Ohio Office of Budget and Management

State of Ohio

Ted Strickland

Governor

OHIO

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2007

INTRODUCTORY SECTION

OBM

Ted Strickland
Governor

J. Pari Sabety
Director

April 28, 2008

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

It is my privilege to present the State of Ohio's *Comprehensive Annual Financial Report* (CAFR) for the year ended June 30, 2007, prepared in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The Office of Budget and Management (OBM) prepared this report pursuant to Section 126.21, Ohio Revised Code. The report includes the basic financial statements, which provide an overview of the State's financial position and the results of financial operations. Responsibility for the accuracy of the data presented, as well as the completeness and fairness of the presentation, including all disclosures, rests with OBM.

To the best of our knowledge and belief, the information presented is accurate in all material respects and reported in a manner designed to present fairly the financial position and results of operations of the State of Ohio. All disclosures necessary for a reasonable understanding of the State's financial activities have been included.

This letter of transmittal is intended to complement management's discussion and analysis (MD&A) and should be read in conjunction with it. The MD&A provides an overview of the State's financial activities addressing both governmental and business-type activities reported in the government-wide financial statements.

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.

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.

INDEPENDENT AUDIT RESULTS

In compliance with Ohio Revised Code, an annual financial audit has been performed by the Office of the Auditor of State. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. The auditor's unqualified opinion is included in the Financial Section of this report. This opinion indicates there was no limitation on the scope of the auditors' examination and the financial statements were presented fairly, in all material respects, in conformity with GAAP.

Additionally, the State's *Single Audit* report is audited by the Office of the Auditor of State to meet the requirements of the federal Single Audit Act Amendments of 1996 and related Office of Management and Budget (OMB) Circular A-133. The *Single Audit* report will be issued separately from the State's CAFR.

PROFILE OF THE GOVERNMENT

History

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.

Governmental Structure

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 x and xi.

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.

Within the Judicial system, the Supreme Court is the court of last resort in Ohio. Most of its cases are appeals from the twelve district courts of appeal. The chief justice and six justices are elected to six-year terms on a nonpartisan ballot.

Reporting Entity and Its Services

For financial reporting purposes, the State's reporting entity consists of (1) the primary government, (2) component units for which the primary government is financially accountable (blended component units), and (3) other component units for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete (discrete component units). The criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity,* are used 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 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.

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, United Healthcare, and Aetna 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.

Budgetary Control and Accounting System

Ohio's Constitution requires the State to have a balanced budget. The State's biennium budget begins on July 1 of odd-numbered years and ends 24 months later on June 30. The State maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the General Assembly. Budgets are entered on the statewide accounting system once the appropriations bill becomes law. Controls are maintained first at the agency level, with additional control at the fund and appropriation level to ensure that expenditures do not exceed authorized limits.

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 accounting system maintains all non-GAAP budgetary basis transactions and most GAAP basis adjustments. In addition to the information obtained from the accounting system 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 be-tween the GAAP basis and non-GAAP budgetary basis fund balances is presented in NOTE 3 to the financial statements.

ECONOMIC OVERVIEW AND OUTLOOK

The economy expanded for the sixth consecutive year in 2007. Growth in real gross domestic product (GDP) was 2.2 percent in 2007, compared with 2.9 percent in 2006. The Consumer Price Index increased 2.9 percent in 2007, compared with 3.2 percent in 2006. The Federal Reserve began a series of progressively more far-reaching policy actions in September 2007 in an effort to limit the effects of financial distress on the economy. As 2008 began, the U.S. economy appeared to be in or headed for a recession.

Ohio employment decreased by 5,600 jobs from December 2006 to December 2007. The change in Ohio employment during 2006 was revised to a decrease of 9,600 jobs from an increase of 8,900 jobs, as reported in January 2007. Manufacturing employment fell by 17,000 jobs in 2007, reflecting ongoing weakness in the primary metals and transportation equipment industries. Outside of manufacturing, employment in leisure and hospitality, financial activities, construction, and other services sectors posted declines. Employment increased in the educational and health services, professional and business services, trade, transportation, and utilities sectors.

Despite the weakening in Ohio labor markets, Ohio personal income increased 4.7 percent in 2007, up from 4.4 percent in 2006 and four percent in 2005. U.S. personal income increased 6.2 percent in 2007, versus 6.6 percent in 2006. On a per capita basis, personal income grew approximately 4.7 percent in Ohio and 5.2 percent in the U.S. wage and salary disbursements grew 3.7 percent in Ohio and 5.7 percent in the U.S.

Economic growth nationally was driven primarily by consumer spending. Growth in real personal consumption expenditures was little changed in 2007 – 2.9 percent versus 3.1 percent in 2006 – but slowed during the year. Continued growth in employment and average hourly earnings pushed incomes higher, but at a progressively slower pace. Total employment increased by 105,000 jobs per month on average during 2007, down significantly from 175,000 during 2006. A slackening in hiring pushed the unemployment rate up from a low of 4.4 percent in March 2007 to five percent in December. Historically, increases in the unemployment rate of .6 percentage points or more usually have been associated with recession. Average hourly earnings growth slowed to 3.7 percent from December 2006 to December 2007, compared with 4.3 percent during the previous year.

Growth in real consumer spending slowed during the year due to

- the 180 percent increase in the price of gasoline during the previous six years that reduced discretionary income,
- the continued slide in housing construction, sales, and prices,
- heightened volatility in financial markets that created concern about the economy and impaired the ability and willingness of lenders to extend credit, and
- the deterioration in labor markets.

Real business fixed investment partially cushioned the blow to the economy in 2007 from the ongoing slide in housing, yet still decelerated to 4.7 percent from 6.6 percent in 2006. Growth in investment in equipment and software slowed from 5.9 percent to 1.3 percent, offsetting the acceleration in investment in nonresidential structures from 8.4 percent to 12.9 percent. Investment was fueled by

- ample corporate cash flow and wide profit margins,
- an abundant supply of credit on largely favorable terms (through mid-year),
- continued, albeit slower, growth in employment, and

- expanding markets overseas as well as domestically.

A critical development in the economy during 2007 was the severe deterioration in housing-related activity and its effects on related sectors. Real investment in residential structures decreased 17 percent in 2007, after falling 4.6 percent in 2006. The sector is hobbled by high inventories of unsold houses, falling prices in most markets, a rising number of home mortgage loans that are past due, and a rising number of foreclosures.

The number of new single-family houses for sale has decreased 18 percent from its peak in mid-2007, but remains approximately 60 percent above the low just before the start of the 2001 recession. Relative to the pace of sales, the inventory of new homes on the market remains near an all-time high. After rising at a mid single-digit percentage rate for years, prices of houses in Ohio rose just 1.2 percent in 2006 and fell .6 percent in 2007 on a fourth quarter to fourth quarter basis—the first such decline since the 1981-82 recession, according to the Federal Home Loan Mortgage Corporation. The percentage of mortgage loans in Ohio that were past due in the fourth quarter of 2007 increased to 7.7 percent—the highest level since the fourth quarter of 1985. The percentage of mortgages in Ohio on which foreclosure began during the quarter rose to 1.2 percent and on which foreclosure was underway rose to 3.9 percent—in each case, the highest level in the 29 years during which data have been recorded.

Even though investment in residential structures comprises only a small portion of total gross domestic product, the effects of fluctuations in housing activity spread throughout the economy to

- suppliers to the construction industry,
- the realtor industry,
- retailers in the home furnishings and related segments, and
- consumer spending beyond home-related purchases, as slower home price appreciation and outright declines in home values in some locations create a negative wealth effect.

The U.S. trade deficit narrowed for the second consecutive year in 2007 for the first time since the 1990-91 recessions. Real net exports increased by $94 billion at an annual rate from the fourth quarter of 2006 to the fourth quarter of 2007 after increasing by $45 billion during the previous year. Reflecting the effects of strong economic growth overseas on exports, slowing growth domestically on imports, and further depreciation in the dollar, export growth increased and import growth slowed in 2007. The growth rate of U.S. exports has exceeded the growth rate of imports on a year-over-year basis since the second quarter of 2005. The dollar is projected to remain weak in 2008, as

- U.S. interest rates remain below interest rates overseas and
- growth of foreign economies exceeds growth of the U.S. economy.

Inflation spiked higher late in 2007 as a result of rising prices for energy and food. On average for the year, however, consumer prices increased by 2.9 percent, down slightly from 3.2 percent and 3.4 percent in 2006 and 2005, respectively. The weak dollar and rising commodity prices have raised concern about inflation. But monetary policy in recent years and the prospect of declining aggregate demand suggest that the rate of inflation will remain low to moderate in 2008.

A majority of economic forecasters has concluded that the economy is in a recession, according to the *Blue Chip Financial Forecasts* report. Global Insight, for example, predicts that real GDP will contract in the first two quarters of 2008 before rebounding at a two percent to 2.5 percent in the last two quarters of the year. Much will depend on the effectiveness of actions taken by the Federal Reserve to ensure financial market liquidity and economic stimulus measures enacted by Congress and signed into law by the President.

The signs of recession are numerous. Private sector employment has decreased in three consecutive months as of February 2008. Initial and continuing jobless claims have spiked upward and the unemployment rate has increased significantly from its low. Housing permits are down substantially. The composite leading economic indexes from the Conference Board and the Economic Research Cycle Institute are falling. The S&P 500 stock price index decreased during four consecutive months as of March 2008. The difference between yields on corporate bonds and Treasury notes has increased sharply. In addition to the steep reductions in short-term interest rates by the Federal Reserve starting in September 2007, these developments have served as reliable signs of recession since World War II.

Two keys to the outlook again in 2008 will be the effects of the downturn in housing on consumer spending and the extent of the slowdown in business investment. Consumer spending is expected to flatten out in the first half of 2008, before rebounding in the second half.

Business investment is predicted to decrease during 2008, as corporate cash flow weakens further. Investment in equipment and software will be more negatively affected by the soured outlook for consumer spending and housing-related activity than positively affected by bonus depreciation features of the economic stimulus package. Investment in nonresidential structures will be undermined by a tightening in financing availability and terms and a more modest need for extra retail and office space.

International trade is projected to add to growth again in 2008 and 2009, as growth in exports handily outpaces growth in imports. The multi-year decline in the foreign exchange value of the dollar, coupled with relatively strong overseas economies, will bolster U.S. exports, while slower growth in demand in the U.S. will continue to restrain growth in imports.

Global Insight also expects the foreign exchange value of the dollar to decrease modestly further in 2008. Even with the narrowing in the trade deficit, the still very large outflow of dollars leaves the currency vulnerable to a small decrease in the demand by foreign investors for dollar-denominated assets, which could weaken as growth, inflation, and interest differentials between the U.S. and other major economies remain against the U.S.

The consensus is for at least modest further reductions in short-term interest rates by the Federal Reserve. Long-term interest rates projected remain near recent levels or slightly lower during 2008. Yields on corporate bonds will be affected by assessments of the health of the economy and could increase relative to Treasury note yields during 2008 as concerns about the economy build.

Ohio employment growth is projected to increase .3 percent in 2008 and .8 percent in 2009 on a fourth quarter to fourth quarter basis, according to Global Insight. Those increases would end a two-year stretch of declines at an annual rate of .2 percent, returning growth to the modest pace experienced during 2004 and 2005. Employment in professional and business services, education and health services, and leisure and hospitality is expected to grow at the fastest rate. Employment in construction and manufacturing is projected to decline in both 2008 and 2009.

Personal income growth is projected by Global Insight to slow from 6.2 percent in 2007 to 4.3 percent and four percent in 2008 and 2009, respectively, as employment is weak and compensation grows more slowly. A similar pattern in Ohio would cut growth from 4.7 percent in 2007 to below 3.5 percent in 2008 and 2009.

Ohio retail sales are projected to slow from an estimated .5 percent increase in 2007 to .3 percent in 2008, improving to 2.2 percent in 2009. Car registrations are projected to fall 5.3 percent in 2008 and increase 2.8 percent in 2009, after falling by an estimated 2.3 percent in 2007. Housing starts are projected to decline 19.9 percent in 2008, before rebounding 32.7 percent in 2009. Ohio housing starts fell by 25 percent in 2007.

Rocked by ongoing deterioration in the housing sector, high energy prices, and turmoil in financial markets, the U.S. economy appears on the verge of recession in early 2008. Falling employment, steep declines in consumer confidence, and flat or falling retail sales, industrial production, and leading economic indicators are consistent with the onset of recession. Monetary and fiscal stimulus actions by the federal government will support the economy in the second half of the year, but may not be sufficient to avert a cyclical downturn in the economy.

MAJOR INITIATIVES – Living Within Our Means and Investing in What is Most Important

Continued Implementation of Comprehensive Tax Reform

In June 2005, Amended Substitute House Bill 66 (HB 66), the biennial budget bill, was signed into law. As described extensively in prior financial reports, this tax reform was a significant overhaul of Ohio's state and local tax structure. The entire tax reform package was designed to spur strong business development and new jobs. The reforms are being phased-in between FY's 2006 and 2010 and include

- 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; and
- Enactment of a commercial activity tax (CAT), phased in over five years.

By FY 2010, the estimated reductions in state taxes will 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. Total tax reductions will reach $3.7 billion by FY 2010 when the reform package is fully phased in and in the short term has limited the growth available to support the State's budget.

State Operating Budget

Reflecting the impact of tax reform discussed above, General Revenue Fund (GRF) appropriations for FY 2008 – FY 2009 that were enacted in HB 119 represent the slowest growth biennium of the last 42 years, with a combined two year GRF growth rate of 4.7 percent over FY 2007. As a result of this slow growth, many agencies will spend less from the GRF in FY 2009 than they spent in FY 2000. The majority of GRF spending increases over this time period can be attributed to increased investment in primary and secondary education and Medicaid, and ongoing costs for debt service and property tax relief programs. Similar to the FY 2006-2007 budget, the FY 2008-2009 budget reduced or held flat many of the State's GRF-funded agencies and consolidated functions or activities of several state agencies. As a result of the difficult choices made to hold the line on overall spending, Ohio managed to focus available funding on its most important priorities of primary and secondary education, higher education, and health care to those most in need.

Improved Financial Management
In response to the profound changes in Ohio's tax structure, the State will need to fundamentally change the way in which it manages scarce resources to reflect pending budget constraints. Over the coming four years, state spending reforms will include increased transparency, a focus on performance and accountability, improved financial systems management, improved cash management, targeted investment of scarce resources, and precise debt management.

Increased Transparency
Ohio will enhance the transparency of its financial position for its citizens and investors. OBM will pursue awards for excellence in budget and financial reporting through the Government Financial Officers Association (GFOA). For the first time, the FY 2008 FY 2009 executive budget will present revenue and spending projections for four years (FY 2008 through FY 2011). Prior executive budgets presented only two years of financial data. The revenue constraint enacted in HB 66 tax reforms require a clear presentation of Ohio's near term financial position.

Accountability and Performance
Ohio will manage financial resources using a variety of accountability and performance measures to improve efficiency, accountability and results of government programs. It will focus on clear goal setting in the budget process, identifying increased efficiency in the State's regulatory process, improved inter-agency collaborations, performance contracts for state agencies, and enhanced performance reporting.

Improved Financial Systems Management
Ohio will improve its financial management and decision making when it completes deployment of a comprehensive enterprise information system, known as the Ohio Administrative Knowledge System (OAKS), throughout state government. When complete, the enterprise installation will be the most comprehensive enterprise IT system operating at a state level in the nation. The first two stages, human resource and financial management and reporting have been implemented. The final stage, enhanced budget decision and management tools, is scheduled to go live in July 2008.

To enhance collections and revenue management, the Department of Taxation will deploy the State Taxation Revenue and Accounting System (STARS). STARS provides an integrated tax collection and audit system and replaces the State's existing separate tax software and administration systems for the twenty-four different taxes collected by the State. STARS will make it possible for the Department of Taxation to provide an improved quality of taxpayer services and enhance the compliance activities of the Department.

Cash Management
The Treasurer of State and OBM are working cooperatively to update the State's cash flow models and procedures to maximize resources available. The offices will examine seasonal revenue collections in the State's various funds, and unique spending patterns in each state agency to develop an updated cash flow model. The updated cash flow model will enable the Treasurer of State and OBM to revise their investment strategies for improved return on investment of State resources.

Aggressive Management of Ohio Debt Structure and Bond Rating
Ohio's long history of strong financial management is reflected in its top ranked bond rating position. Ohio is among the top ten states in achieving a AA1 bond rating from Moody's. Recently, three issues have resulted in a negative outlook for the State: (1) reporting issues related to the Bureau of Workers' Compensation; (2) tax changes; and (3) performance of the overall economy. We are committed to taking aggressive action to deal with these issues and assure that the State remains in its top notch position with rapid recognition of financial challenges, and tight controls over State resources.

Investment in Strategic Priorities
Ohio's investments in strategic priorities are focused tightly on two overarching goals critical to the long term stability and growth of the economy: (1) to boost personal income and (2) to increase the education attainment level of Ohioans. These two strategies will begin to turnaround Ohio's economy and propel the State into the 21st century. To do so, Ohio will invest in Ohio's traditional economic strengths, such as energy production and entrepreneurship, and programs that ensure Ohio has the most educated workforce possible. Targeted investment priorities include access to

high-quality early care and education, schools that work for every child, expanded access to Ohio's colleges and universities, Ohio's regional economies and globally competitive industries, and access to affordable health care.

Investment in Primary and Secondary Education
Through HB 119 the Strickland Administration sought to enhance equity and reduce disparities between Ohio school districts by focusing more resources to Poverty Based Assistance and Parity Aid. In addition, all school districts benefited from the policies within HB 119 as per pupil basic aid amount increased by 3 percent, the largest such increase in five years. As a result of the funding contained in HB 119, the Foundation Funding formula increases the state share percentage from 44.8 percent to 48 percent over the biennium, with individual districts seeing a more dramatic increase in their respective state share percentage as a result of the formula changes.

In addition to increasing per pupil basic aid and reducing disparities, the budget also provided a hold harmless guarantee to prevent any district from receiving less state aid than what was received in previous fiscal years regardless of whether their enrollment declined. This guarantee is intended to provide stability and reduce potential adverse impacts from both extensive formula changes and HB 66 tax reform policies.

Tobacco Securitization and Expanded Property Tax Relief
HB 119 also authorized the State to securitize 100 percent of the future payments to Ohio under the Tobacco Master Settlement Agreement (MSA) over the next 40 or more years. This securitization of the tobacco settlement receipts (TSRs) generated more than $5 billion in net proceeds, with their use limited to the twin priorities of funding the capital needs of Ohio's elementary, secondary, and higher education facilities. By generating savings on debt service as a result of replacing general obligation debt as the funding source for primary, secondary, and higher education facilities, HB 119 provides an average of $400 in additional property tax relief to 775,000 Ohioans through an expansion of the homestead exemption.

Increased Investment in Higher Education
To supplement the general operations of the State's 13 four-year universities, 24 regional branch campuses, 15 community colleges, and eight technical colleges, HB 119 appropriated over $3.52 billion in the fiscal years 2008-2009 biennium for unrestricted operating subsidies through the State Share of Instruction (SSI) line item. Specifically, the budget appropriated $1.68 billion in fiscal year 2008 (an increase of 5.6 percent over fiscal year 2007) and $1.84 billion in fiscal year 2009 (an increase of 9.8 percent over fiscal year 2008). Of these amounts, the budget earmarked $58 million in fiscal year 2008 and $60 million in fiscal year 2009 to be distributed based on each campus's proportional share of the total in-state undergraduate tuition in fiscal year 2007. The remaining funds are first used to guarantee that all campuses receive the same amount of SSI (excluding the earmarked funding) they received in the prior year. They are then used to provide uniform increases (two percent in fiscal year 2008 and ten percent in fiscal year 2009) for the four-year universities and their branch campuses and varying increases for two-year community and technical colleges based on a formula developed by the Board of Regents that takes into account the enrollment growth at community and technical colleges. To receive these SSI subsidy increases, each campus must demonstrate, through increasing internal efficiencies, a one percent savings in fiscal year 2008 and a three percent savings in fiscal year 2009 as certified by the Chancellor of the Board of Regents.

In addition to increasing the state share of instruction, HB 119 froze in-state undergraduate tuition in both fiscal years 2008 and 2009. As a result, the in-state undergraduate tuition for each campus will remain at the fiscal year 2007 level over the biennium. In fiscal year 2007, four-year campuses charged an average of $8,246 for a full-time Ohio resident undergraduate student and two-year campuses charged an average of $3,565 per full-time student. For all campuses the average in-state undergraduate tuition was $6,224 per full-time student in fiscal year 2007. The freeze in tuition represents a tremendous relief to students and their families who have experienced double-digit percentage increases in tuition in recent years.

Expansion of Medicaid Coverage
In the first major expansion of eligibility since fiscal year 2000, HB 119 expanded Medicaid coverage to children whose parents earn up to 300 percent of federal poverty limit (FPL), to foster children who have been emancipated up to age 21, and to pregnant women with incomes up to 200 percent of FPL. In addition, parents who have an income over 300 percent of the poverty level now have the opportunity to participate in a Medicaid buy-in option for their uninsured children. Also, disabled adults can buy their own health care coverage through the Medicaid program. These expansions will ensure that Ohioans will no longer have to choose between work and affordable health care.

AWARDS AND ACKNOWLEDGEMENTS
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, 2006. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This 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. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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. I encourage you to access Ohio's *Comprehensive Annual Financial Report* and *Budgetary Financial Report* at http://www.obm.ohio.gov.

Respectfully submitted,

J. Pari Sabety
Director

STATE OF OHIO OFFICIALS

As of June 30, 2007

EXECUTIVE

Ted Strickland
Governor

Lee Fisher
Lieutenant Governor

Marc Dann
Attorney General

Mary Taylor, CPA
Auditor of State

Richard Cordray
Treasurer of State

Jennifer Brunner
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)

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)

JUDICIAL

Supreme Court
Chief Justice and
6 Justices

LEGISLATIVE — Governmental Activities:

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

EXECUTIVE — 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
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 — Governmental Activities:

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

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
Expositions 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
eTech Ohio Commission

Discretely Presented Component Units (continued):
State Universities:
Bowling Green State University
Cleveland State University
Miami University
Ohio University
University of Akron
University of Toledo
Youngstown State University
Central State University
Kent State University
Ohio State University
Shawnee State University
University of Cincinnati
Wright 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 Housing Finance Agency
Ohio Legal Assistance Foundation
Ohio Turnpike Commission
Petroleum Underground Storage Tank Release Compensation Board

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Ohio

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

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

President

Executive Director