Ohio Office of Budget and Management

State of Ohio

Bob Taft

Governor

OHIO

COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2005

State of Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(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, 2005. 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 $19.83 billion, as of June 30, 2005, increased $761.3 million since the previous year. Net assets of the State's component units reported in the amount of $11.47 billion, as of June 30, 2005, increased $624.3 million since the end of last fiscal year.

Fund Financial Statements
Governmental funds reported combined ending fund balances of $5.23 billion that was comprised of $298.2 million reserved for specific purposes, such as for debt service, state and local highway construction, and federal programs; $6.52 billion reserved for nonappropriable items, such as encumbrances, noncurrent loans receivable, noncurrent interfund receivables, loan commitments, and inventories; $718.4 million in designations for budget stabilization and other purposes; and a $2.31 billion deficit.

As of June 30, 2005, the General Fund's fund balance was approximately $1.35 billion, including $43.4 million reserved for "other" specific purposes, as detailed in NOTE 17; $584 million reserved for nonappropriable items; and $718.4 million in designations for budget stabilization and other purposes. The General Fund's fund balance increased by $580.3 million (exclusive of a $1.1 million decrease in inventories) or 75.6 percent during fiscal year 2005. Due to greater-than-expected personal income tax revenue for fiscal year 2005 and executive-ordered and other spending reductions, the General Fund ended the year with an overall positive fund balance. Various transfers-in from other funds provided additional resources to cover anticipated spending in the General Fund during fiscal year 2005.

Proprietary funds reported net assets of $1.36 billion, as of June 30, 2005, a decrease of $209.5 million since June 30, 2004. Most of the net decline was due to the $145.1 million and $139.1 million net losses reported for the Unemployment Compensation and Workers' Compensation enterprise funds, respectively, which offset increases in net assets of $47.2 million and $28.6 million in the Tuition Trust Authority and Lottery Commission enterprise funds, respectively. The loss for the Unemployment Compensation Enterprise Fund is attributable to benefits and claims expenses of $1.19 billion that exceeded total operating and nonoperating revenues by approximately $105.2 million, and by transfers to the Job and Family Services agency of $35.8 million. For the Workers' Compensation Enterprise Fund, the decline is mainly due to a decline in investment income of $261.5 million and an increase in claims payments of $398.1 million, which more than offset a decrease in premium dividend reductions and refunds of $182.7 million for fiscal year 2005. The Tuition Trust Authority's increase in net assets resulted from an $89.4 million reduction in tuition benefit expenses in fiscal year 2005 as compared to fiscal year 2004, which more than offset decreases in investment income and tuition unit sales of $38.9 million and $32.1 million, respectively. The Lottery Commission Enterprise Fund's increase in net assets resulted from increases in investment income of $102.8 million in fiscal year 2005.

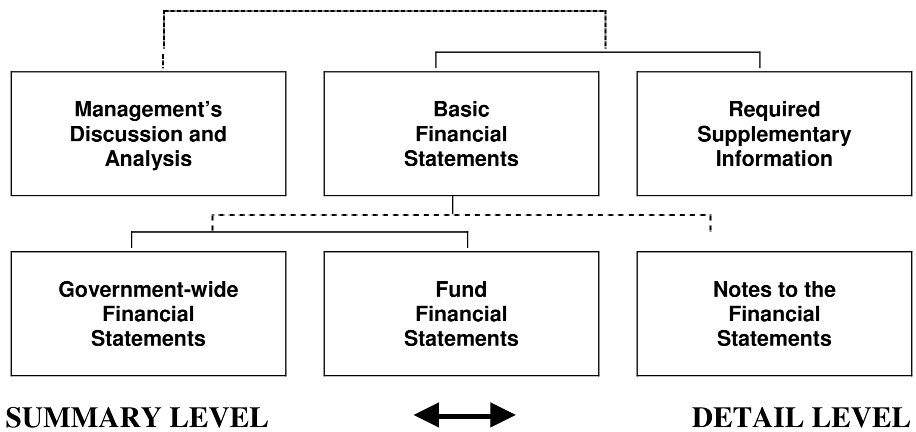
Long-Term Debt — Bonds and Notes Payable and Certificates of Participation Obligations
Overall, the carrying amount of total long-term debt for the State's primary government increased $466.3 million or 4.6 percent during fiscal year 2005 to end the fiscal year with a reported balance of $10.57 billion in long-term debt. During the year, the State issued at par $1.09 billion in general obligation bonds, of which $105.8 million were refunding bonds, $50 million in revenue bonds, and $834.1 million in special obligation bonds, of which $601 million were refunding bonds. Changes in the primary government's long-term debt for fiscal year 2005 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, nonmajor proprietary funds, fiduciary funds, and nonmajor discretely presented component unit funds. The basic financial statements are comprised of the government-wide financial statements and fund financial statements.

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

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



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

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

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

The basic financial statements section includes notes that more fully explain the information in the government-wide and fund financial statements; the notes provide more detailed data that are essential to a full understanding of the data presented in the financial statements. The notes to the financial statements can be found on pages 68 through 139 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 140 through 143 of this report.

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

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

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

Government-wide Financial Statements

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

The two government-wide financial statements report the State's net assets and how they have changed. Net assets — the difference between the State's assets 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 36 through 39 of this report, are divided into three categories as follows.

Governmental Activities — Most of the State's basic services are reported under this category, such as primary, secondary and other education, higher education support, public assistance and Medicaid, health and human services, justice and public protection, environmental protection and natural resources, transportation, general government, and community and economic development. Taxes, federal grants, charges for services, including license, permit, and other fee income, fines, and forfeitures, and 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, Cultural Facilities Commission, SchoolNet Commission, Ohio Water Development Authority, Ohio Air Quality 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 15 special revenue funds, 23 debt service funds, and 11 capital projects funds. Under separate columns, information is presented in the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund 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 45 governmental funds, which are classified as nonmajor funds, are combined into a single, aggregated presentation under a single column on the basic governmental fund financial statements. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

The basic governmental fund financial statements can be found on pages 40 through 51 of this report while the combining fund statements and schedules can be found on pages 146 through 205.

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

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

The enterprise funds are the same as the State's business-type activities reported in the government-wide financial statements, but the proprietary fund financial statements provide more detail and additional information, such as information on cash flows. The basic proprietary fund financial statements can be found on pages 52 through 59 of this report while the combining fund statements can be found on pages 208 through 215.

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 60 through 63 of this report.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets. During fiscal year 2005, as shown in the table below, the combined net assets of the State's primary government increased $761.3 million or 4.0 percent. Net assets reported for governmental activities increased $970.9 million or 5.6 percent and business-type activities decreased $209.5 million or 13.4 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, 2005
With Comparatives as of June 30, 2004
(dollars in thousands)

	As of June 30, 2005			As of June 30, 2004 (as restated)		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Assets:						
Current and Other Noncurrent Assets	$14,890,239	$24,230,062	$39,120,301	$12,326,064	$23,832,701	$36,158,765
Capital Assets	23,471,857	155,175	23,627,032	23,020,145	183,801	23,203,946
Total Assets	38,362,096	24,385,237	62,747,333	35,346,209	24,016,502	59,362,711
Liabilities:						
Current and Other Liabilities	8,859,254	3,510,741	12,369,995	7,348,367	3,452,725	10,801,092
Noncurrent Liabilities	11,033,381	19,514,347	30,547,728	10,499,232	18,994,111	29,493,343
Total Liabilities	19,892,635	23,025,088	42,917,723	17,847,599	22,446,836	40,294,435
Net Assets:						
Invested in Capital Assets, Net of Related Debt	20,454,447	(1,839)	20,452,608	19,941,259	5,873	19,947,132
Restricted	1,908,583	1,528,376	3,436,959	1,888,728	1,787,404	3,676,132
Unrestricted (Deficits)	(3,893,569)	(166,388)	(4,059,957)	(4,331,377)	(223,611)	(4,554,988)
Total Net Assets	$18,469,461	$ 1,360,149	$19,829,610	$17,498,610	$ 1,569,666	$19,068,276

As of June 30, 2005, 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 $20.45 billion. Restricted net assets were approximately $3.44 billion, resulting in a $4.06 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 $3.89 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 $9.74 billion of outstanding general obligation and special obligation debt at June 30, 2005, $6.39 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, 2005, the State's governmental activities have significant unfunded liabilities for compensated absences in the amount of $397.6 million (see NOTE 14A.) and a $783.2 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 2005 and 2004, follows.

Primary Government
Statement of Activities
For the Fiscal Year Ended June 30, 2005
With Comparatives for the Fiscal Year Ended June 30, 2004
(dollars in thousands)

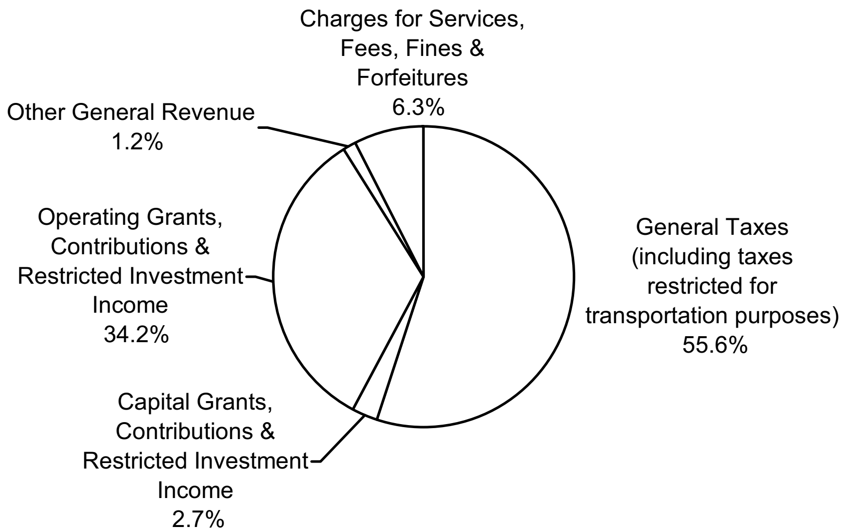
	Fiscal Year 2005			Fiscal Year 2004 (as restated)		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Program Revenues:						
Charges for Services, Fees, Fines and Forfeitures	$ 2,555,031	$4,986,916	$ 7,541,947	$ 2,529,150	$4,997,160	$ 7,526,310
Operating Grants, Contributions and Restricted Investment Income/(Loss)	13,774,602	2,107,953	15,882,555	12,979,579	2,455,783	15,435,362
Capital Grants, Contributions and Restricted Investment Income/(Loss)	1,088,146	—	1,088,146	890,444	332	890,776
Total Program Revenues	17,417,779	7,094,869	24,512,648	16,399,173	7,453,275	23,852,448
General Revenues:						
General Taxes	20,653,898	—	20,653,898	19,396,617	—	19,396,617
Taxes Restricted for Transportation	1,753,390	—	1,753,390	1,631,631	—	1,631,631
Tobacco Settlement	321,335	—	321,335	316,799	—	316,799
Escheat Property	91,867	—	91,867	74,268	—	74,268
Unrestricted Investment Income	46,797	70,609	117,406	18,159	622	18,781
Federal	—	—	—	193,033	12	193,045
Other	287	5,837	6,124	1,940	—	1,940
Total General Revenues	22,867,574	76,446	22,944,020	21,632,447	634	21,633,081
Total Revenues	40,285,353	7,171,315	47,456,668	38,031,620	7,453,909	45,485,529
Expenses:						
Primary, Secondary and Other Education	10,500,951	—	10,500,951	10,234,524	—	10,234,524
Higher Education Support	2,477,856	—	2,477,856	2,494,828	—	2,494,828
Public Assistance and Medicaid	14,245,026	—	14,245,026	13,557,787	—	13,557,787
Health and Human Services	3,336,010	—	3,336,010	2,950,880	—	2,950,880
Justice and Public Protection	2,973,118	—	2,973,118	2,809,295	—	2,809,295
Environmental Protection and Natural Resources	397,924	—	397,924	397,884	—	397,884
Transportation	1,900,507	—	1,900,507	1,433,439	—	1,433,439
General Government	670,317	—	670,317	607,376	—	607,376
Community and Economic Development	3,444,746	—	3,444,746	3,493,357	—	3,493,357
Interest on Long-Term Debt (excludes interest charged as program expense)	175,700	—	175,700	189,583	—	189,583
Workers' Compensation	—	3,263,118	3,263,118	—	3,072,477	3,072,477
Lottery Commission	—	1,581,100	1,581,100	—	1,575,279	1,575,279
Unemployment Compensation	—	1,194,040	1,194,040	—	1,639,014	1,639,014
Ohio Building Authority	—	27,327	27,327	—	27,524	27,524
Tuition Trust Authority	—	30,214	30,214	—	118,834	118,834
Liquor Control	—	401,187	401,187	—	374,507	374,507
Underground Parking Garage	—	2,692	2,692	—	2,199	2,199
Office of Auditor of State	—	73,501	73,501	—	75,758	75,758
Total Expenses	40,122,155	6,573,179	46,695,334	38,168,953	6,885,592	45,054,545
Surplus/(Deficiency) Before Transfers	163,198	598,136	761,334	(137,333)	568,317	430,984
Transfers-Internal Activities	807,653	(807,653)	—	781,149	(781,149)	—
Change in Net Assets	970,851	(209,517)	761,334	643,816	(212,832)	430,984
Net Assets, July 1 (as restated)	17,498,610	1,569,666	19,068,276	16,854,794	1,782,498	18,637,292
Net Assets, June 30	$18,469,461	$1,360,149	$19,829,610	$17,498,610	$1,569,666	$19,068,276

Governmental Activities

For fiscal year 2005, revenues slightly outpaced expenses, and when combined with transfers from the State's business-type activities, an increase of $970.9 million in net assets resulted for governmental activities. Revenues for fiscal year 2005 in the amount of $40.29 billion were 5.9 percent higher than those reported for fiscal year 2004. This increase in revenues can, in part, be attributed to strong personal income tax and corporation franchise tax collections. Expenses followed the trend as the reported $40.12 billion in spending represented a 5.1 percent increase over fiscal year 2004. Net transfers for fiscal year 2005 also increased to $807.7 million, or by 3.4 percent, when compared to fiscal year 2004.

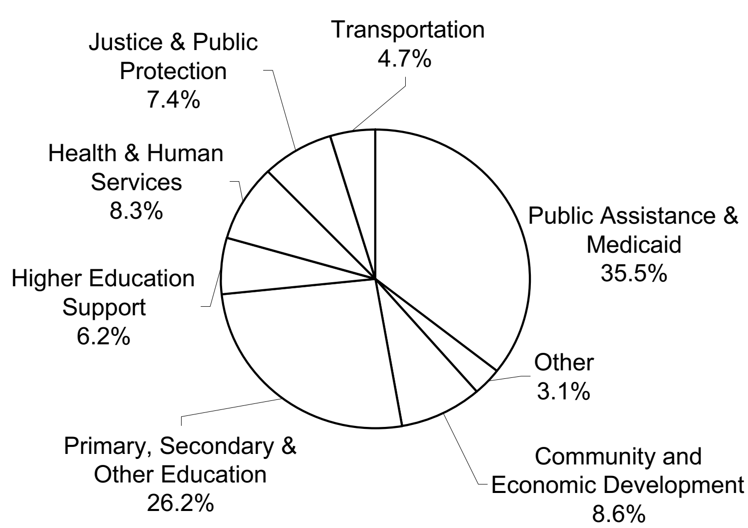
The following charts illustrate revenue by sources and expenses by program of governmental activities as percentages of total revenues and program expenses, respectively, reported for the fiscal year ended June 30, 2005.

Governmental Activities — Sources of Revenue
Fiscal Year 2005



Total FY 05 Revenue for Governmental Activities = $40.29 Billion

Governmental Activities — Expenses by Program
Fiscal Year 2005



Total FY 05 Program Expenses for Governmental Activities = $40.12 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, 2005 and 2004. 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, 2005
With Comparatives for the Fiscal Year Ended June 30, 2004
(dollars in thousands)

	For the Fiscal Year Ended June 30, 2005			
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	$10,500,951	$ 8,868,083	84.5%	22.1%
Higher Education Support	2,477,856	2,460,966	99.3	6.1
Public Assistance and Medicaid	14,245,026	4,369,852	30.7	10.9
Health and Human Services	3,336,010	1,223,053	36.7	3.1
Justice and Public Protection	2,973,118	1,812,244	61.0	4.5
Environmental Protection and Natural Resources	397,924	138,967	34.9	.4
Transportation	1,900,507	739,342	38.9	1.8
General Government	670,317	147,505	22.0	.4
Community and Economic Development	3,444,746	2,768,664	80.4	6.9
Interest on Long-Term Debt	175,700	175,700	100.0	.4
Total Governmental Activities	$40,122,155	$22,704,376	56.6	56.6%

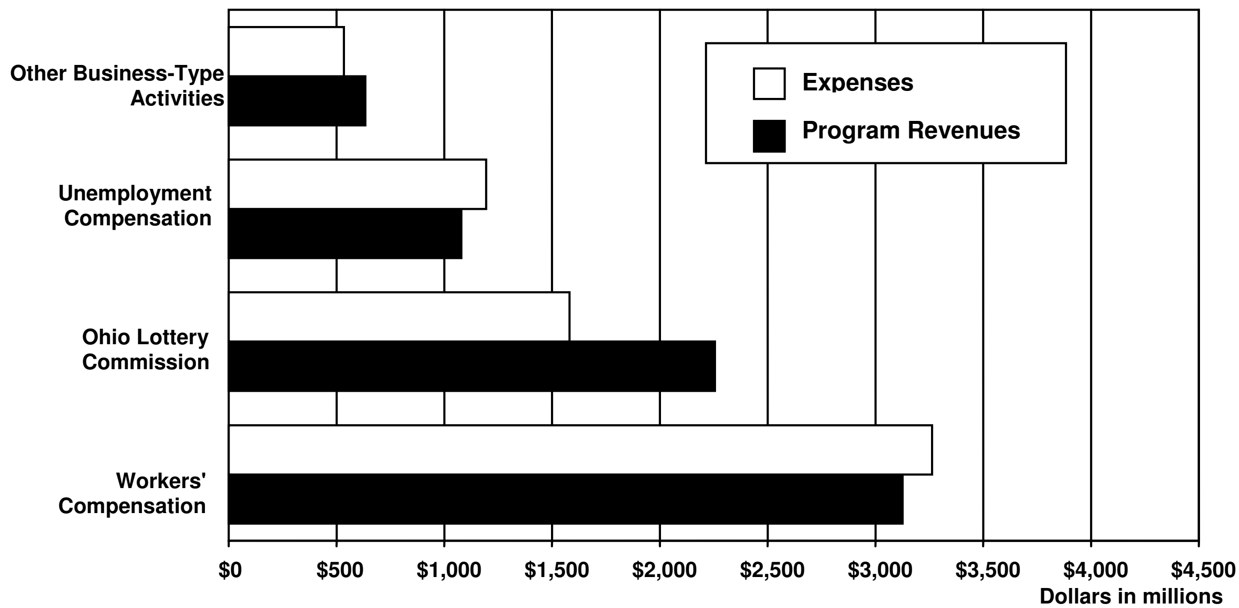
	For the Fiscal Year Ended June 30, 2004 (as restated)			
Program	**Program Expenses**	**Net Cost of Program**	**Net Cost as Percentage of Total Expenses for Program**	**Net Cost as Percentage of Total Expenses — All Programs**
Primary, Secondary and Other Education	$10,234,524	$ 8,782,431	85.8%	23.0%
Higher Education Support	2,494,828	2,475,095	99.2	6.5
Public Assistance and Medicaid	13,557,787	3,887,353	28.7	10.2
Health and Human Services	2,950,880	968,730	32.8	2.5
Justice and Public Protection	2,809,295	1,771,570	63.1	4.6
Environmental Protection and Natural Resources	397,884	144,959	36.4	0.4
Transportation	1,433,439	478,953	33.4	1.3
General Government	607,376	191,605	31.5	0.5
Community and Economic Development	3,493,357	2,879,501	82.4	7.5
Interest on Long-Term Debt	189,583	189,583	100.0	0.5
Total Governmental Activities	$38,168,953	$21,769,780	57.0	57.0%

Business-Type Activities

The State's enterprise funds reported net assets of $1.36 billion, as of June 30, 2005, as compared to $1.57 billion in net assets, as of June 30, 2004. Contributing to the overall decline in business-type activities was the Unemployment Compensation Fund, which reported net assets of $663.9 million, as of June 30, 2005, as compared to $809 million, a 17.9 percent decrease since June 30, 2004. The Workers' Compensation Fund posted a $139.1 million or 16.2 percent reduction in net assets during fiscal year 2005 when the fund reported net assets of

$721.7 million, as of June 30, 2005. The Tuition Trust Authority Fund, however, reported net assets of $(242.1) million, as of June 30, 2005, as compared to $(289.4) million in net assets, as of June 30, 2004, a 16.3 percent increase, while the Lottery Commission Fund reported $152.1 million in net assets as of June 30, 2005 compared to $123.5 million in net assets as of June 30, 2004, a 23.1 percent increase. The chart below compares program expenses and program revenues for business-type activities.

Business-Type Activities — Expenses and Program Revenues
Fiscal Year 2005



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, 2005 and June 30, 2004 (dollars in thousands).

	As of and for the Fiscal Year Ended June 30, 2005			
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unreserved/Undesignated Fund Balance (Deficit)	$ —	$ (3,169,537)	$ 859,841	$ (2,309,696)
Designated Fund Balance	718,377	—	—	718,377
Total Fund Balance	1,345,772	659,052	3,225,776	5,230,600
Total Revenues	25,452,628	10,986,081	3,802,370	40,241,079
Total Expenditures	24,442,117	11,126,257	5,891,171	41,459,545

	As of and for the Fiscal Year Ended June 30, 2004 (as restated)			
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unreserved/Undesignated Fund Balance (Deficit)	$ —	$ (2,235,976)	$ 443,440	$ (1,792,536)
Designated Fund Balance	105,333	—	—	105,333
Total Fund Balance	766,571	639,037	2,808,572	4,214,180
Total Revenues	24,218,668	10,300,523	3,354,568	37,873,759
Total Expenditures	23,696,836	10,488,917	5,408,157	39,593,910

General Fund
Fund balance for the General Fund, the main operating fund of the State, increased by $580.3 million (exclusive of a $1.1 million decrease in inventories) or 75.6 percent during the current fiscal year. Key factors for most of the increase were strong personal income tax and corporate franchise tax revenue resulting from an expansion in the economy. These increases in revenues outpaced mandated spending increases in the Public Assistance and Medicaid function and in the Primary, Secondary and Other Education function.

General Fund Budgetary Highlights
The State ended the second year of its biennial budget period on June 30, 2005 with a General Fund budgetary fund balance (i.e., cash less encumbrances) of $1.23 billion. Total budgetary sources for the General Fund (including $751.3 million in transfers from other funds) in the amount of $27.3 billion were above final estimates by $538.1 million or 2.0 percent during fiscal year 2005, while total tax receipts were above final estimates by $625.4 million or 3.4 percent. During fiscal year 2005, it was not necessary to use any of the $180.7 million that had been designated for budget stabilization purposes at June 30, 2004.

Total budgetary uses for the General Fund (including $583.9 million in transfers to other funds) in the amount of $27.5 billion were below final estimates by $367.8 million or 1.3 percent for fiscal year 2005.

The appropriations act (Act) for the 2004-05 biennium for the General Revenue Fund (GRF), the largest, non-GAAP, budgetary-basis operating fund included in the State's General Fund, was passed by the General Assembly and signed (with selective vetoes) by the Governor in June 2003. The Act provided for total GRF biennial revenue of approximately $48.95 billion and total GRF biennial expenditures of approximately $48.79 billion.

Among other expenditure controls, the Act included 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 year 2003 or the amount that would have been distributed under the standard formula.

The GRF expenditure authorizations for the 2004-05 biennium reflected and were 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).
- Expansion of the sales tax base to include dry-cleaning/laundry services, towing, personal care and other services, and satellite television. (The inclusion of satellite television in the sales tax base is subject to an ongoing legal challenge.)
- Moving local telephone companies from the public utility tax base to the corporate franchise and sales tax.
- Elimination of the sales tax exemption for WATS and 800 telecom services coupled with the enactment of a more limited exemption for call centers.
- Adjustments in the corporate franchise tax through the adoption of the Uniform Division of Income for Tax Purposes Act (UDITPA) for apportionment of business income among states, and an increase in the corporate alternative minimum tax.

The Act also authorized a transfer of $234.7 million of proceeds received from the national tobacco settlement into the GRF on June 30, 2004. In addition, the Act authorized the draw down during the biennium of federal block grant and Medicaid assistance aid made available to the State under a federal law effective May 28, 2003. OBM drew down $211.6 million and $316.8 million of those federal monies in fiscal years 2004 and 2005, respectively.

Based on regular monitoring of revenues and expenditures, OBM in March 2004 announced revised GRF revenue projections for fiscal years 2004 and 2005 based primarily on reduced revenue collections from personal income taxes. In response to OBM reducing its GRF revenue projection by $247.1 million, or one percent, for fiscal year 2004 and by $372.7 million, or 1.5 percent for fiscal year 2005, the Governor ordered fiscal year 2004 expenditure reductions of approximately $100 million. The State ended fiscal year 2004 with a GRF fund balance of approximately $157.5 million. On July 1, 2004, the Governor ordered additional fiscal year 2005 expenditure cuts of approximately $118 million and a reduction of $50 million in state spending on Medicaid reflecting an increased federal share of certain Medicaid services. Expressly excluded from those reductions were debt service and lease rental payments relating to state obligations, state basic aid to elementary and secondary education, instructional subsidies and scholarships for public higher education, in-home care for seniors, and certain job creation programs. The balance of reductions in revenue projections were offset by GRF expenditure lapses and, for fiscal year 2005, elimination of an additional $100 million year-end set-aside for budget stabilization purposes, while maintaining a one-half percent year-end GRF fund balance.

Improving economic conditions had a positive effect on revenue in fiscal year 2005. Actual GRF budgetary sources, including transfers from other funds, were above estimates for fiscal year 2005 by $538.1 million. With fiscal year 2005 spending close to original estimates, the State made the following fiscal year-end designations that resulted in cash transfers-out from the GRF in early fiscal year 2006: $60 million to address a prior-year liability in the Temporary Assistance for Needy Families Program; $40 million to a disaster services contingency fund; $50 million to the State's share of the school facilities construction program; and $394.2 million for budget stabilization.

Other Major Governmental Funds

Fund balance for the *Job, Family and Other Human Services Fund*, as of June 30, 2005, was a deficit in the amount of $114.5 million, a decrease in the deficit of $13.8 million since June 30, 2004. Expenditures exceeded revenues by $18.2 million, and all of the deficiency of revenues under expenditures was offset by net transfers-in received from other funds in the amount of $32 million.

Fund balance for the *Education Fund*, as of June 30, 2005, totaled $66.8 million, an increase of $18.5 million since June 30, 2004. Fiscal year 2005 net transfers-in for the fund in the amount of $624.8 million was more than enough to cover the excess of expenditures over revenues reported for the fund in the amount of $606.3 million.

Fund balance for the *Highway Operating Fund*, as of June 30, 2005, totaled $592.2 million, a decrease of $8.1 million (including a $231 thousand increase in inventories) since June 30, 2004. The decline was in spite of an increase in the fund's revenues to $1.81 billion in fiscal year 2005 from $1.52 billion in fiscal year 2004. The revenue increase for this fund was due in part to a two-cent increase in the motor vehicle fuel tax rate from 24 cents a gallon to 26 cents a gallon, effective July 1, 2004. Expenditures in the amount of $2.05 billion increased significantly during fiscal year 2005 when compared to the $1.78 billion in expenditures reported for fiscal year 2004. There was a slight increase in transfers-out for fiscal year 2005 of $7.3 million when compared to fiscal year 2004 results.

Fund balance for the *Revenue Distribution Fund*, as of June 30, 2005, totaled $114.6 million, a decrease of $4.2 million since June 30, 2004. Fiscal year 2005 net transfers-out to other governmental funds of $731.3 million were greater than the $727.1 million excess of revenues over expenditures, thus contributing to the decrease in fund balance.

Major Proprietary Funds

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

For the *Workers' Compensation Fund*, the $139.1 million decrease in net assets was primarily due to a decrease in investment income of approximately $261.5 million, and an increase in operating expenses of $190.6 million, to $3.26 billion in fiscal year 2005 from $3.07 billion in fiscal year 2004. The Bureau of Workers' Compensation experienced net investment income of $988.4 million, compared to net investment income of $1.25 billion reported in the previous fiscal year. The decrease in net investment income was primarily attributable to an increase of $488 million in the fair value of the investment portfolio in fiscal year 2005 compared to the $791 million increase in fair value during fiscal year 2004.

Workers' compensation benefits and claims expenses exceeded premium and assessment income by $820.8 million in fiscal year 2005 as compared with $422.4 million in fiscal year 2004.

Net assets were reduced by premium dividend reductions and refunds expenses of $232.8 million during fiscal year 2005 as compared to a $415.5 million reduction in fiscal year 2004. The Workers' Compensation Oversight Commission approved a one-time, 20-percent premium reduction for Ohio private employers for the policy period, July 1, 2004 through December 31, 2004.

Workers' compensation benefits and claims expense were $2.95 billion in fiscal year 2005 as compared to $2.55 billion in fiscal year 2004. The increase in workers' compensation benefits is due largely to a decrease in the discount rate from 5.5 percent at June 30, 2004 to 5.25 percent at June 30, 2005. This .25 percent decrease in the discount rate resulted in reserves for compensation and compensation adjustment expenses increasing by $402 million. Medical costs in fiscal year 2005 were lower than expected by approximately $32.6 million.

For fiscal year 2005, the *Lottery Commission Fund* reported $674.3 million in income before transfers of $645.1 million and $536 thousand to the Education and General funds, respectively, posting a $28.6 million increase in the fund's net assets. For fiscal year 2004, the Lottery Commission Fund reported approximately $578.9 million in income before transfers of $655.6 million and $623 thousand to the Education and General funds, respectively, posting a $77.3 million reduction in the fund's net assets. The increase in the Lottery Commission fund's net assets is primarily due to investment income of $90.5 million in fiscal year 2005, as opposed to a $12.3 million investment loss in fiscal year 2004.

Unemployment benefits and claims expenses of $1.19 billion exceeded total operating and nonoperating revenues by approximately $105.2 million for the *Unemployment Compensation Fund* which contributed to the decline in the fund's net assets of $145.1 million for fiscal year 2005. As a result of the decline in the asset balance on deposit with the federal government relative to employer contributions during fiscal year 2005, investment income for the fund was $34.1 million, down $19.2 million or 36 percent from fiscal year 2004. As of June 30, 2005, the deposit with federal government was reported at $612.7 million, as compared with $711 million, as of June 30, 2004, a 13.8 percent decline. Premium and assessment income reported for fiscal year 2005 in the amount of $994.6 million increased by $146.9 million, while federal government revenue in the amount of $21.3 million decreased by $203.1 million when compared to fiscal year 2004. For calendar years 2004 and 2005, Ohio's annualized average unemployment rate was 6.1 percent, according to the U.S. Department of Labor.

Nonmajor Proprietary Funds

For fiscal year 2005, the *Tuition Trust Authority* Fund reduced its deficit by $47.2 million or 16.3 percent. The deficit reduction was primarily due to a decrease in benefits and claims expenses of $89.4 million, which more than offset a decrease in investment income of $38.9 million. The investment income for the Authority was $70.1 million in fiscal year 2005 as compared to $109 million in fiscal year 2004. The decrease in investment income was primarily attributable to more modest returns on the Authority's securities, as compared to those experienced in fiscal year 2004. Tuition benefit expense was $21.6 million in fiscal year 2005, as compared to $111 million in fiscal year 2004. The decrease in the tuition benefits expense was a result of more modest growth in tuition increases during fiscal year 2005 and the slower estimated increase in the projected future tuition growth due to the suspension of sales in the Guaranteed Savings Program. While the reduction in the benefits claims expenses contributed to the reduction in the Authority's deficit for fiscal year 2005, charges for sales and services decreased by $32.1 million or 81.5 percent. This reduction is due to the complete suspension of tuition unit sales in the Guaranteed Savings Program during fiscal year 2005 compared to tuition unit sales occurring over a six-month period in fiscal year 2004.

The *Liquor Control* Fund reported a net gain of $431 thousand after transferring $120 million to the General Fund and $34.6 million to other governmental funds.

In fiscal year 2005, transfers from proprietary funds to governmental funds totaled $867.5 million, up $37.2 million or 4.5 percent when compared to the $830.3 million in transfers-out reported in fiscal year 2004.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2005 and June 30, 2004, the State had invested $23.63 billion and $23.2 billion (as restated), net of accumulated depreciation of $2.13 billion and $2.02 billion (as restated), respectively, in a broad range of capital assets, as detailed in the table below.

Capital Assets, Net of Accumulated Depreciation
As of June 30, 2005
With Comparatives as of June 30, 2004
(dollars in thousands)

	As of June 30, 2005			As of June 30, 2004 (as restated)		
	Govern-mental Activities	Business-Type Activities	Total	Govern-mental Activities	Business-Type Activities	Total
Land	$ 1,635,516	$ 11,994	$ 1,647,510	$ 1,594,965	$ 12,631	$ 1,607,596
Buildings	1,988,843	113,831	2,102,674	2,032,556	133,763	2,166,319
Land Improvements	170,386	16	170,402	145,303	17	145,320
Machinery and Equipment	171,234	27,332	198,566	159,160	34,928	194,088
Vehicles	130,050	1,931	131,981	126,615	2,462	129,077
Infrastructure:						
Highway Network:						
General Subsystem	8,340,132	—	8,340,132	8,232,748	—	8,232,748
Priority Subsystem	6,831,667	—	6,831,667	6,707,733	—	6,707,733
Bridge Network	2,333,692	—	2,333,692	2,287,175	—	2,287,175
Parks, Recreation, and Natural Resources System	31,329	—	31,329	23,402	—	23,402
	21,632,849	155,104	21,787,953	21,309,657	183,801	21,493,458
Construction-in-Progress	1,839,008	71	1,839,079	1,710,488	—	1,710,488
Total Capital Assets, Net	$23,471,857	$155,175	$23,627,032	$23,020,145	$183,801	$23,203,946

During fiscal year 2005, the State recognized $212.7 million in annual depreciation expense relative to its general governmental capital assets as compared with $209 million in depreciation expense recognized in fiscal year 2004 (as restated).

Additionally, the State completed construction on a variety of projects at various state facilities during fiscal year 2005 totaling approximately $388.4 million, as compared with $615.6 million in the previous fiscal year. The total increase in the State's capital assets, net of accumulated depreciation, for the current fiscal year was 1.8 percent (about a two percent increase for governmental activities and a 15.6 percent decrease for business-type activities). As is further detailed in NOTE 19C. of the notes to the financial statements, the State had $159.2 million in major construction commitments (unrelated to infrastructure), as of June 30, 2005, as compared with the $226.2 million balance reported for June 30, 2004.

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 42,562 in lane miles of highway (12,355 in lane miles for the priority highway subsystem and 30,207 in lane miles for the general highway subsystem) and approximately 82.7 million square feet of deck area that comprises more than 12,500 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 2004, indicates that only 4.5 percent and 2.2 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating. For calendar year 2003, only 3.9 percent and 1.1 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 2004, indicates that only 2.8 percent and .02 percent of the number of square feet of bridge deck area were considered to be in “fair” and “poor” conditions, respectively. For calendar year 2003, only 2.7 percent and .02 percent of the number of square feet of bridge deck area were considered to be in “fair” and “poor” conditions, respectively.

For fiscal year 2005, total actual maintenance and preservation costs for the priority and general subsystems were $341 million and $301.6 million, respectively, compared to estimated costs of $327.6 million for the priority system and $206.9 million for the general system, while total actual maintenance and preservation costs for the bridge network was $231.9 million compared to estimated costs of $241.7 million. For the previous fiscal year, total actual maintenance and preservation costs for the priority and general subsystems were $273.3 million and $227.4 million respectively, compared to estimated costs of $195.3 million for the priority system and $133.2 million for the general system, while total actual maintenance and preservation costs for the bridge network was $208.4 million compared to estimated costs of $147.8 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, 2005 and June 30, 2004, the State had total debt of approximately $10.57 billion and $10.11 billion, respectively, as shown in the table below.

Bonds and Notes Payable and Certificates of Participation
As of June 30, 2005
With Comparatives as of June 30, 2004
(dollars in thousands)

	As of June 30, 2005			As of June 30, 2004 (as restated)		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Bonds and Notes Payable:						
General Obligation Bonds	$ 6,039,203	$ —	$ 6,039,203	$5,420,711	$ —	$ 5,420,711
Revenue Bonds and Notes	591,888	151,063	742,951	607,958	158,578	766,536
Special Obligation Bonds	3,699,936	—	3,699,936	3,914,168	—	3,914,168
Certificates of Participation	92,142	—	92,142	6,480	—	6,480
Total Debt	$10,423,169	$151,063	$10,574,232	$9,949,317	$158,578	$10,107,895

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 2005, the State issued at par $1.09 billion in general obligation bonds, $50 million in revenue bonds, and $834.1 million in special obligation bonds. Of the general obligation bonds and special obligation bonds issued at par, $105.8 million and $601 million, respectively, were refunding bonds. The total increase in the State’s debt obligations for the current fiscal year, as based on carrying amount, was 4.6 percent (a 4.8 percent increase for governmental activities and a 4.7 percent decrease for business-type activities).

Credit Ratings

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

For special obligation bonds, which the Ohio Building Authority and the Treasurer of State issue and General Revenue Fund appropriations secure, Moody's rating is Aa2 while S&P and Fitch rate these bonds AA.

The State's revenue bonds are rated as follows:

Revenue Bonds	Fitch	Moody's	S&P	Source of State Payment
Governmental Activities:				
Treasurer of State:				
Economic Development	A+	Aa3	AA-	Net Liquor Profits
State Infrastructure Bank	AA-	Aa2	AA	Federal Transportation Grants
Revitalization Projects	A+	A1	A+	Net Liquor Profits
Business-Type Activities:				
Bureau of Workers' Compensation	AA	Aa3	AA	Workers' Compensation Enterprise Fund
Ohio Building Authority	AA	Aa2	AA	Lease-Rental Receipts

Limitations on Debt

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

Those direct obligations of the State include general obligation and special obligation bonds that are paid from the State's GRF, but exclude general obligation bonds payable from non-GRF funds (such as highway bonds that are paid from highway user receipts). Pursuant to the implementing legislation, the Governor has designated the Director of the Ohio Office of Budget and Management as the state official responsible for making the five-percent determinations and certifications. Application of the five-percent cap may be waived in a particular instance by a three-fifths vote of each house of the Ohio General Assembly, and that cap does not apply to bonds issued to retire bond anticipation notes for which the requirements were met as to the bonds anticipated at the time of note issuance, or to debt issued to defend the State in time of war.

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

Conditions Expected to Affect Future Operations

Economic Factors

Several economic measures weakened in February 2006, as the mild January was followed by more seasonable weather, but the larger picture was one of sustained momentum. The consensus for first-quarter economic growth is approximately 4.5 percent, led by a strong rebound in personal consumption expenditures, business fixed investment, and government purchases. U.S. employment growth remained steady in March, with payrolls rising by more than 200,000 jobs for the second month in a row. Labor markets have remained weaker in the Midwest, where Ohio employment declined for the third consecutive month. Housing activity continued to slow from a very fast pace, and is expected to subtract from overall growth this year.

Ohio personal income increased 5.8 percent annualized in the fourth quarter of 2005, compared with a 9.4 percent increase for the nation. The U.S. figure includes the regional third quarter bounce-back from the hurricanes. Ohio personal income increased 4.4 percent for the year, ranking 44th among the states. On a per capita basis, Ohio personal income increased 4.2 percent, ranking 37th. Income growth in all states in the Great Lakes region ranked low nationally. U.S. personal income increased 5.5 percent for the entire year. Higher population gains account for the growth differential between the U.S. and the Great Lakes Region. The spread between growth in Ohio personal income and U.S. personal income narrowed somewhat last year, as growth in U.S. personal income slowed modestly while growth in Ohio personal income edged higher.

Ohio employment fell for the third consecutive month in February 2006 by 2,000 jobs. Employment has declined by 15,000 jobs since November 2005. Two-thirds of the decline during the three months occurred in Manufacturing and in Professional and Business Services. Employment fell during the three months in all major categories except Financial Activities, which added 3,700 jobs across Ohio.

General Revenue Fund
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.

Through March 2006, year-to-date budgetary revenues for the GRF were over estimate for fiscal year 2006 by $152.5 million, or .8 percent because tax sources for the GRF were $204.3 million, or 1.5 percent, above estimate. In comparison with the same point in time in fiscal year 2005, total GRF receipts for fiscal year 2006 have grown $666 million, or 3.8 percent, and GRF tax sources have grown $519.9 million, or 3.9 percent. Growth rates were affected the most by the rate increase in the cigarette tax, the new commercial activity tax and by the rate cuts in the sales, personal income, and corporate franchise taxes. Also, through the third quarter of fiscal year 2006, year-to-date expenditures for the GRF were $426.4 million, or 2.1 percent, under estimate.

Consistent with State law, the Governor's Executive Budget for the 2006-07 biennium was released in February 2005 and introduced in the General Assembly. After extended hearings and review, the GRF appropriations Act for the 2006-07 biennium was passed by the General Assembly and signed (with selective vetoes) by the Governor on June 30, 2005. That Act provides for total GRF biennial revenue of approximately $51.5 billion (a 3.8 percent increase over the 2004-05 biennial revenue) and total GRF biennial appropriations of approximately $51.3 billion (a five percent increase over the 2004-05 biennial expenditures). Spending increases for major program categories over the 2004-05 actual expenditures are: 5.8 percent for Medicaid (the Act also included a number of Medicaid reform and cost-containment initiatives); 3.4 percent for higher education; 4.2 percent for elementary and secondary education; 5.5 percent for corrections and youth services; and 4.8 percent for mental health and mental retardation. The Executive Budget, the GRF appropriations Act, and the separate appropriations acts for the biennium included all necessary debt service and lease rental payments related to State obligations.

The GRF expenditure authorizations for the 2006-07 biennium reflect and are supported by a significant restructuring of major state taxes, including:

- A 21-percent reduction in state personal income tax rates phased in at 4.2 percent a year over the 2005 through 2009 tax years.
- Phased elimination of the state corporate franchise tax at a rate of approximately 20 percent a year over the 2006 through 2010 tax years (except for its continuing application to financial institutions and certain affiliates of insurance companies and financial institutions).
- Implementation of a new commercial activity tax (CAT) on gross receipts from doing business in Ohio that will be phased in over the 2005 through 2009 tax years. When fully phased-in, the CAT will be levied at a rate of 0.26 percent on gross receipts in excess of $1 million.
- A 5.5-percent state sales and use tax (decreased from the six-percent rate for the 2004-05 biennium).
- An increase in the cigarette tax rate from 55 cents a pack (of 20 cigarettes) to $1.25 a pack.

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 or by e-mail at obm@obm.state.oh.us.