Ohio Office of Budget and Management

State of Ohio

Bob Taft

Governor

OHIO

COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2003

State of Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(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, 2003. 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
Net assets of the State's primary government reported in the amount of $18.6 billion, as of June 30, 2003, decreased $2.8 billion since the previous year. Net assets of the State's component units reported in the amount of $8.8 billion, as of June 30, 2003, decreased $447.9 million since the end of last fiscal year.

Fund Financial Statements
Governmental funds reported combined ending fund balances of $3.89 billion that was comprised of $680.2 million reserved for specific purposes, such as for debt service, state and local government highway construction, and federal programs; $5.11 billion reserved for nonappropriable items, such as encumbrances, noncurrent loans, loan commitments, and inventories; $3.9 million in designations for compensated absences; and a $1.91 billion deficit.

As of June 30, 2003, the General Fund's fund balance was approximately $192.8 million, including $275.2 million reserved for specific purposes; $319.8 million reserved for nonappropriable items; and a deficit of $402.2 million. The General Fund's fund balance declined by $569.5 million or 74.7 percent during fiscal year 2003. Despite weaker-than-expected tax revenue for fiscal year 2003, the General Fund ended the year with an overall positive fund balance. This was primarily due to reductions in budgeted spending for major programs other than Medicaid and Temporary Assistance to Needy Families, the availability of $247.2 million for spending in fiscal year 2003 from resources designated for budget stabilization (also known as the "Rainy Day" Fund), various transfers-in from other funds, including a $280.9 million transfer from the Tobacco Settlement Fund, and a $193 million federal grant award under the Jobs and Growth Tax Relief Reconciliation Act of 2003.

Proprietary funds reported net assets of $1.78 billion, as of June 30, 2003, a decrease of $2.15 billion since June 30, 2002. Most of the net amount of the decline was due to the $1.34 billion, $625.7 million, and $248.7 million net losses reported for the Workers' Compensation, Unemployment Compensation, and Tuition Trust Authority enterprise funds, respectively. The loss for the Workers' Compensation Enterprise Fund is attributable to $640.6 million in premium dividend reductions and refund expenses, and benefits and claims expenses that exceeded premium and assessment income by $1.19 billion. For the Unemployment Compensation Enterprise Fund, benefits and claims expenses of $1.78 billion exceeded total operating and nonoperating revenues by approximately $561 million. The Tuition Trust Authority's decline resulted from tuition benefit expenses exceeding income from the sale of tuition credits by $270.6 million, due to an increase in tuition benefit expense as a result of high tuition growth during fiscal year 2003 and the estimated increase in the projected future tuition growth, combined with a decrease in unit sales compared with the unusually high sales in fiscal year 2002.

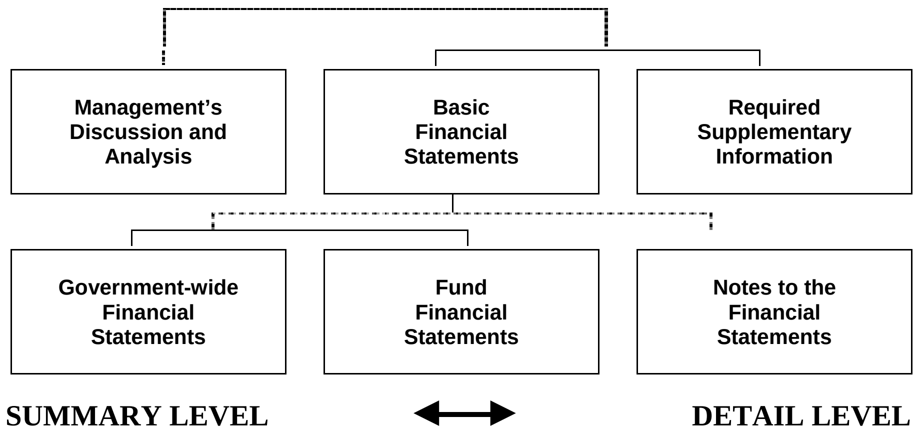
Long-Term Debt — Bonds and Notes Payable and Certificates of Participation Obligations:
Overall, the total long-term debt for the State's primary government increased $664.2 million or 7.7 percent during fiscal year 2003 to end the fiscal year with a reported balance of $9.32 billion in long-term debt. During the year, the State issued $1.61 billion in general obligation bonds, of which $549.1 million (net of $33.6 million in deep discounts at issuance) were refunding bonds, $327.5 million in revenue bonds, of which $142.5 million were refunding bonds, and $602.3 million in special obligation bonds, of which $442.3 million were refunding bonds. Changes in the primary government's long-term debt for fiscal year 2003 can be found in NOTE 15.

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 for the nonmajor governmental funds and the fiduciary 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 funds.

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 funds statements report on the activities, which the State operates like private-sector businesses. Fiduciary funds 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 also 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 64 through 125 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 128 and 129 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

		Fund Statements		
	Government-wide Statements	**Governmental Funds**	**Proprietary Funds**	**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	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 Balance	• Statement of Net Assets • Statement of Revenues, Expenses, and Changes in Net Assets • Statement of Cash Flows	• Statement of 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 and liabilities — 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 32 through 35 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, community and economic development, and intergovernmental. Taxes, federal grants, charges for services, including license, permit, and other fee income, fines, and forfeitures, and restricted investment 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, 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, Arts and Sports Facilities Commission, SchoolNet Commission, Ohio Water Development Authority, and 23 state-assisted colleges and universities as discretely presented component units under a separate column in the government-wide financial statements. The Ohio Building Authority 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 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 14 special revenue funds, 22 debt service funds, and 10 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 and the Job, Family and Other Human Services, Education, Highway Operating, and Revenue Distribution special revenue funds, all of which are considered major funds. Data from the other 42 governmental funds, which are classified as nonmajor funds, are combined into a single, aggregated presentation under a single column on the 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 36 through 47 of this report while the combining fund statements and schedules can be found on pages 131 through 191.

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 applying the accrual basis of accounting and an economic resources focus. The eight enterprise funds, all of which are considered to be major 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 48 through 55 of this report.

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 56 through 59 of this report.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets. During fiscal year 2003, as shown in the table on the following page, the combined net assets of the State's primary government decreased $2.76 billion or 12.9 percent. Net assets reported for governmental activities decreased $611.6 million or 3.5 percent and business-type activities decreased $2.15 billion or 54.6 percent.

Condensed financial information derived from the Statement of Net Assets for the primary government follows.

Primary Government
Statement of Net Assets
As of June 30, 2003
With Comparatives as of June 30, 2002
(dollars in thousands)

	As of June 30, 2003			As of June 30, 2002 (as restated)		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Assets:						
Current and Other Noncurrent Assets	$10,288,456	$24,213,259	$34,501,715	$10,955,148	$25,655,009	$36,610,157
Capital Assets	22,368,509	211,908	22,580,417	21,619,224	238,338	21,857,562
Total Assets	32,656,965	24,425,167	57,082,132	32,574,372	25,893,347	58,467,719
Liabilities:						
Current and Other Liabilities	6,101,273	3,836,997	9,938,270	6,115,123	4,489,351	10,604,474
Noncurrent Liabilities	9,695,277	18,805,672	28,500,949	8,987,221	17,473,966	26,461,187
Total Liabilities	15,796,550	22,642,669	38,439,219	15,102,344	21,963,317	37,065,661
Net Assets:						
Invested in Capital Assets, Net of Related Debt	19,261,553	19,827	19,281,380	18,653,976	24,197	18,678,173
Restricted	1,870,890	2,026,857	3,897,747	1,878,515	3,918,679	5,797,194
Unrestricted/(Deficit)	(4,272,028)	(264,186)	(4,536,214)	(3,060,463)	(12,846)	(3,073,309)
Total Net Assets	$16,860,415	$1,782,498	$18,642,913	$17,472,028	$ 3,930,030	$21,402,058

As of June 30, 2003, 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 $19.28 billion. Restricted net assets were approximately $3.90 billion, resulting in a $4.54 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 $4.27 billion deficit for 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 $8.70 billion of outstanding general obligation and special obligation debt at June 30, 2003, $5.21 billion is attributable to debt issued for state assistance to component units (School 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, 2003, the State's governmental activities have significant unfunded liabilities for compensated absences in the amount of $383.6 million (see NOTE 14A.) and a $774.2 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 2003 and 2002 (as restated), follows.

Primary Government
Statement of Activities
For the Fiscal Year Ended June 30, 2003
With Comparatives for the Fiscal Year Ended June 30, 2002 (as restated)
(dollars in thousands)

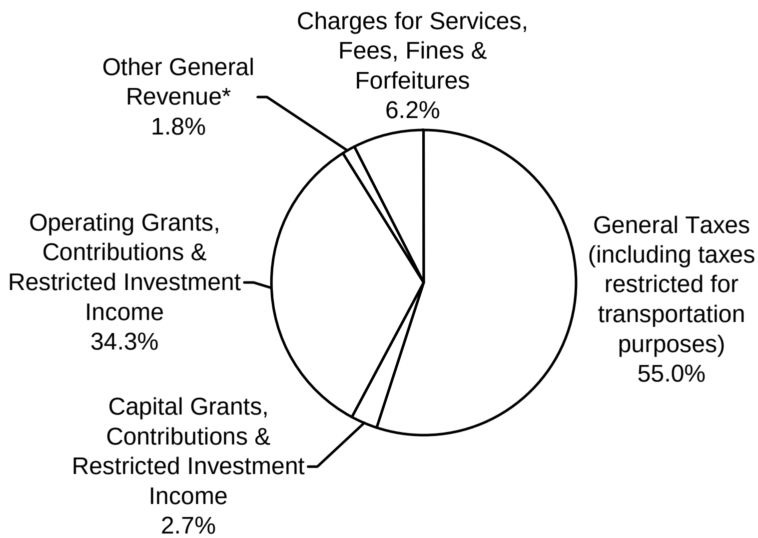
	Fiscal Year 2003			Fiscal Year 2002 (as restated)		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Program Revenues:						
Charges for Services, Fees, Fines and Forfeitures	$ 2,176,902	$ 4,989,469	$ 7,166,371	$ 2,282,572	$ 5,766,327	$ 8,048,899
Operating Grants, Contributions & Restricted Investment Income/(Loss)	11,911,301	1,895,246	13,806,547	11,230,106	(59,232)	11,170,874
Capital Grants, Contributions & Restricted Investment Income/(Loss)	930,497	956	931,453	942,200	—	942,200
Total Program Revenues	15,018,700	6,885,671	21,904,371	14,454,878	5,707,095	20,161,973
General Revenues:						
General Taxes	17,633,793	—	17,633,793	16,911,481	—	16,911,481
Taxes Restricted for Transportation	1,462,608	—	1,462,608	1,451,767	—	1,451,767
Tobacco Settlement	369,619	—	369,619	368,588	—	368,588
Escheat Property	43,173	—	43,173	50,745	—	50,745
Unrestricted Investment Income	5,285	29,726	35,011	72,262	—	72,262
Federal	193,033	44	193,077	—	346,891	346,891
Other	1,802	4,822	6,624	33	2,449	2,482
Total General Revenues	19,709,313	34,592	19,743,905	18,854,876	349,340	19,204,216
Total Revenues	34,728,013	6,920,263	41,648,276	33,309,754	6,056,435	39,366,189
Expenses:						
Primary, Secondary and Other Education	8,498,696	—	8,498,696	8,141,634	—	8,141,634
Higher Education Support	2,515,379	—	2,515,379	2,710,111	—	2,710,111
Public Assistance and Medicaid	12,683,617	—	12,683,617	11,953,033	—	11,953,033
Health and Human Services	2,930,071	—	2,930,071	2,847,339	—	2,847,339
Justice and Public Protection	2,435,774	—	2,435,774	2,451,328	—	2,451,328
Environmental Protection and Natural Resources	403,445	—	403,445	371,103	—	371,103
Transportation	1,532,040	—	1,532,040	1,507,932	—	1,507,932
General Government	486,013	—	486,013	762,725	—	762,725
Community and Economic Development	739,814	—	739,814	766,464	—	766,464
Intergovernmental	3,675,073	—	3,675,073	3,617,678	—	3,617,678
Interest on Long-Term Debt (excludes interest charged as program expense)	195,559	—	195,559	203,811	—	203,811
Workers' Compensation	—	4,088,796	4,088,796	—	4,565,493	4,565,493
Lottery Commission	—	1,523,764	1,523,764	—	1,467,203	1,467,203
Unemployment Compensation	—	1,838,949	1,838,949	—	1,660,148	1,660,148
Ohio Building Authority	—	30,824	30,824	—	33,724	33,724
Tuition Trust Authority	—	388,469	388,469	—	284,960	284,960
Liquor Control	—	354,547	354,547	—	339,294	339,294
Underground Parking Garage	—	2,515	2,515	—	2,336	2,336
Office of Auditor of State	—	84,087	84,087	—	78,302	78,302
Total Expenses	36,095,481	8,311,951	44,407,432	35,333,158	8,431,460	43,764,618
Deficiency Before Special Items & Transfers	(1,367,468)	(1,391,688)	(2,759,156)	(2,023,404)	(2,375,025)	(4,398,429)
Special Items	—	11	11	—	26	26
Transfers-Internal Activities	755,855	(755,855)	—	743,821	(743,821)	—
Change in Net Assets	(611,613)	(2,147,532)	(2,759,145)	(1,279,583)	(3,118,820)	(4,398,403)
Net Assets, July 1 (as restated)	17,472,028	3,930,030	21,402,058	18,751,611	7,048,850	25,800,461
Net Assets, June 30	$16,860,415	$ 1,782,498	$18,642,913	$17,472,028	$ 3,930,030	$21,402,058

Governmental Activities

The $611.6 million decrease in net assets during fiscal year 2003 primarily resulted from lower-than-expected tax revenues, while increased spending in the Primary, Secondary and Other Education, and the Public Assistance and Medicaid functions more than offset decreased spending levels in other State functions and required the State to spend $247.2 million in resources, which had been designated for budget stabilization purposes, as of the end of fiscal year 2002. The State attributes most of the slow growth in tax revenues to a slowdown in the economy. Also, increased spending in the State's largest public assistance-related program, Medicaid, most likely resulted from a slowdown in the economy and overall increases in health care costs.

The following chart illustrates revenue sources of governmental activities as percentages of total revenues reported for the fiscal year ended June 30, 2003.

Governmental Activities — Sources of Revenue
Fiscal Year 2003

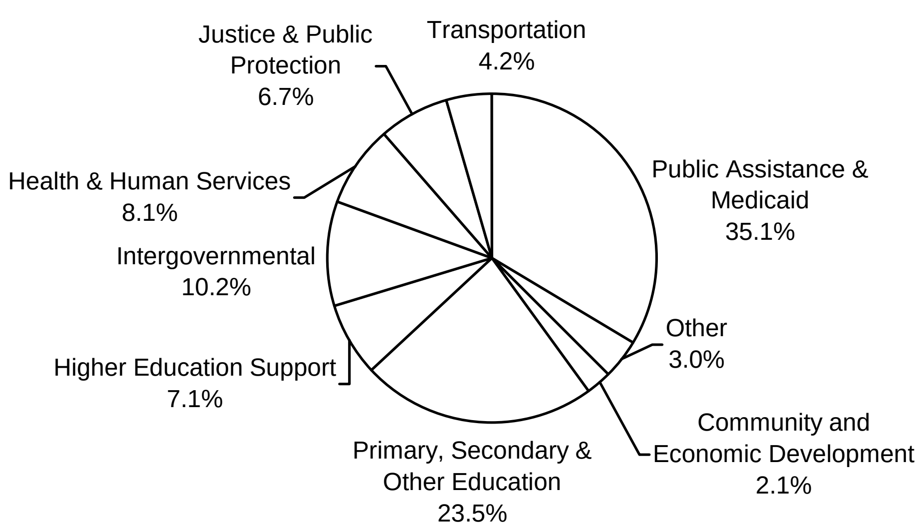


*Other General Revenue includes Tobacco Settlement, Escheat Property, Unrestricted Investment Income, Federal, and Other

Total FY 03 Revenue for Governmental Activities = $34.73 Billion

The following chart illustrates expenses by program of governmental activities as percentages of total program expenses reported for the fiscal year ended June 30, 2003.

Governmental Activities — Expenses by Program
Fiscal Year 2003



Total FY 03 Program Expenses for Governmental Activities = $36.10 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, 2003 and 2002 (as restated). 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; costs not covered by program revenues are essentially funded with the State's general revenues, which are primarily comprised of taxes, tobacco settlement revenue, escheat property, unrestricted investment income, and unrestricted federal revenue.

Program Expenses and Net Costs of Governmental Activities by Program
For the Fiscal Year Ended June 30, 2003
With Comparatives for the Fiscal Year Ended June 30, 2002 (as restated)
(dollars in thousands)

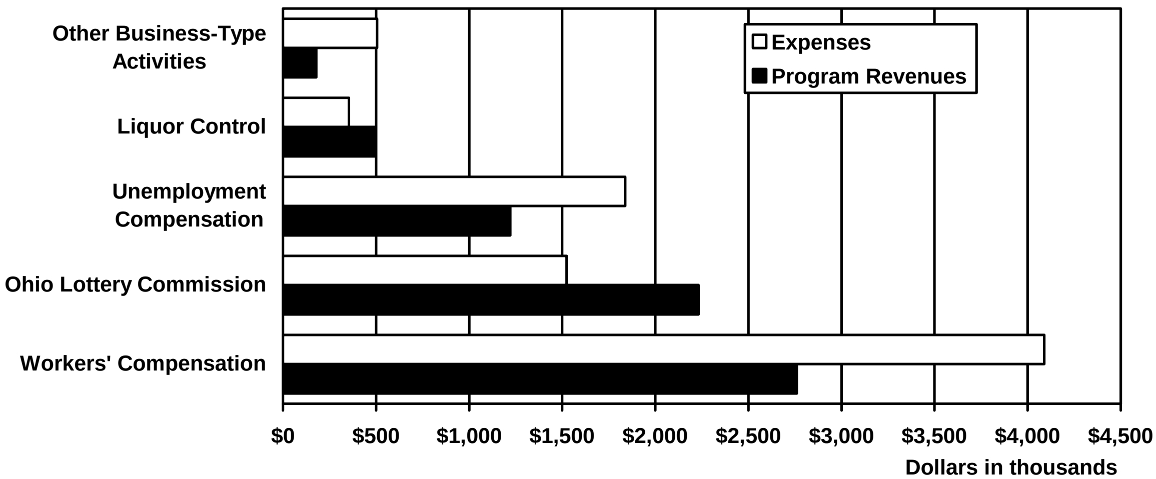
	For the Fiscal Year Ended June 30, 2003			
Program	**Program Expenses**	**Net Cost of Program**	**Net Cost as Percentage of Total Expenses for Program**	**Net Cost as Percentage of Total Expenses — All Programs**
Primary, Secondary and Other Education	$ 8,498,696	$ 7,234,432	85.1%	20.0%
Higher Education Support	2,515,379	2,491,806	99.1	6.9
Public Assistance and Medicaid	12,683,617	3,798,634	29.9	10.5
Health and Human Services	2,930,071	1,164,789	39.8	3.2
Justice and Public Protection	2,435,774	1,584,283	65.0	4.4
Environmental Protection and Natural Resources	403,445	179,562	44.5	0.5
Transportation	1,532,040	515,201	33.6	1.4
General Government	486,013	77,450	15.9	0.2
Community and Economic Development	739,814	159,992	21.6	0.5
Intergovernmental	3,675,073	3,675,073	100.0	10.2
Interest on Long-Term Debt	195,559	195,559	100.0	0.6
Total Governmental Activities	$36,095,481	$21,076,781	58.4	58.4%

	For the Fiscal Year Ended June 30, 2002 (as restated)			
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	$ 8,141,634	$6,922,682	85.0%	19.6%
Higher Education Support	2,710,111	2,693,576	99.4	7.6
Public Assistance and Medicaid	11,953,033	3,633,295	30.4	10.3
Health and Human Services	2,847,339	1,255,820	44.1	3.6
Justice and Public Protection	2,451,328	1,579,888	64.5	4.5
Environmental Protection and Natural Resources	371,103	137,928	37.2	0.4
Transportation	1,507,932	455,452	30.2	1.3
General Government	762,725	224,047	29.4	0.6
Community and Economic Development	766,464	154,103	20.1	0.4
Intergovernmental	3,617,678	3,617,678	100.0	10.2
Interest on Long-Term Debt	203,811	203,811	100.0	.6
Total Governmental Activities	$35,333,158	$20,878,280	59.1	59.1%

Business-Type Activities

The State's enterprise funds reported net assets of $1.78 billion, as of June 30, 2003, as compared to $3.93 billion in net assets, as of June 30, 2002. These results were caused in part by the Workers' Compensation Fund, which reported net assets of $552.4 million, as of June 30, 2003, as compared to $1.89 billion in net assets, as of June 30, 2002, a 70.8 percent decrease. Also contributing to the decline in business-type activities was the Unemployment Compensation Fund, which reported net assets of $1.29 billion, as of June 30, 2003, as compared to $1.91 billion, a 32.7 percent decrease since June 30, 2002. Finally, the Tuition Trust Authority Fund reported a net assets deficit of $319 million at June 30, 2003, as compared to a net assets deficit of $70.3 million at June 30, 2002, a 353.8 percent decrease in net assets. The chart below compares program expenses and program revenues for business-type activities.

Business-Type Activities — Expenses and Program Revenues
Fiscal Year 2003



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, 2003 and June 30, 2002 (dollars in thousands).

As of and for the Fiscal Year Ended June 30, 2003:	General Fund	Other Major Funds	Nonmajor Govern-mental Funds	Total Governmental Funds
Unreserved/Undesignated Fund Balance (Deficit)	$ (402,238)	$(1,685,904)	$ 175,701	$(1,912,441)
Designated Fund Balance	—	—	3,941	3,941
Total Fund Balance	192,787	1,033,826	2,660,290	3,886,903
Total Revenues	21,748,682	9,936,211	3,115,188	34,800,081
Total Expenditures	22,428,880	10,135,171	5,122,383	37,686,434
As of and for the Fiscal Year Ended June 30, 2002 (as restated):				
Unreserved/Undesignated Fund Balance (Deficit)	$ —	$(1,100,447)	$ 180,380	$ (920,067)
Designated Fund Balance	206,214	—	2,487	208,701
Total Fund Balance	762,250	1,208,810	2,557,631	4,528,691
Total Revenues	20,504,274	9,626,312	2,999,212	33,129,798
Total Expenditures	21,897,458	9,736,767	5,045,933	36,680,158

General Fund

Fund balance for the General Fund, the main operating fund of the State, had decreased by $569.5 million during the current fiscal year. Key factors for the decline were lower personal income tax collections resulting from a slowdown in the economy and mandated spending increases in the Medicaid Program and for primary and secondary education, which were largely due to changes in funding methods prompted by the DeRolph court case.

General Fund Budgetary Highlights

The State ended the second year of its biennial budget period on June 30, 2003 with a General Fund budgetary fund balance (i.e., cash less encumbrances) of $537 million. Total budgetary sources for the General Fund (including $434.4 million in transfers from other funds) in the amount of $23.4 billion were below final estimates by $252.4 million or 1.1 percent during fiscal year 2003, while total tax receipts were below final estimates by $47.7

million or 0.3 percent. In fiscal year 2003 the State raised the cigarette tax, and as a result, cigarette tax revenue in fiscal year 2003 was $600 million as compared to $281.3 million for fiscal year 2002, a 113.3 percent increase. The State also received a $193 million federal grant award under the Jobs and Growth Tax Relief Reconciliation Act of 2003, which was deposited into the General Fund.

The weaker-than-expected revenue picture primarily resulted from lower-than-anticipated receipts from personal income tax. Total budgetary uses for the General Fund (including $47.4 million in transfers to other funds) in the amount of $24.3 billion were below final estimates by $908.4 million or 3.6 percent for fiscal year 2003.

Additionally, with legislative authorization, OBM made the following significant resource reallocations to fill the existing gap between actual spending and actual revenues caused by revenue shortfalls during fiscal year 2003:

- $247.2 million, which had been designated in the General Fund for budget stabilization purposes, was reallocated for spending. While there was $180.7 million remaining at June 30, 2003 for future budget stabilization purposes, there was no designation of fund balance in the General Fund for budget stabilization purposes on a GAAP basis, since the State's reported designation for budget stabilization could not exceed the amount of residual fund balance that remained after the posting of reserves for specific purposes and nonappropriable items.

- $280.9 million from tobacco settlement revenues was transferred to the General Fund, as authorized under legislation.

On July 1, 2002, the Governor issued an executive order directing a total of approximately $375 million in the General Revenue Fund (GRF) spending cutbacks for fiscal year 2003 (based on prior appropriations) by agencies and departments in his administration, as well as limitations on hiring, travel, and major purchases. The GRF is the largest, non-GAAP, budgetary-basis operating fund included in the State's General Fund. This cutback order reflected and was consistent with prior budget balancing discussions between the Governor and General Assembly. Annual cutbacks ranged generally from 7.5 to 15 percent, with allocation of amounts and manners determined by the Director of the Ohio Office of Budget and Management (OBM) in consultation with the affected agencies and departments. Excluded from those cutbacks were elementary and secondary education, higher education, alcohol and drug addiction services, and the adjutant general. Also expressly excluded were appropriations for debt service including lease rental contracts, and all state office building rent, and ad valorem property tax relief payments (made to local taxing entities).

Based on continuing reduced revenue collections (particularly, personal income taxes and sales tax receipts for the holidays) and projected additional Medicaid spending of $40 million, OBM in late January announced an additional GRF shortfall of $720 million for fiscal year 2003. The Governor ordered immediate additional reductions in appropriations spending intended to generate an estimated $121.6 million of GRF savings through the end of the fiscal year (expressly excepted were appropriations for or relating to debt service on State obligations). The Governor also proposed for the General Assembly's prompt consideration the following additional revenue enhancements, transfers and expenditure reductions for fiscal year 2003 requiring legislative authorization to achieve the indicated financial effects as estimated by OBM:

- A 2.5-percent reduction in local government fund distributions to most subdivisions and local libraries, producing an estimated $30 million in savings. This reduction is in addition to the prior local government fund distribution adjustments noted below.
- Transfers to the GRF from unclaimed funds ($35 million) and various other funds ($21.4 million).
- A one-month acceleration in sales tax collections by vendors filing electronically, to produce $286 million.
- An additional increase in the cigarette tax of 45 cents per pack (to a total of $1.00 a pack), to produce approximately $140 million.
- A doubling of the current taxes on spirituous liquor and beer and wine, to net an additional $18.7 million.

The Governor proposed enactment of these legislative authorizations by March 1, 2003 in order to produce the indicated financial effects by the June 30 end of the fiscal year and biennium. The General Assembly gave its final approval on February 25 to legislation authorizing the first three elements (see above) of the Governor's proposal, but that legislation did not include the proposed additional taxes on cigarettes and spirituous liquor and beer and wine.

OBM projected at the time that the Governor's proposal to the General Assembly and the additional expenditure reductions ordered by the Governor in January, coupled with the previously authorized reallocation of the then available moneys designated for budget stabilization purposes to the GRF, would result in a positive GRF budgetary fund balance at June 30, 2003. To offset the General Assembly's enactment of legislation that did not include the proposed additional taxes on cigarettes and liquor, beer and wine, the Governor on March 25 ordered additional reductions in GRF appropriations spending aggregating $142.5 million for the balance of fiscal year 2003. Included were reductions (generally at an annualized rate of 2.5 percent) of $90.6 million in State foundation and parity aid to school districts and an additional $9.3 million in Department of Education administration spending, $39.2 million in instructional support to higher education institutions, and other selected reductions totaling $3.4 million. The Governor also identified approximately $20 million in excess food stamp administration funds available to offset the need for further expenditure reductions. Expressly excepted from those reductions were appropriations for or relating to debt service on state obligations.

Based on the Administration's continuing monitoring of revenues, and as an anticipated step in the then ongoing 2004-05 biennial budget and appropriations process, OBM reported revised revenue estimates to the General Assembly on June 11, 2003. Those estimates revised fiscal year 2003 revenues downward by an additional $200 million over OBM's January 2003 adjusted baseline, based primarily on updated income and sales tax receipts through May 31, 2003. The Governor and OBM addressed this additional fiscal year 2003 revenue shortfall through additional expenditure controls and by drawing upon $193 million of federal block grant aid made available to the State prior to June 30 under the federal Jobs and Growth Tax Relief Reconciliation Act of 2003, which became effective on May 28, 2003.

Additional appropriations actions during the biennium, affecting most subdivisions and local libraries in the State, relate to the various local government assistance funds. The original appropriations act capped the amount to be distributed in fiscal years 2002 and 2003 to essentially the equivalent monthly payment amounts in fiscal years 2000 and 2001. Subsequent legislation amended the level to the lesser of those prior fiscal year amounts or the amount that would have been distributed under the standard formula.

Other Major Governmental Funds

Fund balance for the Job, Family and Other Human Services Fund, as of June 30, 2003, totaled $289.0 million, an increase of $68.4 million since June 30, 2002. Revenues exceeded expenditures by $83.1 million, and of the excess of revenues over expenditures, $14.7 million in net transfers-out were made to other funds.

Fund balance for the Education Fund, as of June 30, 2003, totaled $22.6 million, a decrease of $6.2 million since June 30, 2002. Fiscal year 2003 net transfers-in for the fund in the amount of $616.6 million was not enough to cover the excess of expenditures over revenues reported for the fund in the amount of $622.8 million.

Fund balance for the Highway Operating Fund, as of June 30, 2003, totaled $615.7 million, a decrease of $225.1 million since June 30, 2002. The decline was caused by increased transportation spending of $1.91 billion for fiscal year 2003 compared with $1.86 billion during the previous fiscal year, a decline in the fund's revenues from $1.46 billion in fiscal year 2002 to $1.44 billion in fiscal year 2003, and a slight decline in net transfers-in for fiscal year 2003 of $7.3 million when compared to fiscal year 2002 results.

Fund balance for the Revenue Distribution Fund, as of June 30, 2003, totaled $106.6 million, a decrease of $12.2 million since June 30, 2002. Fiscal year 2003 net transfers-out to other governmental funds of $825.9 million were higher than the $731.3 million transfers-out reported for fiscal year 2002, thus causing the decrease in fund balance.

Proprietary Funds

The State's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

For the Workers' Compensation Fund, the decrease in net assets was primarily due to premium reductions and refund expenses of $640.6 million, and benefits and claims expenses of $3.36 billion exceeded total operating and nonoperating revenues by approximately $601.2 million.

The Workers Compensation Oversight Commission approved a one-time 75-percent premium reduction for Ohio private employers for the policy period July 1, 2002 through December 31, 2002, which produced estimated savings of $600 million to these employers. The Oversight Commission also approved a one-time 50-percent premium reduction for public taxing district employers for their policy year beginning January 1, 2002, which was expected to produce estimated savings of $144 million to these employers through December 31, 2002, with $72 million of the estimated premium reduction reflected in premium reduction and refund expenses in fiscal year 2003.

Workers' compensation benefits and claims expenses were $3.36 billion in fiscal year 2003 as compared to $2.93 billion in fiscal year 2002. The increase in workers' compensation benefits is due in part to increased utilization of medical services and medical cost inflation. A continuing decline in the number of newly awarded permanent total disability claims has helped to reduce the impact of the increased medical costs.

The Bureau of Workers' Compensation Fund experienced net investment income of $575.4 million, compared to a loss on investment income of $430.1 million reported in the previous fiscal year. The increase in investment income was primarily attributable to an increase of $43 million in the fair value of the investment portfolio in fiscal year 2003, compared to a $1.1 billion decline in fair value during fiscal year 2002.

The Unemployment Compensation Enterprise Fund reported a net loss of $625.7 million during fiscal year 2003. Unemployment benefits and claims expenses of $1.78 billion exceeded total operating and nonoperating revenues by approximately $560.9 million. Investment income for the fund during fiscal year 2003 was $93.0 million, down $32.1 million or 25.6 percent from fiscal year 2002. The fund's net loss resulted despite the deposit of an additional $326.9 million in federal funds received during fiscal year 2003 for the payment of extended unemployment benefits to laid-off workers in Ohio for an additional 13 weeks.

For the Tuition Trust Authority Fund, the $318.9 million deficit, as of June 30, 2003, resulted when the fund reported a net loss of $248.7 million for fiscal year 2003. By June 30, 2003, tuition benefits payable had dramatically increased because of the estimated increase in future tuition growth. Although the Authority had an increase in investment income of $45.9 million compared to fiscal year 2002, the decrease in sale of tuition units and an increase in tuition benefit expense greatly contributed to the net loss. In fiscal year 2003, the Authority had sales of $110.7 million, a decrease of $55.6 million, or 33.4 percent, compared to fiscal year 2002. Tuition benefit expense was $381.2 million, an increase of $102.5 million, or 36.8 percent, over tuition benefit expense for fiscal year 2002.

The Lottery Commission Fund reported approximately $708.2 million in income before transfers of $641.4 million and $189 thousand to the Education and General funds, respectively, posting a $66.6 million gain in the fund's net assets during fiscal year 2003. The Liquor Control Fund reported a net gain of $109 thousand after transferring $115.0 million to the General Fund and $23.5 million to other governmental funds. In fiscal year 2003, transfers from the proprietary funds to the governmental funds totaled $826.5 million, up $19.1 million or 2.4 percent when compared to the $807.4 million in transfers-out reported for fiscal year 2002.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2003 and June 30, 2002, the State had invested $22.58 billion and $21.86 billion, net of accumulated depreciation of $1.86 billion and $1.71 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, 2003
With Comparatives as of June 30, 2002
(dollars in thousands)

	As of June 30, 2003			As of June 30, 2002		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Land	$ 1,530,958	$ 12,631	$1,543,589	$ 1,479,858	$ 12,631	$1,492,489
Buildings	1,895,700	141,111	2,036,811	1,886,367	136,066	2,022,433
Land Improvements	110,112	18	110,130	87,207	19	87,226
Machinery and Equipment	141,753	54,799	196,552	102,831	78,341	181,172
Vehicles	125,334	2,393	127,727	121,077	2,454	123,531
Infrastructure:						
Highway Network:						
General Subsystem	8,059,076	—	8,059,076	8,049,949	—	8,049,949
Priority Subsystem	6,570,628	—	6,570,628	6,351,727	—	6,351,727
Bridge Network	2,255,567	—	2,255,567	2,223,044	—	2,223,044
Parks, Recreation, and Natural Resources System	17,836	—	17,836	14,662	—	14,662
	20,706,964	210,952	20,917,916	20,316,722	229,511	20,546,233
Construction-in-Progress	1,661,545	956	1,662,501	1,302,502	8,827	1,311,329
Total Capital Assets, Net	$22,368,509	$211,908	$22,580,417	$21,619,224	$238,338	$21,857,562

During fiscal year 2003, the State recognized $156.2 million in annual depreciation expense relative to its other general governmental capital assets as compared with $152.8 million in depreciation expense recognized in fiscal year 2002.

Additionally, the State completed construction on a variety of projects at various state facilities during fiscal year 2003 totaling approximately $435 million, as compared with $473.5 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 3.3 percent (a 3.5 percent increase for governmental activities and a 11.1 percent decrease for business-type activities). As further detailed in NOTE 19D. of the notes to the financial statements, the State had $205.6 million in major construction commitments (unrelated to infrastructure), as of June 30, 2003, as compared with the $227.9 million balance reported for June 30, 2002.

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 42,527 in lane miles of highway (12,210 in lane miles for the priority highway subsystem and 30,317 in lane miles for the general highway subsystem) and approximately 80.6 million square feet of deck area that comprises more than 12,000 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 2002, indicates that only 3.1 percent and 1.8 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating. For calendar year 2001, only 4.2 percent and 3.0 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 2002, indicates that only 3.0 percent and .01 percent of the number of square feet of bridge deck area were considered to be in "fair" and "poor" conditions, respectively. For calendar year 2001, only 3.3 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 2002, total actual maintenance and preservation costs for the priority and general subsystems were $273.8 million and $209.5 million, respectively, compared to estimated costs of $243.7 million for the priority system and $135.1 million for the general system while total actual maintenance and preservation costs for the bridge network was $229.1 million compared to estimated costs of $180.4 million. For the previous calendar year, total actual maintenance and preservation costs for the priority and general subsystems were $319.5 million and $152 million, respectively, compared to estimated costs of $251.2 million for the priority system and $111 million for the general system while total actual maintenance and preservation costs for the bridge network was $210.1 million compared to estimated costs of $192.1 million.

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 the report.

Debt — Bonds and Notes Payable and Certificates of Participation Obligations
As of June 30, 2003 and June 30, 2002, the State had total debt of $9.32 billion and $8.66 billion, respectively, as shown in the table below.

Bonds and Notes Payable and Certificates of Participation
As of June 30, 2003
With Comparatives as of June 30, 2002
(dollars in thousands)

	As of June 30, 2003			As of June 30, 2002		
	Govern-mental Activities	Business-Type Activities	Total	Govern-mental Activities	Business-Type Activities	Total
Bonds and Notes Payable:						
General Obligation Bonds	$4,603,842	$ —	$4,603,842	$3,771,129	$ —	$3,771,129
Revenue Bonds and Notes	450,598	167,310	617,908	297,638	190,723	488,361
Special Obligation Bonds	4,093,614	—	4,093,614	4,389,102	—	4,389,102
Certificates of Participation	7,370	—	7,370	9,900	—	9,900
Total Debt	$9,155,424	$167,310	$9,322,734	$8,467,769	$190,723	$8,658,492

The State's general obligation bonds are backed by its full faith and credit. Revenue bonds issued by the State, including the Ohio Building Authority (OBA), a blended component unit of 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 and the OBA 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 2003, the State issued $1.61 billion in general obligation bonds, $327.5 million in revenue bonds, and $602.3 million in special obligation bonds, of which $1.13 billion (net of $33.6 million in deep discounts at issuance) were refunding bonds. The total increase in the State's debt obligations for the current fiscal year was 7.7 percent (an 8.1 percent increase for governmental activities and a 12.3 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 AA+, except for Highway Capital Improvement Obligations, which are rated AAA.

State obligations (issued by the Ohio Building Authority and the Treasurer of State) secured by General Revenue Fund appropriations are rated Aa2 by Moody's and AA by S&P and Fitch.

On December 19, 2001, Moodys' changed their "credit outlook" on the State from "stable" to "negative," while on July 9, 2003, S&P changed their "credit outlook" on the State from "negative" to "stable." The change in credit outlook is not a precursor to a rating change, but is an indication over the intermediate to longer term of a potential change.

Limitations on Debt
A 1999 amendment to the Ohio Constitution provides an annual debt service "cap" on general obligation bonds and other direct obligations payable from the General Revenue Fund (GRF) or net state lottery proceeds. Generally, such bonds may not be issued if the future fiscal year debt service on the new bonds and previously issued bonds exceeds five percent of total estimated GRF revenues plus net state lottery proceeds during the fiscal year of issuance. Application of the cap may be waived in a particular instance by a three-fifths vote of each house of the General Assembly and may be changed by future constitutional amendments. Direct obligations of the State include, for example, special obligation bonds issued by the OBA and the Treasurer of State that are paid from GRF appropriations, but exclude bonds such as highway bonds that are paid from highway user receipts.

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

For the past three years, Ohio's economy has been in a recession that has been characterized by layoffs and falling corporate profits. However, the forecast for the State of Ohio's economy is for a moderate economic recovery similar to what is projected for the nation. Through the end of November 2003, actual tax revenues for fiscal year 2004 have been consistent with the Office of Budget and Management's projections for fiscal year 2004.

The Ohio Constitution prohibits the State from borrowing money to fund operating expenditures in the General Revenue Fund (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 GRF appropriations bill for the fiscal year 2004-05 biennium (beginning July 1, 2003) was passed by the General Assembly on June 19, 2003 and promptly signed (with selective vetoes) by the Governor June 26. Necessary GRF debt service and lease-rental appropriations (for special obligation debt) for the entire biennium were requested in the Governor's proposed budget, incorporated in the related appropriations bill as introduced and in the bill's versions as passed by the House and the Senate, and in the Act as passed and signed. (The same is true for the separate Department of Transportation (DOT) and Bureau of Workers' Compensation (BWC) appropriations acts containing lease-rental appropriations for certain Ohio Building Authority-financed projects at DOT, BWC, and the Department of Public Safety.)

The Act provides for total GRF biennial expenditures of approximately $48.8 billion. Those authorized GRF expenditures for fiscal year 2004 are approximately 5.8 percent higher than the actual fiscal year 2003 expenditures (taking into account fiscal year 2003 expenditure reductions), and for fiscal year 2005 are approximately 3.5 percent higher than for fiscal year 2004. The following are examples of increases in authorized GRF biennial expenditures compared with actual fiscal year 2002-03 expenditures in major program categories: primary and secondary education 5.1 percent; higher education 4.4 percent; mental health and mental retardation 4.1 percent; Medicaid 19.9 percent; and adult and juvenile corrections 5.7 percent.

The above expenditure levels reflect among other expenditure controls in the Act: Medicaid cost containment measures including pharmacy cost management initiatives, limited expenditure growth for institutional services and implementation of managed care for higher-cost populations; continued phase-out of certain tangible personal property tax relief payments to local governments; the closing by consolidation of three institutional facilities during the biennium; adjustments in eligibility guidelines for subsidized child care from 185 percent to 150 percent of the federal poverty level, and freezing certain reimbursement rates; no compensation increases for most state employees in fiscal year 2004 and limited one-time increases in fiscal year 2005; and continued limitation on local government assistance fund distributions to most subdivisions and local libraries to the lesser of the equivalent monthly payments in fiscal years 2000 and 2001 or the amount that would have been distributed under the standard formula.

The GRF expenditure authorizations for the biennium also reflect and are supported by revenue enhancement actions contained in the Act including:

- A one-cent increase in the State sales tax (to six percent) for the biennium (expiring June 30, 2005), projected to generate approximately $1.25 billion in each fiscal year to which it applies.
- Expansion of the sales tax base to include dry-cleaning/laundry services, towing, personal care, and other services, and satellite television, projected in the aggregate to produce approximately $69 million annually. (The inclusion of satellite television in the sales tax base, projected to produce approximately $21 million annually, is subject to a legal challenge.)
- Movement of local telephone companies from the public utility tax base to the corporate franchise and sales tax, projected to produce approximately $29 million annually.
- Elimination of the sales tax exemption for WATS and 800 telecom services coupled with the enactment of a more limited exemption for call centers, projected to produce approximately $64 million annually.
- Adjustments in the corporate franchise tax through the adoption of the Uniform Division of Income for Tax Purposes Act for apportionment of business income among states, and an increase in the corporate alternative minimum tax, projected in the aggregate to produce approximately $35 million annually.

The Act also reflects the draw down during the biennium of an additional approximately $582 million of federal block grant and Medicaid assistance aid made available to the State under the federal Jobs and Growth Tax Relief Reconciliation Act of 2003.

Contacting the Ohio Office of Budget and Management

This financial report is designed to provide the State's citizens, taxpayers, customers, and 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.