

**Ohio Office of Budget  
and Management**

State of Ohio  
*Ted Strickland*  
**Governor**



**OHIO**

C	O	M	P	R	E	H	E	N	S	I	V	E
A	N	N	U	A	L							
F	I	N	A	N	C	I	A	L				
R	E	P	O	R	T							

FOR THE FISCAL YEAR  
ENDED JUNE 30, 2008

# **INTRODUCTORY SECTION**





October 5, 2009

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, 2008, 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 ix and x.

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 between 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 entered the eleventh business cycle recession of the post-war period in December 2007. The contraction continued throughout 2008 and well into 2009, resulting in the most severe drop-off in real GDP since World War II. Real GDP decreased by 3.9 percent from its peak in the second quarter of 2008 to the second quarter of 2009. The decline was similar in degree to the 3.7 percent peak-to-trough drop during the 1957-58 recession and the 3.2 percent drop during the 1973-75 recession.

For all of 2008 compared with 2007, real GDP increased by 0.4 percent — the weakest calendar year change since the recession year of 1991. Real GDP decreased 6.4 percent and one percent in the first two quarters of 2009, respectively.

Substantial increases in energy costs caused consumer prices to accelerate through most of 2008. The Consumer Price Index (CPI) increased 3.8 percent for the year, up from 2.9 percent in 2008, reflecting a 13.5 percent rise in consumer energy prices. The downturn in energy prices and the abrupt fall-off in economic activity in the second half of 2008 reversed the course of consumer prices, causing the CPI to decrease from the third quarter of 2008 to the second quarter of 2009.

The Federal Reserve implemented an unprecedented series of actions to stabilize financial markets and the economy, including doubling the size of its balance sheet through new lending programs and reducing the target for the federal funds rate to approximately zero by mid-December 2008. Policymakers expect to keep the target interest rate near zero for an "extended period," which most analysts expect to mean at least until early 2010.

U.S. employment decreased by 6.7 million jobs, or 4.8 percent, from its peak in December 2007 through July 2009 — the largest percentage drop in employment during a recession since the downturn of 1947-48. Approximately one-half of the decline in employment occurred in construction and manufacturing (3.3 million). Job losses in trade, transportation and utilities (1.5 million) and professional and business services (1.5 million) accounted for most of the remainder. The unemployment rate increased to a 26-year high of 9.4 percent in July 2009 from five percent in December 2007.

Ohio employment decreased by 296 thousand jobs during the December 2007 to July 2009 period. The pattern of job losses across industries was similar to the pattern at the national level. Ohio manufacturing employment declined by 149 thousand jobs, followed by professional and business services (61 thousand), trade, transportation and utilities (53 thousand) and construction (40 thousand). The Ohio unemployment rate increased to a 26-year high of 11.2 percent in July 2009 from 5.8 percent in December 2007.

The weakness in labor markets affected earnings to an increasing degree through 2008 and into 2009. Despite expanded federal income support programs, U.S. personal income fell 2.5 percent from the second quarter of 2008 to the second quarter of 2009. The drop included a steep decline at a rate of 8.9 percent in the first quarter of 2009. The decline in income reflected decreases in employment levels and hours worked and weaker growth in average hourly earnings.

After growing at a rate of four percent to 4.5 percent during the two years ending in mid-2008, Ohio personal income decreased one percent from the second quarter of 2008 through the first quarter of 2009. Recent trends in employment and earnings indicate that Ohio incomes continued to fall through at least mid-2009.

The 2007-09 recession was precipitated by years of speculation in housing and risk-taking in financial markets that were facilitated by what many consider to be excessively low interest rates in the early and mid-2000s. The sharp rise in the price of oil starting in 2007, the rise in mortgage loan delinquencies and the subsequent failure or near failure of major

financial institutions created a panic in September 2008 that caused households and businesses to curtail spending significantly.

The most recent economic data indicate that the recession, which officially began in December 2007, ended in the spring or summer of 2009. The smoothed growth rate of the Weekly Leading Index compiled by the Economic Cycle Research Institute, for example, increased from its record low in early December 2009 to near the highest level on record in mid-August 2009. The Composite Leading Economic Index compiled by the Conference Board also indicates that the recession has ended or will end in the summer of 2009.

Industrial production reached its trough for the cycle within one month of the end of past recessions. Production increased in July, strongly suggesting that the recession ended in the May-July period. In addition, purchasing managers in manufacturing issued the most upbeat report since June 2007 for August, indicating that the manufacturing sector expanded for a second straight month.

The likelihood that the economy is transitioning from recession to recovery (the period during which activity regains the previous peak) is high. According to *Blue Chip Economic Indicators*, the consensus among forecasters is that the recovery from the 2007-09 recession will be slow compared with past recoveries. In early August, the strong consensus among the panel of approximately fifty forecasters was that the economy would begin to recover before the end of the third quarter.

The strength and duration of the recovery and subsequent expansion (the period during which activity rises above the previous peak), however, remain in question. The Blue Chip panel projected in early August that real GDP will expand by 2.4 percent during the first year of recovery. That would be weaker than the first-year recovery from every one of the ten previous recessions, during which growth averaged almost seven percent. The economy expanded only 2.3 percent following the 2001 recession and only 2.7 percent following the 1990-91 recession – the two most recent recessions. The panel foresees growth remaining below three percent in the second half of 2010.

The Blue Chip panel expects that the unemployment rate will rise to a peak of 10.2 percent in the first quarter of 2010, and a majority expect the rate to remain above seven percent until mid-2012. Most do not expect a permanent uptrend in home prices before the end of 2010.

In Ohio, IHS Global Insight projects the unemployment rate to peak at 11.8 percent in the first quarter of 2010 and remain at eleven percent at the end of 2011. Ohio employment is projected to

continue decreasing through the third quarter of 2010, with little growth projected through 2011.

The pace of U.S. economic growth during the next several years is anticipated to fall well short of the 3.25 percent rate during 1947-2009 for several reasons:

- The paying down of debt by households and businesses will subtract from growth instead of adding to growth as the accumulation of debt did during the expansion of the 2000s;
- The tremendous decrease in wealth from the decline in financial markets and housing prices will reduce consumption;
- Weakness in overseas economies will restrain growth in U.S. exports; and
- Housing construction will remain subdued even after the steep decrease ends.

In Ohio, economic activity is expected to be restrained by:

- The downsizing in the domestic motor vehicle industry;
- Weak export markets; and
- Unfavorable demographics.

In the near term, U.S. economic growth could rebound temporarily by more than previously anticipated before ultimately giving way to disappointing growth longer term. In April, the Blue Chip consensus was that real GDP would grow at an annual rate of one percent in the second half of 2009. In light of more-positive-than-expected trends in employment and production since then, the consensus for second-half growth was revised up to 2.25 percent in early August. The economy could benefit more than is widely anticipated in the near term from:

- The ramping up of federal spending authorized by the American Recovery and Reinvestment Act;
- Extraordinarily accommodative monetary policy, which is pegging short-term interest rates at generational lows and ensuring the availability of credit to key segments of the money and capital markets; and
- The typically powerful effect on real GDP growth for a few quarters when businesses shift from cutting to building inventories.

Threats to the economic outlook include:

- The scheduled expiration of the 2003 federal income tax cuts at the end of 2010;
- The extremely large projected federal budget deficits, which could undermine the foreign exchange value of the dollar and push inflation and interest rates up;

- A major wave of residential mortgage rate resets beginning in late 2009 and extending through 2011 that could lead to defaults, foreclosures and renewed downward pressure on home prices; and
- A continuation of the trend toward rising delinquencies on commercial real estate loans could lead to further deterioration of banks' balance sheets and force property prices lower.

Following a severe recession, the U.S. economy appears to be expanding in the third quarter of 2009, judging by leading indicators. The end of the recession is a turning point that designates the beginning of the process of reclaiming losses experienced during the previous recession. With unemployment above nine percent and possibly headed to more than ten percent and with employment down by nearly seven million jobs, the economy has a long way to go to return to the peak prior to the recession.

The panic that engulfed financial markets in the late summer of 2008 has been arrested and the steep drop-off in economic activity that followed appears to have run its course. Leading indicators point to recovery as soon as the second half of 2009, and a growing list of coincident economic indicators shows that various sectors of the economy are beginning to improve. Extraordinary monetary policy measures and large planned increases in federal government outlays will support activity during the balance of 2009 and in 2010. Economic growth could exceed previous expectations in the near term, but a variety of factors are expected to keep growth well below the average in past expansions.

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

### **State Operating Budget**

With enactment of Amended Substitute House Bill 119 (HB 119), the State's main operating budget, Ohio's general revenue fund (GRF) appropriations for fiscal years 2008-2009 represented the slowest growth biennial budget in more than 40 years; in part reflecting the continued implementation of comprehensive tax reform (discussed below). As a result of difficult choices to limit overall spending, Ohio focused available funding on its most important priorities of primary and secondary education, higher education, and providing health care eligibility to those most in need. Appropriated spending increases for major programs over fiscal years 2006-2007 actual expenditures were 13.2 percent for higher education; 5.3 percent for elementary and secondary education; 4.9 percent for corrections and youth services; 4.7 percent for mental health and mental disabilities; and 2.2 percent for Medicaid (HB 119 also included a number of Medicaid reform and

cost containment initiatives). Similar to the fiscal years 2006-2007 budget, the fiscal years 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 signals warned of the financial crisis in September 2008, the State's major revenue sources and spending patterns were closely monitored and projections reduced for both fiscal years 2008 and 2009. The Governor restored budgetary balance by, among other actions, issuing a comprehensive executive order in January 2008 directing expenditure reductions and spending controls, as well as by placing limitations on major purchases, hiring, and travel. Understanding the importance of investments in education for Ohio's economy, the Governor expressly excluded from cutback those appropriations for higher education instructional support, primary and secondary education foundation formula support, Medicaid programs, and property tax relief payments.

As a result of the national recession induced by the September 2008 financial crisis and contraction in credit markets, revenue receipts and projections steadily declined over fiscal years 2008 and 2009, culminating in a year over year loss of 12 percent in personal income tax revenues, even more severe than anticipated. The State's original revenue projections had already anticipated an unprecedented eight percent loss. A total of \$1.5 billion was reduced in agency spending from HB 119 levels in a series of continuous actions taken to offset the steady decline in revenue. The Administration's approach was to take aggressive actions to reduce expenditures to end the fiscal year in balance, while maintaining key investments. Under the Governor's Executive Order, a series of budget directives were issued to tightly control spending, including:

- In September 2008, further reduction actions were announced and implemented, including an additional 4.75 percent reduction in most agency appropriations.
- Agency appropriations were reduced by an additional 5.75 percent in December 2008. Reductions in total Medicaid program spending were also implemented.
- In April 2009, the Governor ordered additional expenditure controls.
- Additional savings were secured by restructuring fiscal year 2009 GRF debt service, in accordance with the State's debt management policy.
- In June 2009, the Governor received General Assembly approval for and subsequently used the remaining balance of the Budget Stabilization Fund.



### **Stimulating Ohio's Economy**

In addition to key investments made by HB 119 and in response to the national economic downturn, the Governor proposed an economic stimulus plan in March 2008 to stimulate Ohio's economy through investments in logistics and distribution, bio-products and bio-medical research, advanced and renewable energy, local government infrastructure, conservation projects, and brownfield revitalization projects. In June, the Governor signed a \$1.57 billion bipartisan economic stimulus package, passed by the Ohio General Assembly, that mirrored the Governor's proposals and added funding for higher education workforce programs and expanded the State's historic preservation tax credits.

### **Continued Implementation of Comprehensive Tax Reform**

The State's fiscal years 2008-2009 operating budget continued implementation of Ohio's comprehensive tax reform, undertaken in calendar year 2005. As described extensively in prior financial reports, this tax reform was a significant overhaul of Ohio's state and local tax structure and designed to spur strong business development and new jobs. Over time the reform is expected to result in a stable and predictable tax base for all taxpayers with annualized tax relief of over \$2 billion. Being phased-in between fiscal years 2006 and 2010, major components of the reform 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 fiscal year 2010, the estimated reductions in revenues to the State's general revenue fund will reach over \$2 billion. However, state taxes are not the only taxes reduced in this reform. Elimination of the local general business tangible personal property tax increases the size of the overall tax cut.

### **Improved Financial Management**

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

### **Accountability and Performance**

Ohio continues to 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 continued to improve its financial management and decision making when it completed deployment of a comprehensive enterprise information system throughout state government. The enterprise installation will be the most comprehensive enterprise IT system operating at a state level in the nation. Three primary stages of the Ohio Administrative Knowledge System (OAKS) have been deployed. The initial stage of OAKS, which went live in December 2006, implemented a new human resource system for state agencies to manage payroll and personnel. The second stage of OAKS implementation, which went live in July 2007, provided the Office of Budget and Management with new, enhanced financial management and reporting tools. The third stage of OAKS implementation, which went live in July 2008, deployed new, enhanced budget decision and management tools. In addition to providing new decision and management tools to public managers, OAKS implementation required that the State work to upgrade skills and invest in human capital development in the workforce across agencies.

### **Cash Management**

The Treasurer of State and the Office of Budget and Management 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 the unique spending patterns of each state agency to develop an updated cash flow model. The updated cash flow model will enable the Treasurer of State and the Office of Budget and Management to revise their investment strategies for improved return on investment of state resources.

### **Investment in Strategic Priorities**

Ohio's investments in strategic priorities are focused 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 the per pupil basic aid amount increased by three 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 the previous fiscal year regardless of whether their enrollment declined. This guarantee is intended to provide stability and reduce potential adverse impacts from both extensive formula changes and House Bill 66 tax reform policies.

In HB 119, school reliance on property tax revenues was reduced and the State expanded its overall role in supporting education through a new Homestead Tax Exemption for Ohio's seniors and Ohioans with disabilities. Tax relief through the Homestead Tax Exemption is reimbursed by the State to schools and local governments, ensuring no local entity loses property tax revenue as a result of the program expansion.

#### **Tobacco Securitization: Meeting Educational Facility Needs and Expanding 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. Securitization of the tobacco settlement receipts (TSRs) in October 2007 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 the additional property tax relief through the expansion of the homestead tax exemption, detailed above.

#### **Increased Investment in Higher Education**

To supplement the general operations of the State's 13 four-year universities, 24 regional branch campuses, one free standing medical college, 15 community colleges, and eight technical colleges, HB 119 appropriated over \$3.5 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 the 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 the 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**

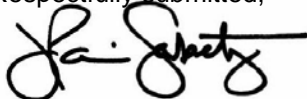
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Ohio for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2007. In order to be awarded a Certificate 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.

### **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* at <http://www.obm.ohio.gov>.

Respectfully submitted,



J. Pari Sabety  
Director

# **STATE OF OHIO OFFICIALS**

As of June 30, 2008

## **EXECUTIVE**

Ted Strickland  
Governor

Lee Fisher  
Lieutenant Governor

Nancy Rogers  
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

<b>FINANCIAL REPORTING ENTITY</b>		
<b>PRIMARY GOVERNMENT</b>		
<b>LEGISLATIVE</b>	<b>EXECUTIVE</b>	<b>JUDICIAL</b>
<p><b>Senate</b> (33 Members)</p> <p><b>House of Representatives</b> (99 Members)</p>	<p><b>Governor</b></p> <p><b>Lieutenant Governor</b></p> <p><b>Attorney General</b></p> <p><b>Auditor of State</b></p> <p><b>Secretary of State</b></p> <p><b>Treasurer of State</b></p> <p><b>State Board of Education</b> (11 Elected Members, and 6 At-Large Members)</p>	<p><b>Supreme Court</b> Chief Justice and 6 Justices</p>
<p><b>Governmental Activities:</b> <i>General Government:</i> Senate House of Representatives Legislative Service Commission Legislative Committees</p>	<p><b>Governmental Activities:</b> <i>Primary, Secondary and Other Education:</i> Arts Council Department of Education Educational Telecommunications School for the Blind School for the Deaf State Library Board</p> <p><i>Higher Education Support:</i> Board of Regents Career Colleges and Schools Board</p> <p><i>Public Assistance and Medicaid:</i> Department of Job and Family Services</p> <p><i>Health and Human Services:</i> 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</p> <p><i>Justice and Public Protection:</i> 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</p> <p><i>Environmental Protection and Natural Resources:</i> Department of Natural Resources Environmental Protection Agency Environmental Review Appeals Lake Erie Commission</p> <p><i>Transportation:</i> Department of Transportation</p>	<p><b>Governmental Activities:</b> <i>Justice and Public Protection:</i> Supreme Court Judicial Conference Judiciary Court of Claims</p>

**PRIMARY GOVERNMENT (Continued)**

	<p><i>General Government:</i>                  Capitol Square Review &amp; 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</p> <p><i>Community and Economic Development:</i>                  Department of Agriculture                  Department of Development                  Expositions Commission                  Public Works Commission                  Southern Ohio Agricultural &amp; Community Development Foundation</p> <p><b>Business-Type Activities:</b>                  Bureau of Workers' Compensation and Industrial Commission                  Capitol Square Review &amp; 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</p>	
--	--	--

**COMPONENT UNITS**

<p><b>Blended Component Units:</b>                  Ohio Building Authority                  (included in Governmental and Business-Type Activities)                  State Highway Patrol Retirement System                  (included as Fiduciary Activities)                  Buckeye Tobacco Settlement Financing Authority                  (included as Governmental Activities)</p> <p><b>Discretely Presented Component Units:</b>  <i>Financing Authorities:</i>                  Ohio Air Quality Development Authority                  Ohio Water Development Authority                  Ohio Capital Fund</p> <p><i>Commissions:</i>                  Cultural Facilities Commission                  School Facilities Commission                  eTech Ohio Commission</p>	<p><b>Discretely Presented Component Units (continued):</b>  <i>State Universities:</i>                  Bowling Green State University      Central State University                  Cleveland State University      Kent State University                  Miami University      Ohio State University                  Ohio University      Shawnee State University                  University of Akron      University of Cincinnati                  University of Toledo      Wright State University                  Youngstown State University</p> <p><i>State Community Colleges:</i>                  Cincinnati State      Clark State                  Columbus State      Edison State                  Northwest State      Owens State                  Southern State      Terra State                  Washington State</p>
---	---

<b>JOINT VENTURES</b>	<b>RELATED ORGANIZATIONS</b>
Great Lakes Protection Fund Local Community Colleges Technical Colleges	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, 2007

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.



A handwritten signature in black ink, appearing to read "M. L. R. R. T."

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emmer".

Executive Director