgetary basis considers unliquidated encumbrances as expenditures. A reconciliation between the GAAP basis and non-GAAP budgetary basis fund balances is presented in NOTE 3 to the financial statements.

CASH MANAGEMENT

In Ohio, with the exception of certain organizations within the State's reporting entity that have independent powers to manage and invest their funds, the Treasurer of State is responsible for investing the State's cash and investments pool. During fiscal year 1998, cash management and investment transactions made by the Treasurer of State's Office, in accordance with the Uniform Depository Act, were limited to checking accounts and certificates of deposit with qualified public depositories, U.S. government and agency obligations, commercial paper, repurchase agreements, bankers' acceptances, bonds of foreign nations diplomatically recognized by the United States, and security lending agreements. Legal requirements for the investment of funds maintained in the State's cash and investments pool are discussed in NOTE 4 to the financial statements.

For fiscal year 1998, net investment income on the State's cash and investments pool managed by the Treasurer of State, including the portion dedicated to the Ohio Lottery Commission, totaled approximately $386.1 million compared with $324.2 million in fiscal year 1997. The 19 percent increase in net investment income between fiscal years is due to greater cash resources available for investment during fiscal year 1998.

Quarterly, the Office of Budget and Management allocates the interest income earned on the undedicated portion of the cash and investments pool to the various funds designated by law to receive the earnings. The allocation is calculated in accordance with a formula based on average daily cash balances invested over the quarter.

GENERAL GOVERNMENTAL FUNCTIONS

The following schedule presents a summary of revenues, recorded on the modified accrual basis, for the governmental fund types (General, special revenue, debt service, and capital projects funds) for the fiscal year ended June 30, 1998, and the amount and percentage increases and decreases in relation to prior-year's revenues (in thousands).

Revenues	*FY 1998 Amount*	*Percent of Total*	*Increase (Decrease) from FY 1997*	*Percentage Increase/(Decrease) from FY 1997*
Income Taxes	$ 6,828,242	25.1%	$ 949,226	16.1%
Sales Taxes	5,560,402	20.4	297,942	5.7
Corporate and Public Utility Taxes	1,969,190	7.2	71,751	3.8
Motor Vehicle Fuel Taxes	1,399,948	5.1	48,472	3.6
Other Taxes	890,551	3.3	17,682	2.0
Licenses, Permits and Fees	883,848	3.3	34,569	4.1
Sales, Services and Charges	76,091	.3	(2,960)	(3.7)
Federal Government	8,353,372	30.7	(101,459)	(1.2)
Investment Income	554,523	2.0	135,724	32.4
Other	699,479	2.6	38,697	5.9
Total	$27,215,646	100.0%	$1,489,644	5.8

Significant increases and decreases reported for the State's *major* revenue sources are explained as follows:

- The $949.2 million or 16.1 percent increase in income taxes is mainly attributable to increased collections from quarterly estimated payments and annual returns, indicating a stronger economy, low unemployment, and the realization of capital gains due to favorable changes in the federal tax code.
- Sales tax revenues rose more than $297.9 million or 5.7 percent because of increases in consumer spending and growth in Ohio's retail sales.
- A decrease of $101.5 million or 1.2 percent in federal government revenue is primarily due to decreases in federal reimbursements for the Medicaid and Temporary Assistance for Needy

Families programs and for highway operations. This loss is partially offset by a $52.8 million increase in federal government revenue for housing assistance programs.

- The increase of $135.7 million or 32.4 percent in investment income primarily resulted from positive growth of the State Treasury's cash and investment pool, including an increase in reported securities lending income.

Expenditures for governmental fund types, presented on the modified accrual basis, for the fiscal year ended June 30, 1998, and the amount and percentage increases and decreases in relation to prior-year's expenditures are shown below for the functions of general government (in thousands).

Expenditures	*FY 1998 Amount*	*Percent of Total*	*Increase (Decrease) from FY 1997*	*Percentage Increase/(Decrease) from FY 1997*
Current:				
Primary, Secondary and Other Education	$ 5,927,471	22.0%	$ 478,385	8.8%
Higher Education Support	354,530	1.3	(67,952)	(16.1)
Public Assistance and Medicaid	8,462,208	31.4	95,187	1.1
Health and Human Services	2,485,176	9.2	156,414	6.7
Justice and Public Protection	1,870,507	7.0	108,986	6.2
Environmental Protection and Natural Resources	315,522	1.2	15,915	5.3
Transportation	1,494,130	5.6	28,872	2.0
General Government	625,275	2.3	96,683	18.3
Community and Economic Development	389,893	1.4	44,943	13.0
Intergovernmental	2,735,799	10.2	165,298	6.4
Capital Outlay	1,248,346	4.6	110,060	9.7
Debt Service	1,022,418	3.8	(11,530)	(1.1)
Total	$26,931,275	100.0%	$1,221,261	4.8

Significant increases and decreases for the State's *major* expenditure categories are explained as follows:

- Spending at the Department of Education and the Office of Information, Learning, and Technology Services greatly contributed to the $478.4 million or 8.8 percent increase in primary, secondary, and other education expenditures. Operating expenditures increased significantly for the School Foundation, Special Education, and SchoolNet Plus programs.

- The dissolution of the Student Aid Commission in June 1997 accounts for most of the $68 million or 16.1 percent decrease in higher education expenditures.

- General government expenditures rose by $96.7 million or 18.3 percent. The majority of the rise is due to an increase in borrower rebates paid in connection with the State Treasury's securities lending program and increased spending for regulatory programs at the Public Utilities Commission.

- Community and economic development expenditures during fiscal year 1998 were $44.9 million or 13 percent higher over last year. The increase is due primarily to greater spending at the Ohio Housing Finance Agency for federally funded housing assistance programs.

- Capital outlay expenditures grew by $110.1 million or 9.7 percent mostly because of increased spending for public school buildings and for highway projects. These increases are partly offset by an $81 million decrease in capital spending for the SchoolNet Plus Program, which provides state funding for the installation and use of networking technology in Ohio's public schools. While capital expenditures decreased for the SchoolNet Plus Program, operating expenditures reported in the Primary, Secondary and Other Education" expenditure function for this program, as noted above, increased by $71.5 million.

An additional analysis of revenues and expenditures for all governmental funds reported for fiscal year 1998 is shown in the graphic presentation that follows this letter.

GENERAL FUND

Many State programs are accounted for in the General Fund, which reported the following (in thousands):

	Balance as of June 30, 1998	Increase (Decrease) from FY 1997	Percentage Increase/(Decrease) from FY 1997
Unreserved/Undesignated Fund Balance	$ 198,233	$ 2,783	1.4%
Total Fund Balance	2,661,847	341,580	14.7
Total Revenues	18,207,052	1,192,614	7.0
Total Expenditures	15,385,758	640,849	4.3

The 14.7 percent increase in the General Fund's total fund balance primarily resulted from lower-than-budgeted spending and higher-than-expected revenue. As of June 30, 1998, the State's primary government designated $945.6 million for the purposes described in NOTE 20, and reserved close to $1.52 billion in fund balance for a total designated and reserved fund balance of $2.46 billion for the General Fund. This is compared to a total designated and reserved fund balance of approximately $2.12 billion, as of June 30, 1997.

PROPRIETARY AND FIDUCIARY FUNDS

The State's enterprise funds reported retained earnings of $4.49 billion, as of June 30, 1998, as compared to $5.20 billion in retained earnings (as restated), as of June 30, 1997. These results were caused primarily by the Workers' Compensation Enterprise Fund, which reported a retained earnings balance of $4.10 billion, as of June 30, 1998, as compared to a $4.90 billion retained earnings balance, as of June 30, 1997, a 16.3 percent decline. Operating revenues for the enterprise funds increased to $8.04 billion in fiscal year 1998 from $7.23 billion in fiscal year 1997; operating expenses increased to $7.95 billion in fiscal year 1998 from $4.76 billion in fiscal year 1997. The increase in operating expenses primarily resulted from the approval of a 75 percent premium dividend credit for private and public taxing employers and the payment of a one-time rebate of $3.62 billion from the Workers' Compensation Enterprise Fund.

The State's internal service funds reported retained earnings of approximately $108.4 million, as of June 30, 1998, as compared to $115.9 million, as of June 30, 1997, a 6.5 percent decrease. Operating revenues for the internal service funds decreased to $271 million in fiscal year 1998 from $288.4 million in fiscal year 1997 while operating expenses decreased to $285.8 million in fiscal year 1998 from $293.8 million in fiscal year 1997.

The fund balance of the expendable trust funds grew approximately 10 percent to $2.50 billion, as of June 30, 1998, from $2.27 billion, as of June 30, 1997. Revenues for the expendable trust funds dropped to $919.3 million in fiscal year 1998 from $970.9 million in fiscal year 1997; expenditures decreased to $692.1 million in fiscal year 1998 from $801.5 million in fiscal year 1997.

The fund balance of the pension trust fund was approximately $588.7 million, as of June 30, 1998, as compared to $512.1 million, as of June 30, 1997, a 15 percent increase. Total additions to plan net assets for the pension trust fund increased to $98.9 million in fiscal year 1998 from $83.6 million in fiscal year 1997, while total deductions to plan net assets increased to $22.2 million in fiscal year 1998 from $19.2 million in fiscal year 1997.

As required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which became effective for fiscal years beginning after June 15, 1997, fiscal year 1998 was the first year for the State to report on the financial activities of its investment trust fund. The State Treasury Asset Reserve of Ohio (STAROhio) Investment Trust Fund reported net investment income of $242.1 million, and net assets held in trust for pool participants in the amount of $4.50 billion, as of June 30, 1998. STAROhio is a state-sponsored external investment pool, which the Treasurer of State administers for local government participants.

DEBT ADMINISTRATION

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

Moody's rates the obligations supported by the General Revenue Fund that are issued by the Ohio Building Authority and the Ohio Public Facilities Commission as Aa3. S&P and Fitch generally rate unenhanced debt of the two state financing authorities as AA-.

As of June 30, 1998, the State's primary government reported a total of $7.6 billion in outstanding liabilities in its General Long-Term Obligations Account Group as follows (in thousands):

Type of Obligation	*Outstanding Balance*	*Percentage Increase/(Decrease) Since June 30, 1997*
General Obligation Bonds	$1,568,183	(1.9)%
Revenue Bonds and Notes	236,805	38.0
Special Obligation Bonds	4,831,558	3.6
Certificates of Participation	18,615	(30.1)
Other General Long-Term Obligations	950,684	(5.9)
Total	$7,605,845	1.8

For the proprietary funds, Ohio's primary government also reported $232.1 million (net of unamortized discounts of approximately $3.2 million) in revenue bonds, as of June 30, 1998.

RETIREMENT SYSTEMS

State employees may be eligible to participate in the Public Employees Retirement System, the State Teachers Retirement System, or the State Highway Patrol Retirement System. Further information on the State's participation in the retirement systems can be found in NOTE 9 to the financial statements.

RISK MANAGEMENT

As discussed in NOTE 1O. to the financial statements, the State's primary government retains risks for claims arising from the State's traditional health care plan (OhioMed Health Plan), vehicle liability, public fidelity blanket bonds, property losses, and tort liability. Also, the State's primary government participates in a public entity risk pool, which is accounted for in the Bureau of Workers' Compensation Enterprise Fund, for the financing of its workers' compensation liability.

ECONOMIC OVERVIEW AND OUTLOOK

The U.S. economy appears to have entered a period of moderate growth after enjoying robust activity during the last few years. The recovery that began in the spring of 1991 is soon approaching the eight-year mark, well in excess of the post-war average expansion of four years. The risk of a downturn in the economy increases, as the expansion becomes more mature. Recently, the deterioration in the Asian economy has been transmitted to all corners of the world, including the United States. A slowdown in the global economy along with restrictive financial conditions and a profits squeeze form a tough combination of negative influences, the likes of which the U.S. economy has not faced in a long time.

Much of the latest data confirms the new tone of the economic outlook. Growth is expected to slow from the heady 5 percent annual rate of growth of the last part of 1997 and the early part of 1998. The consensus forecast calls for economic growth to remain in the 3 to 3.5 percent range in 1998 and to continue at the long-term trend rate of 2 to 2.5 percent in 1999. Fortunately, the rapid growth of the last five years (3.3 percent average annual rate) along with low inflation and low unemployment rate leave ample room for slowing without creating a recession. While most economists believe that the U.S. will avoid a recession in the near term, according to some forecasters, the odds of a downturn during the next two years are now near even. The future of the U.S. economy is becoming more dependent on events overseas as well as the behavior of the U.S. consumer. The most likely scenario at the present time is that the U.S. economy will gradually slow to a more stable pace of annual growth.

Ohio's revenue picture remains in line with the current budget forecast of moderate economic growth and low inflation. The outlook for the General Fund remains stable and on target, with receipts slightly below the revised estimates and spending slightly lower than estimates, after adjusting for timing factors. Furthermore, Ohio's Budget Stabilization Fund or "Rainy Day" Fund, a budgetary fund reported as part of the General Fund, remains intact with a current fund balance of $906.9 million.

MAJOR INITIATIVES AND PROJECTS

Primary and Secondary Education

In March 1997, the Ohio Supreme Court declared Ohio's system for financing primary and secondary education to be unconstitutional. In the spring of 1998, in an effort to comply with the Court's decision, the Ohio Legislature enacted House Bill No. 650, the school funding reform bill. The Court is currently reviewing the question of whether the legislation meets its definition of constitutionality. But regardless of the case's outcome, this legislation is the capstone to Ohio's efforts over the past several years to improve primary and secondary education in four key areas: finance, technology, capital facilities improvements, and accountability.

Finance — The State has changed the method used to calculate state assistance to school districts, providing a larger share to low-wealth school districts, while at the same time substantially increasing the amount of state support to all school districts. The Basic Aid per-pupil foundation level, which forms the basis for education funding in Ohio, has grown from $2,636 per pupil in fiscal year 1991 to $3,851 in fiscal year 1999, and in House Bill 650, the level is set to increase annually to $4,665 per pupil by fiscal year 2004. In addition, the State has channeled further resources in excess of basic aid to the 292 low-wealth school districts. In fiscal year 1998, this added funding totaled $109.4 million.

Technology — The SchoolNet Plus Program, along with its predecessor the SchoolNet Program, will purchase and install one computer workstation for every five public school students from kindergarten through fourth grade. When the program is completed, more than 150,000 systems will be installed in Ohio's schools. Through fiscal year 1999, $604 million will have been spent or appropriated for these two programs.

Capital Facilities Improvements— The State established the School Facilities Commission in fiscal year 1997 to assist school districts in building construction efforts. Funding is provided according to "tiers" of school districts, grouped on the basis of need, starting with the low-wealth districts. The State will provide for a significant portion of construction and renovation costs to all districts statewide, based on a sliding scale according to wealth. The districts are responsible for a portion of their construction costs and are required to provide a set millage contribution for the upkeep of their facilities. Since fiscal year 1993, the State has provided $1.06 billion in funding to assist low-wealth school districts with financing their school building projects.

Accountability — The State has enacted a series of performance and fiscal accountability measures for school districts, requiring higher levels of achievement from every student and from each district. The districts must establish budget reserve, capital and maintenance, and textbook and materials funds, and they must develop five-year budget plans. Starting in fiscal year 1999, the Ohio Department of Education will issue annual "report cards" for each school district and for the State as a whole, measuring performance and fiscal accountability criteria.

Bureau of Workers' Compensation

Since the passage in 1995 of the Workers' Compensation Reform Bill, private employers have saved more than $4 billion through a combination of rate reductions and annual credits. Premium rates for private employers are now about 30 percent lower than in 1995. In fiscal year 1998, private employers saved more than $1.5 billion through a combination of $247 million in rate reductions and a $1.27 billion premium credit. These savings have been achieved through various means: a higher-than-expected rate of return on the Bureau's investments; increased use of managed care for medical services; increased penalties for fraud; improved incentives for safer workplaces; and improved rehabilitation efforts and services.

Spending Restraint and Financial Reserves

In fiscal year 1998, Ohio spent $584.9 million less from its General Fund than was budgeted for budget fiscal year 1998. The majority of these savings were in the Department of Human Services, primarily as a result of lower-than-anticipated Medicaid costs. The key contributors to this lowered Medicaid spending were the healthy economy and cost-cutting efforts.

Largely due to the spending restraints, the State was able to reserve in the General Fund, as of June 30, 1998, $862.7 million for budget stabilization and $106 million for human services programs. In addition, the State designated $44.2 million in the General Fund for budget stabilization purposes at year-end.

Tax Policy Changes
During fiscal year 1998, the State returned $262.9 million to taxpayers in the form of a one-time income tax rate reduction of 3.99 percent for the 1997 tax year. During fiscal year 1999, the State will return $701.4 million to taxpayers with a 9.34 percent income tax rate reduction for the 1998 tax year. With such rate reductions and other measures such as increases in personal exemptions, the total amount of the reduction in individual taxes since 1994 is expected to reach $1.8 billion by 1999.

YEAR 2000
Because of its reliance on computer systems and other electronic equipment critical to conducting operations, the State has recognized and is addressing the Year 2000 issue. A discussion on the status of the State's remediation efforts for its major computer systems, as of June 30, 1998, can be found in NOTE 25.

In recognition of the Year 2000 issue, the State has established a Year 2000 Competency Center within the Division of Computer Services in the Ohio Department of Administrative Services. The Center's mission is to ensure the State's uninterrupted service to Ohio's citizens. The Center monitors the progress of Year 2000 remediation efforts at state agencies. Further information on the current status of the State's Year 2000 remediation projects can be obtained by contacting the Center at its toll free number 1-877-925-6446 or by visiting its web site at http://www.oy2k.state.oh.us/.

CERTIFICATE OF ACHIEVEMENT
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Ohio for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 1997. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of a state and local government report.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, the contents of which conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The State of Ohio has received a Certificate of Achievement for the last eight years (fiscal years 1990-1997). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

In addition, the State received for the first time the GFOA's Award for Distinguished Budget Presentation for its appropriated budgets for fiscal years 1998 and 1999. In order to qualify for the Distinguished Budget Presentation Award, the State's budget document was judged to be proficient in several categories, including policy documentation, financial planning, and organization.

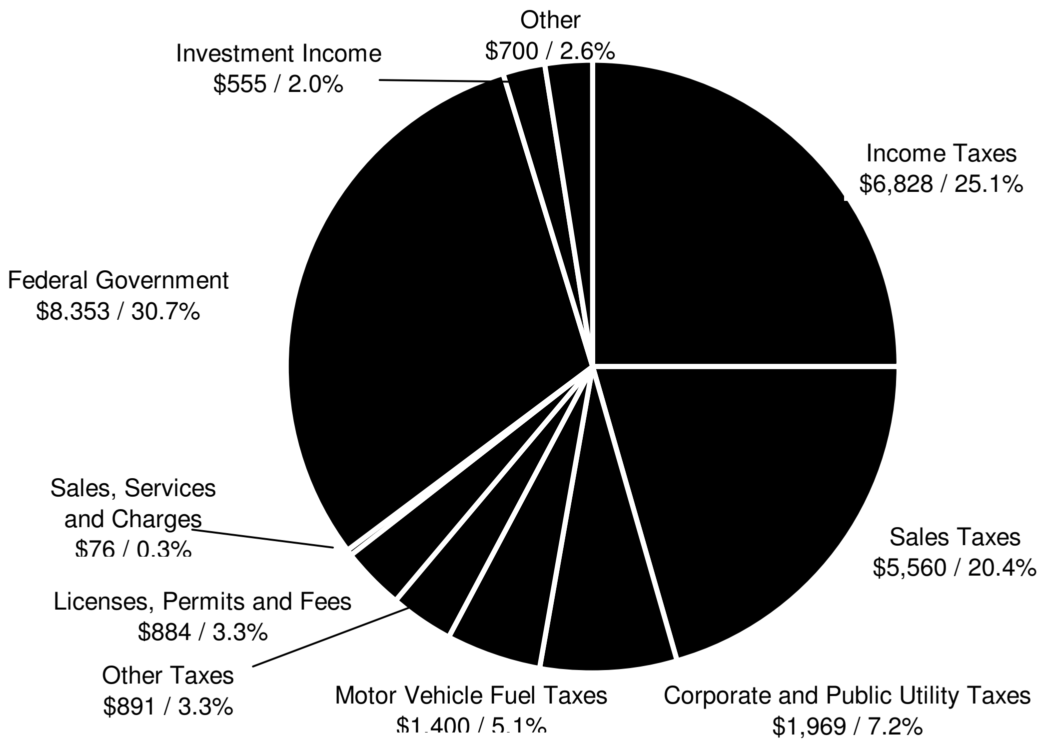
ADDITIONAL INFORMATION
The Ohio Office of Budget and Management provides access to the 1998 *Ohio Comprehensive Annual Financial Report*, 1998 *Ohio Budgetary Financial Report*, and other State-related financial data and information at its home page on the Internet at http://www.state.oh.us/obm/.

ACKNOWLEDGMENTS
In conclusion, I wish to express my appreciation to the staffs of the various State agencies whose time and dedicated efforts made this report possible.

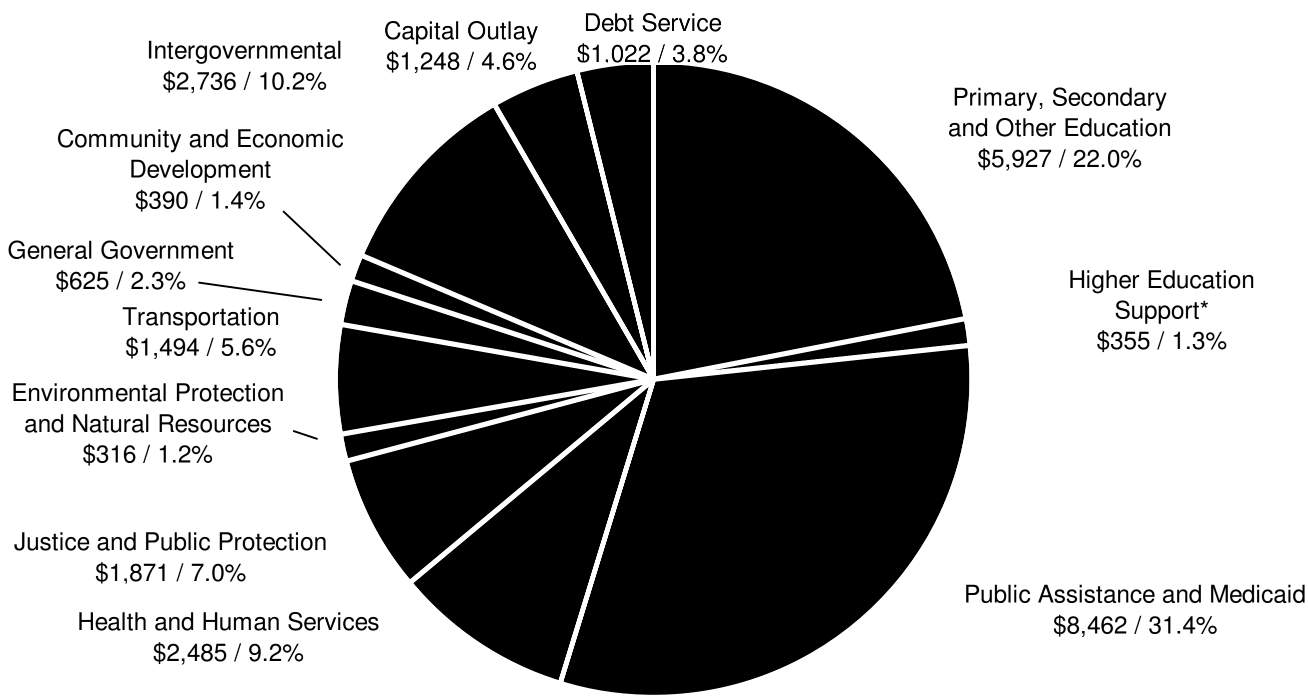
Sincerely,

PAOLO DeMARIA,
Director

GAAP Basis Revenues for All General Governmental Fund Types
Fiscal Year 1998
(in millions)



GAAP Basis Expenditures for All General Governmental Fund Types
Fiscal Year 1998
(in millions)



* In the governmental funds, budgetary expenditures for Higher Education Support totaling $1.52 billion are reported on a GAAP basis as "Operating Transfers to Component Units," as shown on the Combined Statement of Revenues, Expenditures and Changes in Fund Balances, pages 22 and 23.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Ohio

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1997

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

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J. Kenneth Blackwell
Treasurer of State

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Jo Ann Davidson
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Thomas J. Moyer
Chief Justice
Supreme Court

STATE OF OHIO ORGANIZATION CHART