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

INTRODUCTORY SECTION

May 12, 2006

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

It is my privilege to issue the *Ohio Comprehensive Annual Financial Report* (CAFR) on the financial condition of the State of Ohio for the fiscal year ended June 30, 2005. The report is prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The Ohio Office of Budget and Management (OBM) pursuant to Section 126.21, Ohio Revised Code, which requires that an official financial report of the State be issued annually, prepared this report. The report includes the basic financial statements, which provide an overview of the State's financial position and the results of financial operations.

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

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

The CAFR includes the following: introductory section; financial section that presents the management's discussion and analysis (MD&A), basic financial statements, required supplementary information, combining financial statements, supporting schedules, and fund descriptions; and a statistical section that presents data for the State of Ohio regarding financial trends, operations, revenue and debt capacities, demographics, and the economy.

The MD&A, which is required under GAAP to accompany the basic financial statements, provides a narrative, introduction, overview, and analysis. The MD&A should be read in conjunction with the State's financial statements and this letter.

The reporting format for our CAFR is significantly different from the way the State more typically presents its finances on a non-GAAP budgetary basis. The most obvious difference is that the "General Fund" in the CAFR includes more than just the State's General Revenue Fund (GRF). The General Fund also includes other funds such as the reimbursement-supported funds used for activities administered by state agencies and departments for which special revenue or proprietary fund classifications were considered to be inappropriate.

PROFILE OF THE GOVERNMENT

The State of Ohio's first constitution was adopted in 1802, and Ohio entered the union in 1803. Ohio's present constitution was modified by a state constitutional convention in 1851 and has since been amended on numerous occasions. The Constitution establishes a state governmental structure similar to the federal model, with three separate branches of government — executive, legislative, and judicial.

The executive branch consists of the Governor and Lieutenant Governor, who are jointly elected, and four additional statewide elected officials: the Attorney General, the Auditor of State, the Secretary of State, and the Treasurer of State. All of these officials are elected to four-year terms. The State Board of Education is also part of the executive branch. Approximately 100 departments, agencies, boards, and commissions are part of the executive branch of government and receive appropriations from the legislature, along with several judicial and legislative agencies. An organizational chart of state government can be found on pages 13 and 14.

The state legislature in Ohio is referred to as the General Assembly and consists of two separate chambers, the Senate, a 33-member body, and the House of Representatives, a 99-member body. Each member of the General Assembly is elected to represent the residents of a geographical district for a specified term. Members of Ohio's General Assembly are subject to term-limits; senators are restricted to serving two four-year terms, and representatives are restricted to serving four two-year terms. Each chamber has a presiding officer to call the chamber to order and direct the calendar of events. The presiding officer in the Senate is the President of the Senate, and the presiding officer of the House of Representatives is the Speaker of the House. A new General Assembly is convened in January of each odd-numbered year.

Along with the establishment of our state governmental structure, the Constitution requires Ohio to have a balanced budget. Ohio's budget is prepared for a period of two years – a biennium –, which begins on July 1 of odd-numbered years and ends 24 months later on June 30.

The State provides a wide range of services and support to its citizenry that are accounted for in the following functions or programs: 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, workers' compensation, lottery, unemployment compensation, tuition credits, liquor control, and other business-type activities.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

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

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

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

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

Budget-to-actual comparisons can be found in this report for each governmental fund for which an appropriated annual budget has been adopted. For the General Fund and major special revenue funds, these comparisons are presented as part of the basic financial statements. For other budgeted governmental funds with appropriated annual budgets, budget-to-actual comparisons are in the nonmajor governmental funds section of the CAFR.

Additional discussion of the budgetary and GAAP bases of accounting is provided in NOTE 1 to the financial statements.

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

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

CASH MANAGEMENT

In Ohio, with the exception of certain organizations within the State's reporting entity that have independent powers to manage and invest their funds, the Treasurer of State is responsible for investing the State's cash and investments pool.

During fiscal year 2005, cash management and investment transactions made by the Treasurer of State's Office, in accordance with the Uniform Depository Act, were limited to checking accounts and certificates of deposit with qualified public depositories, U.S. government and agency obligations, bonds and other direct obligations of the State of Ohio, obligations of a board of education, as authorized under Sections 133.10 or 133.301, Ohio Revised Code, commercial paper, repurchase agreements, no-load money market mutual funds, bankers' acceptances, bonds of U.S. corporations or of foreign nations diplomatically recognized by the United States, security lending agreements, and the Treasurer's investment pool, STAR Ohio. Legal requirements for the investment of funds maintained in the State's cash and investments pool are discussed in NOTE 4 to the financial statements.

Quarterly, OBM allocates the investment income earned on the cash and investments pool to the various funds designated by law to receive the earnings. The allocation is calculated in accordance with a formula based on average daily cash balances invested over the quarter. The Ohio Lottery Commission's investment portfolio, which is dedicated to the payment of deferred lottery prizes and is accounted for as part of the cash and investments pool, however, is not part of the investment earnings allocation just described. Instead, the Treasurer of State credits the investment earnings from the dedicated portfolio directly to the credit of the fund that accounts for this activity.

RETIREMENT SYSTEMS

Employees of the primary government or its component units may be eligible to participate in the Ohio Public Employees Retirement System, the State Teachers Retirement System of Ohio, the State Highway Patrol Retirement System, or the Alternative Retirement Plan. Further information on the State's participation in the different retirement systems can be found in NOTE 9 to the financial statements.

RISK MANAGEMENT

As discussed in NOTE 1P. to the financial statements, the State's primary government is self-insured for claims under the Ohio Med Health and United Healthcare plans and for vehicle liability while it has placed public official fidelity bonding with a private insurer. The State self-funds tort liability and most property losses on a pay-as-you-go basis; however, selected state agencies have acquired private insurance for their property losses. Also, the State's primary government and its component units participate in a public entity risk pool, which is accounted for in the Workers' Compensation Enterprise Fund, for the financing of their workers' compensation liability.

ECONOMIC OVERVIEW AND OUTLOOK

Economic growth continued through 2005 at a solid but somewhat slower pace. Held back in the fourth quarter by the after-effects of the late summer hurricanes along the Gulf Coast, real GDP expanded by 3.5 percent, compared with growth of 4.2 percent in 2004. Consumer spending accounted for most of the increase, followed by business investment in equipment and software, government purchases, investment in residential structures, and net exports. Business inventories shrank in response to the strong demand.

Consumer spending was fueled by solid increases in personal income, arising from steady growth in hourly earnings and employment. Average hourly earnings grew by 3.2 percent from December 2004 to December 2005 and continued to accelerate in 2006. Total employment increased by almost 200,000 jobs per month on average through August 2005. After slowing for two months due to damage from the hurricanes, employment growth rebounded to its previous pace in November and following months. In addition, consumers borrowed more on credit cards and against their homes, pushing the quarterly saving rate into negative territory for the first time on record in the third quarter of 2005 and again in the fourth quarter.

Flush with high profits and heavy cash flow, corporations continued to increase capital expenditures at a brisk, though slower, pace in 2005 than in 2004. Investment in equipment and software increased at an annual rate of 8.7 percent, down from 13.8 percent in 2004. Again the hurricanes restrained growth late in the third period.

Home building and remodeling also made solid contributions to overall growth again in 2005, with investment in residential structures rising 7.6 percent during 2005, compared with 6.6 percent in 2004. Low mortgage rates and easier credit terms combined with high confidence levels through much of the period to support housing activity. Construction was begun on more houses in 2005 than in any year since 1973. Sales of new and of existing homes both set new record highs. Signs of weakness in the housing sector have begun to surface, with inventories of unsold homes rising and prices rising less rapidly or even falling in some markets.

The more than 20-percent depreciation in the foreign exchange value of the dollar during the last four years began to affect trade flows in 2005. The trade deficit continued to widen during the year, but by less than in 2004. In addition to the cheaper dollar, a strengthening in growth overseas added to demand for U.S. exports, which increased by 6.9 percent in 2005. Imports grew by 6.4 percent.

The Ohio economy continued to move forward unevenly in 2005. Activity was supported by strong domestic motor vehicle production, growing demand overseas for U.S. manufactured goods, and residential construction activity. Employment growth resumed in 2005 after the second-half slide in 2004, with the number of jobs rising by 29,300 from December 2004 to December 2005. The fastest growing major sectors in terms of employment were Professional & Business Services, Education & Health Services, and Leisure & Hospitality. The unemployment rate was stable during 2005, ending the year at 5.9 percent, compared with the national unemployment rate of 4.9 percent.

Ohio personal income grew by 4.4 percent in 2005, driven by modest job growth and improving growth in wages and salaries. This marked the fastest rate of increase in Ohio personal income since 2000, following growth of 4.2 percent in 2004, 2.8 percent in 2003, 2.3 percent in 2002, and 1.6 percent in 2001. U.S. personal income growth slowed in 2005 to 5.5 percent from 5.9 percent in 2004.

The consensus is for a rebound in economic growth nationally in 2006, after the temporary slowdown in response to the Gulf Coast hurricanes. Forecasters trimmed their projections for growth in late 2005 by 0.5 to 1.0 percentage points and raised projections for growth during the first half of 2006 by like amounts. The performance of the economy early in 2006 has been in line with expectations of stronger growth.

Hurricanes Katrina, Rita, and Wilma destroyed an estimated $100-$200 billion in wealth, displaced thousands of families and workers, created large uninsured losses, and severely disrupted energy production and distribution facilities and shipping through the Port of New Orleans. Although significant in absolute terms, these effects are very small relative to the $11 trillion U.S. economy, and not likely to stop its strong momentum.

Consumer spending slowed in the fourth quarter in response to the hurricane-related disruptions, elevated energy prices, and a decline in motor vehicle sales arising from the end of premium sales incentives. Consumer confidence fell sharply late in 2005 – particularly among lower income households – in response to these negative factors. But the generally low level of interest rates, rising worker productivity, renewed job growth, and sound household net worth will support a return to trend rate growth in consumer spending by mid-2006. Global Insight forecasts a modest slowdown in real consumer spending from 3.5 percent in 2005 to 3.3 percent in 2006.

Business capital spending is projected to continue to grow at a solid pace without even a temporary lull. Record corporate profits and cash flow, the lower foreign exchange value of the dollar, and the low cost of capital will support investment in business equipment and software. Global Insight projects growth in real business investment in equipment and software of 9.5 percent in 2006, compared with 10.9 percent in 2005.

Housing activity shows signs of cooling in the form of rising inventories of unsold homes and moderating home prices in areas with the most rapid growth recently. Global Insight predicts a decline of 1.4 percent in investment in residential structures during 2006 – down from an increase of 7.1 percent in 2005 – as higher mortgage rates soften demand.

The cumulative effects of the depreciation in the U.S. dollar in recent years and very strong demand growth in emerging markets is projected to sustain the strong recent growth in U.S. exports in 2006 and reduce growth in imports, stabilizing the trade deficit for the first time since the 2001 recession. Global Insight predicts real export growth of 8.7 percent in 2006 and real import growth of 7.6 percent.

The Federal Reserve is widely expected to stop raising its target for short-term interest rates in the first half of 2006. The Fed views the level of interest rates as potentially too low to prevent elevated energy costs from translating into faster inflation of prices for other goods and services. Global Insight predicts consumer price inflation falling to 2.6 percent in 2006 from 3.4 percent in 2005, accompanied by short-term and long-term interest rates averaging just under 5.0 percent.

Buffeted by high energy costs and foreign competition, but supported by strong export markets and steady domestic demand for manufactured goods, the Ohio economy is expected to make additional moderate gains in 2006. Ohio employment is projected by Global Insight to expand by 1.0 percent in 2006 – the fastest pace since 2000 – compared with 0.5 percent in 2005 and 0.1 percent in 2004. Leading the growth are expected to be the Education & Health Services, Leisure & Hospitality, Professional & Business Services, Construction & Mining, and Other Services industries. Employment in Manufacturing is projected to increase 0.3 percent for the first annual average gain since 1998, reflecting gains in the Fabricated Metals and Machinery industries.

Personal income will benefit from more rapidly rising employment and additional gains in productivity-led increases in wages and salaries. Ohio personal income is slated to grow by 5.0 percent in 2006, following estimated growth of 4.9 percent in 2005. Global Insight projects real disposable income to increase 3.1 percent in both years.

Homebuilding in Ohio is projected to slow through 2006 primarily in reaction to the expected rise in mortgage rates to an annual average of 6.50 percent to 6.75 percent during the year. Slow population growth is also expected to restrain homebuilding for at least the next several years.

The enactment of major tax reform in Ohio is designed to promote hiring and production by increasing economic efficiency and reducing disincentives to do business in the state. A 21-percent reduction in marginal personal income tax rates and the replacement of the corporate franchise tax and tangible personal property tax with a broad, low commercial activities tax will be phased in over five years, bringing tax rates more in line with those in other states.

Despite the widespread destruction by hurricanes in the Gulf region in late 2005 and additional interest rate increases by the Federal Reserve, the U.S. economy is expected to bounce back in 2006 after a temporary lull. Comparable disasters in the past typically have been followed by brief slowdowns and then rebuilding-fueled rebounds. Economic activity will be supported by flexible labor and product markets, rising worker productivity, federal relief spending in affected regions, low inflation expectations, and favorable tax policy. Risks to the economy include the Fed raising short-term interest rates too high, a renewed and prolonged rise in energy prices, and a global economic slump. The consensus among forecasters is that these risks are unlikely to impede economic growth in the near term.

MAJOR INITIATIVES AND PROJECTS

State Operating Budget

In June 2005, the Governor signed Amended Substitute House Bill 66, the biennial budget bill, which when combined with other legislation authorizing expenditures, provides approximately $25.3 billion in FY 2006 and $25.9 billion in FY 2007 in General Revenue Fund (GRF) dollars and $53.6 billion in FY 2006 and $55.2 billion in FY 2007 in all funds for the operating budget. The GRF appropriations in this budget will result in the two slowest growing fiscal years of the last 40 years, with GRF growth rates of 1.9 percent in FY 2006 and 2.6 percent in FY 2007. Many agencies will spend less from the GRF in FY 2007 than they spent in FY 2000. The majority of GRF spending increases over this time period can be attributed to increased spending in primary and secondary education, Medicaid, debt service, and property tax relief programs.

As in the FY 2004-2005 budget, the FY 2006-2007 budget reduces or holds flat many of the state's GRF funded agencies, consolidates functions or activities of several state agencies, and holds down the costs of one of the fastest growing programs in state government – Medicaid. Of the state's 64 GRF-funded agencies, 24 will remain at FY 2005 GRF levels or decrease their reliance on GRF funding. Examples of some cost management strategies employed over the past several biennia are as follows:

- Over the past five years, agencies' GRF budgets have been cut by $1.4 billion.
- Since 1999, the number of state employees has been steadily shrinking. In January 1999, there were approximately 62,500 state employees. As of August 2005, there are approximately 59,100.
- The most conservative state-employee compensation contract in the history of Ohio public sector collective bargaining was negotiated, freezing base wages for state employees for a two-year period.
- The size of the state vehicle fleet has been reduced by nearly 12.0 percent.
- The closure of six institutions has either taken place or is scheduled to take place. These include two juvenile correctional facilities, two adult correctional facilities, and two developmental centers.
- Medicaid cost management initiatives saved the state over $860 million in the FY 2004-2005 biennium.

Comprehensive Tax Reform

To improve Ohio's competitiveness the FY 2006-2007 budget enacted fundamental tax reform making a number of changes to address situations in which Ohio's high tax rates act as disincentives to investment and employment. The tax reform reduces the burden on investment and encourages capital formation, which in turn will increase productivity and encourage growth in employment and income. Because the State must continue to meet its financial obligations and make strategic public investments in education and infrastructure, cuts in taxes on capital investment are phased in over time, and also balanced with innovative solutions to raise the revenue needed to pay for essential public services.

The tax reforms contained in the budget are:

- A 21-percent reduction in the income tax, phased-in over five years;
- Elimination of the tangible personal property tax for general businesses and for telecommunications companies, phased-in over four- and five year periods, respectively;
- Elimination of the corporate franchise tax (except for financial institutions and their affiliates) over a five-year period;
- Enactment of a commercial activity tax (CAT), phased-in over five years; and,
- The state sales tax rate was increased from 5.0 percent to 6.0 percent for the fiscal years 2004-2005. The fiscal year 2006-2007 budget reduces the tax rate back to 5.5 percent for fiscal year 2006 and subsequent years.

The tax reform package is both a sweeping tax restructuring and a significant overall tax cut. In total, state taxes are reduced by $512 million in FY 2006 and $983 million in FY 2007, compared to the tax rates that were in place in FY 2005. By FY 2010, the estimated reductions reach $2.4 billion. State taxes are not the only taxes reduced in this reform. The elimination of the local general business tangible personal property tax increases the size of the overall tax cut. This reform package reduces combined state and local taxes by $416 million in FY 2006 and by $1.2 billion in FY 2007. Total tax reductions reach $3.7 billion by FY 2010 when the reform package is fully phased-in.

Medicaid Reform
Consistent with the recommendations of the Ohio Commission to Reform Medicaid, the FY 2006-2007 budget adopts strategies to reduce projected costs in the FY 2006-2007 biennium and sets the stage for responsible long-term Medicaid reform using strategies that will control the rate of growth over time.

These strategies are intended to deliver cost effective and preventive care for low-income families and children; provide cost-effective, non-institutional residential options and health care for seniors; and improve the information technology used to manage the Medicaid program. The following are a few examples of the cost saving strategies included in the budget:

- Replaces the cost-based nursing facility reimbursement formula with a price-based formula beginning in FY 2007;
- Expands managed care statewide to cover over one million children and their families and over 125,000 aged, blind, and disabled enrollees;
- Eliminates coverage for parents with incomes between 90 percent and 100 percent of the federal poverty level;
- Creates a new waiver enabling 1,800 people to live in an assisted-living setting; and
- Creates a new Medicaid voucher pilot program that will enable participants to pay for their own health care services.

The cost containment strategies adopted in the FY 2006-2007 budget in total will reduce projected GRF spending by approximately $720 million in FY 2006 and $1.4 billion in FY 2007.

Primary and Secondary Education
The State of Ohio continues to make significant investments to improve student success. Primary and secondary education in the state has been redesigned to focus on clear and rigorous academic standards for students at each grade level.

In 2003, the Governor convened and charged the Governor's Blue Ribbon Task Force on Financing Student Success with developing an improved system of funding primary and secondary education in Ohio that promotes higher levels of student achievement and gives every child the opportunity to succeed. The Task Force recommended reforms to ensure that Ohio's system for funding schools is stable, predictable, and grows appropriately; affordable within the context of the state's economy; and includes features that promote the effective use of resources. Highlights of the Task Force's recommendations include:

- Eliminate "phantom revenue," a phenomenon that causes locally approved additional funding above Basic Aid to deteriorate;
- Target funding to districts and students most in need;
- Establish an input-based funding methodology that uses "evidence-based" strategies, services, and programs that are proven effective in enhancing student success;
- Reduce the need for districts to conduct operational levies;
- Stabilize funding from state and local resources; and
- Fund initiatives that support research related to academic success.

The FY 2006-2007 budget begins implementation of funding recommendations made by the Task Force, most of which affect the Foundation Program, which provides most state funding to school districts. The Foundation Program is funded at $6.2 billion in FY 2006 or 2.9 percent above FY 2005.

School Building Assistance
The current biennium continues to make progress on Governor Taft's Rebuild Ohio Plan, which addresses the facility needs of all Ohio school districts. The plan will allow every Ohio school child to learn in safe, modern facilities and give school districts the capability to create customized classrooms and instruction tailored to meet students' needs. The School Facilities Commission, charged with providing funding to public school districts and overseeing the construction and renovation of school facilities, spends approximately $2 million daily on new school construction and repair. Since the inception of the Commission in May 1997, $3.5 billion has been used to construct or repair 270 new or renovated buildings.

The FY 2006 budget provides an additional $220 million from the General Revenue Fund and other sources to support construction projects.

Governor's Commission on Higher Education and the Economy
In his 2003 Inaugural Address, Governor Taft called for the creation of the Governor's Commission on Higher Education and the Economy (CHEE). The Commission was charged with developing a strategic plan for the State to help higher education achieve its full potential in creating more and better jobs for Ohioans, increasing economic competitiveness, and fueling economic growth. The CHEE completed its work in 2004. Funding to support the recommendations of the CHEE were included in the FY 2006-2007 budget. The following are a few examples:

- In FY 2007, a new needs-based financial aid program, the Ohio College Opportunity Grant will be initiated and provide $58.1 million in additional direct aid to Ohioans who face financial barriers to higher education. The program will be phased in over four years and replace the Ohio Instructional Grant and the Part-time Instructional Grant.

- A total of $300,000 has been provided to the Ohio Board of Regents and the Ohio Department of Education to create Ohio's Partnership for Continued Learning, which will work in cooperation with local and state level partners to create a single comprehensive education system from early childhood through adulthood.
- Two initiatives, the Ohio College Access Network and the Early College High School Pilot Program have been funded to improve awareness and planning for higher education and increasing college participation in the upcoming years through the College Readiness and Access program.

Third Frontier

The Third Frontier Project is the state's largest commitment ever to expanding Ohio's high-tech research capabilities and promoting start-up companies to build high-wage jobs for generations to come. The $1.6 billion 10-year investment program continues to accelerate, and commercialization in high-tech, high-growth areas of Ohio's economy attracts federal and private investment to the state and creates new products, companies, and jobs for Ohio. A recent Milken Institute report ranked Ohio as first among the 50 states in the relative growth of total biotech venture capital invested.

Below are a few examples of how the Third Frontier Project is impacting Ohio:

- Ohio Third Frontier Network is the nation's leading statewide, advanced fiber-optic network dedicated to education, research, and economic development. The 1,600-mile, high-speed, broadband network connects Ohio's universities and colleges with their business partners, Ohio's federal labs, hospitals and K-12 schools.
- Investments in biomedical research and technology transfer partnerships have leveraged $110 million in funding.
- Validation and seed funds have enabled 53 new companies to promote innovation and commercialization of viable technologies in Ohio. The State is leveraging an average of more than $12 in additional funding for each state dollar invested.

Jobs and Progress Plan

Ohio continues to make progress on the Jobs and Progress Plan, Ohio's largest transportation initiative since the original creation of the interstate highway system. The basis for the majority of the funding for the plan was provided in the fiscal year 2004-2005 biennial transportation budget, by an increase in the motor fuel tax by two cents a gallon each year for the next three years. The $5 billion, 10-year Ohio construction program is addressing the state's most pressing needs; mitigating high-congestion, high-crash locations on freeways; improving state bridges and pavement conditions; and connecting all parts of Ohio by completing rural routes. The year 2004 marked the first construction season of the plan. Several major highway construction projects were started, and more than 700 safety projects have been completed.

Jobs for Ohio Ballot Initiative

On November 8, 2005, voters approved a proposal to amend the Ohio Constitution for a special bond issue. This $2 billion initiative consists of $1.35 billion for public infrastructure capital improvements to continue the Public Works Commission infrastructure program, $500 million for research and development purposes as a component of the Third Frontier project, and $150 million for the development of sites and facilities for industry, commerce, distribution, and research and development purposes.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Ohio for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2004. This was the 15th consecutive year that the State has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only.

ADDITIONAL INFORMATION

OBM provides access to the fiscal year 2005 *Ohio Comprehensive Annual Financial Report*, fiscal year 2005 *Ohio Budgetary Financial Report*, and other state-related financial data and information on the Internet at http://www.obm.ohio.gov .

ACKNOWLEDGMENTS

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

Sincerely,

Timothy S. Keen

Timothy S. Keen
Director

STATE OF OHIO OFFICIALS

EXECUTIVE

Bob Taft
Governor

Bruce Johnson
Lieutenant Governor

Jim Petro
Attorney General

Betty Montgomery
Auditor of State

Jennette Bradley
Treasurer of State

J. Kenneth Blackwell
Secretary of State

LEGISLATIVE

Bill Harris
President of the Senate

Jon Husted
Speaker of the House

JUDICIAL

Thomas J. Moyer
Chief Justice
Supreme Court

STATE OF OHIO ORGANIZATION CHART

FINANCIAL REPORTING ENTITY

PRIMARY GOVERNMENT

LEGISLATIVE

Senate
(33 Members)

House of Representatives
(99 Members)

Governmental Activities:

General Government:
Senate
House of Representatives
Legislative Service Commission
Legislative Committees

EXECUTIVE

Governor
Lieutenant Governor
Attorney General
Auditor of State
Secretary of State
Treasurer of State
State Board of Education
(11 Elected Members, and
6 At-Large Members)

Governmental Activities:

Primary, Secondary and Other Education:
Arts Council
Department of Education
Educational Telecommunications
School for the Blind
School for the Deaf
State Library Board

Higher Education Support:
Board of Regents
Career Colleges and Schools Board

Public Assistance and Medicaid:
Department of Job and Family Services

Health and Human Services:
Department of Aging
Department of Alcohol and Drug Addiction Services
Department of Health
Department of Mental Health
Department of Mental Retardation
Hispanic-Latino Affairs Commission
Legal Rights Service
Minority Health Commission
Rehabilitation Services Commission
Tobacco Use Prevention and Control Foundation
Veterans' Home

Justice and Public Protection:
Adjutant General
Board of Tax Appeals
Civil Rights Commission
Criminal Justice Services
Department of Public Safety
Department of Rehabilitation and Correction
Department of Youth Services
Ethics Commission
Office of the Attorney General
Public Defender Commission

Environmental Protection and Natural Resources:
Department of Natural Resources
Environmental Protection Agency
Environmental Review Appeals
Lake Erie Commission

Transportation:
Department of Transportation

JUDICIAL

Supreme Court
Chief Justice and
6 Justices

Governmental Activities:

Justice and Public Protection:
Supreme Court
Judicial Conference
Judiciary
Court of Claims

(Continued)

PRIMARY GOVERNMENT (Continued)

General Government:
Capitol Square Review & Advisory Board
Consumers' Counsel
Department of Administrative Services
Department of Commerce
Department of Insurance
Department of Taxation
Office of Budget and Management
Office of the Governor
Office of the Inspector General
Office of the Lieutenant Governor
Office of the Secretary of State
Office of the Treasurer of State
Public Utilities Commission
Racing Commission
Sinking Fund Commission
Other Boards and Commissions

Community and Economic Development:
Department of Agriculture
Department of Development
Exposition Commission
Public Works Commission
Southern Ohio Agricultural & Community Development Foundation

Business-Type Activities:
Bureau of Workers' Compensation and Industrial Commission
Capitol Square Review & Advisory Board —Underground Parking Garage
Department of Commerce— Liquor Control Division
Department of Job and Family Services— Unemployment Compensation Program
Lottery Commission
Office of the Auditor of State
Tuition Trust Authority

COMPONENT UNITS

Blended Component Units:
Ohio Building Authority (included in Governmental and Business-Type Activities)
State Highway Patrol Retirement System (included as Fiduciary Activities)

Discretely Presented Component Units:
Financing Authorities:
Ohio Air Quality Development Authority
Ohio Water Development Authority

Commissions:
Cultural Facilities Commission
School Facilities Commission
SchoolNet Commission

Discretely Presented Component Units (continued):
State Universities:
Bowling Green State University
Cleveland State University
Medical University of Ohio
Ohio State University
Shawnee State University
University of Cincinnati
Wright State University
Central State University
Kent State University
Miami University
Ohio University
University of Akron
University of Toledo
Youngstown State University

State Community Colleges:
Cincinnati State
Columbus State
Northwest State
Southern State
Washington State
Clark State
Edison State
Owens State
Terra State

JOINT VENTURES
Great Lakes Protection Fund
Local Community Colleges
Technical Colleges

RELATED ORGANIZATIONS
Higher Education Facility Commission
Ohio Legal Assistance Foundation
Ohio Turnpike Commission
Petroleum Underground Storage Tank Release Compensation Board

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For its Comprehensive Annual
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President

Executive Director