

**Ohio Office of Budget
and Management**

State of Ohio
Ted Strickland
Governor



OHIO

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FOR THE FISCAL YEAR
ENDED JUNE 30, 2009

State of Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2009

(Unaudited)

Introduction

This section of the State of Ohio's annual financial report presents management's discussion and analysis of the State's financial performance during the fiscal year ended June 30, 2009. The management's discussion and analysis section should be read in conjunction with the preceding transmittal letter and the State's financial statements, which follow.

Financial Highlights

Government-wide Financial Statements

During fiscal year 2009, net assets of the State's primary government decreased by \$3.25 billion and ended fiscal year 2009 with a balance of \$20.47 billion. Net assets of the State's component units decreased by \$1.92 billion and ended fiscal year 2009 with a balance of \$11.87 billion. Additional discussion of the State's government-wide balances and activities, as of and for the year ended June 30, 2009, can be found beginning on page 7.

Fund Financial Statements

Governmental funds reported combined ending fund balances of \$9.89 billion that was comprised of \$5.74 billion reserved for specific purposes, such as for debt service, state and local highway construction, and federal programs; \$6.37 billion reserved for nonappropriable items, such as encumbrances, noncurrent loans receivable, loan commitments, and inventories; and a \$2.22 billion deficit. The balances and activities of the State's governmental funds are discussed further beginning on page 12.

As of June 30, 2009, the General Fund's fund balance was approximately \$773.8 million, including \$67.9 million reserved for "other" specific purposes, as detailed in NOTE 17; and \$492.9 million reserved for nonappropriable items. The General Fund's fund balance decreased by \$1.83 billion (exclusive of a \$150 thousand decrease in inventories) or 70.2 percent during fiscal year 2009. The balances and activities of the General Fund are discussed further beginning on page 12.

Proprietary funds reported net assets of \$1.91 billion, as of June 30, 2009, a decrease of \$1.23 billion since June 30, 2008. This decrease is largely due to the net decrease of \$1.21 billion in the Unemployment Compensation Fund and the net decrease of \$32.6 million in the nonmajor funds. The balances and activities of the proprietary funds are discussed further beginning on page 14.

Capital Assets

The carrying amount of capital assets for the State's primary government increased to \$25 billion at June 30, 2009. The majority of the \$238.3 million increase during fiscal year 2009 was the acquisition of land and highway network infrastructure and construction-in-progress. Further discussion of the State's capital assets can be found beginning on page 16.

Long-Term Debt — Bonds and Notes Payable and Certificates of Participation Obligations

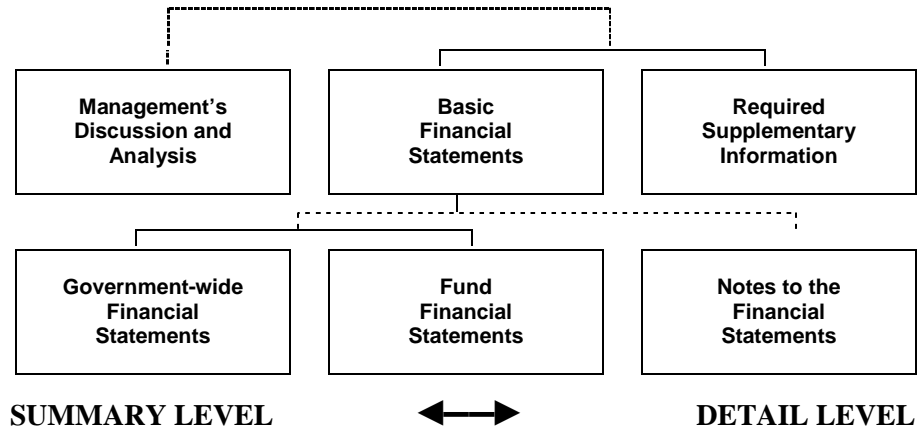
Overall, the carrying amount of total long-term debt for the State's primary government decreased \$84 million or .51 percent during fiscal year 2009 and reported an ending balance of \$16.51 billion. During the year, the State issued, at par, \$801.8 million in general obligation bonds, \$425 million in revenue bonds, \$241.4 million in special obligation bonds, and \$39.1 million in certificates of participation. Of the general obligation bonds and special obligation bonds issued, at par, \$461.8 million and \$44.7 million, respectively, were refunding bonds. Additional discussion of the State's bonds and certificates of participation can be found beginning on page 17.

Overview of the Financial Statements

This annual report consists of management’s discussion and analysis, basic financial statements, including the accompanying notes to the financial statements, required supplementary information, and combining statements for the nonmajor governmental funds, nonmajor proprietary funds, fiduciary funds, and nonmajor discretely presented component unit funds. The basic financial statements are comprised of the government-wide financial statements and fund financial statements.

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

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



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

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

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

The basic financial statements section includes notes that more fully explain the information in the government-wide and fund financial statements; the notes provide more detailed data that are essential to a full understanding of the data presented in the financial statements. The notes to the financial statements can be found on pages 54 through 146 of this report.

In addition to the basic financial statements and accompanying notes, a section of required supplementary information further discusses the assessed condition and estimated and actual maintenance and preservation costs of the state’s highway and bridge infrastructure assets that are reported using the modified approach. Limited in application to a government’s infrastructure assets, the modified approach provides an alternative to the traditional recognition of depreciation expense. Required supplementary information can be found on pages 147 through 150 of this report.

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

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

	Fund Statements			
	Government-wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire State government (except fiduciary funds) and the State's component units	The activities of the State that are not proprietary or fiduciary, such as general government, transportation, justice and public protection, etc.	Activities the State operates similar to private businesses, such as the workers' compensation insurance program, lottery, tuition credit program	Instances in which the State is the trustee or agent for someone else's resources
Required Financial Statements	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Revenues, Expenses and Changes in Fund Net Assets • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

Government-wide Financial Statements

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

The two government-wide financial statements report the State's net assets and how they have changed. Net assets — the difference between the State's assets and liabilities — is one way to measure the State's financial health, or position. Over time, increases or decreases in the State's net assets indicate whether its financial health has improved or deteriorated, respectively. However, a reader should consider additional nonfinancial factors such as changes in the State's economic indicators and the condition of the State's highway system when assessing the State's overall financial status.

The State's government-wide financial statements, which can be found on pages 22 through 25 of this report, are divided into three categories as follows.

Governmental Activities — Most of the State's basic services are reported under this category, such as primary, secondary and other education, higher education support, public assistance and Medicaid, health and human services, justice and public protection, environmental protection and natural resources, transportation, general government, and community and economic development. Taxes, federal grants, charges for services, including license, permit, and other fee income, fines, and forfeitures, and restricted investment income finance most of these activities.

Business-type Activities — The State charges fees to customers to help cover the costs of certain services it provides. The State reports the following programs and activities as business-type: workers' compensation insur-

ance program, lottery operations, unemployment compensation program, the leasing and maintenance operations of the Ohio Building Authority, guaranteed college tuition credit program, liquor control operations, underground parking garage operations at the statehouse, and the Auditor of State's governmental auditing and accounting services.

Component Units — The State presents the financial activities of the School Facilities Commission, Cultural Facilities Commission, eTech Ohio Commission, Ohio Water Development Authority, Ohio Air Quality Development Authority, the Ohio Capital Fund, and 22 state-assisted colleges and universities as discretely presented component units under a separate column in the government-wide financial statements. The Buckeye Tobacco Settlement Financing Authority and the Ohio Building Authority are presented as blended component units with their activities blended and included under governmental and business-type activities. Although legally separate, the State is financially accountable for its component units, as is further explained in NOTE 1A. to the financial statements.

Fund Financial Statements

The fund financial statements provide more detailed information about the State's most significant funds — not the State as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. State law and bond covenants mandate the use of some funds. The Ohio General Assembly establishes other funds to control and manage money for particular purposes or to show that the State is properly using certain taxes and grants. The State employs fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The State has three kinds of funds — governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds — Most of the State's basic services are included in governmental funds, which focus on how cash and other financial assets that can readily be converted to cash flow in and out (i.e., near-term inflows and outflows of spendable resources) and the balances remaining at year-end that are available for spending (i.e., balances of spendable resources). Consequently, the governmental fund financial statements provide a detailed short-term view that helps the financial statement reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs. The State prepares the governmental fund financial statements applying the modified accrual basis of accounting and a current financial resources focus. Because this information does not encompass the additional long-term focus of the government-wide statements, a reconciliation schedule, which follows each of the governmental fund financial statements, explains the relationship (or differences) between them.

The State's governmental funds include the General Fund and 15 special revenue funds, 25 debt service funds, and 11 capital projects funds. Under separate columns, information is presented in the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund and the Job, Family and Other Human Services, Education, Highway Operating, and Revenue Distribution special revenue funds, and the Buckeye Tobacco Settlement Financing Authority Revenue Bonds debt service fund, all of which are considered major funds. Data from the other 46 governmental funds, which are classified as nonmajor funds, are combined into an aggregated presentation under a single column on the basic governmental fund financial statements. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

The basic governmental fund financial statements can be found on pages 26 through 37 of this report while the combining fund statements and schedules can be found on pages 153 through 212.

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

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

for each of these nonmajor proprietary funds is provided in the form of combining statements elsewhere in this report.

The enterprise funds are the same as the State's business-type activities reported in the government-wide financial statements, but the proprietary fund financial statements provide more detail and additional information, such as information on cash flows. The basic proprietary fund financial statements can be found on pages 38 through 45 of this report while the combining fund statements can be found on pages 213 through 221.

Fiduciary Funds — The State is the trustee, or fiduciary, for assets that — because of a trust arrangement — can only be used for the trust beneficiaries. The State is responsible for ensuring the assets reported in these funds are used for their intended purposes. All of the State's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. The State excludes the State Highway Patrol Retirement System Pension Trust Fund, Variable College Savings Plan Private-Purpose Trust Fund, STAR Ohio Investment Trust Fund, and the agency funds from its government-wide financial statements because the State cannot use these assets to finance its operations. The basic fiduciary fund financial statements can be found on pages 46 through 49 of this report.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets. During fiscal year 2009, as shown in the table below, the combined net assets of the State's primary government decreased \$3.25 billion or 13.7 percent. Net assets reported for governmental activities decreased \$2.02 billion or 9.8 percent and business-type activities decreased \$1.23 billion, or 39.2 percent. Condensed financial information derived from the Statement of Net Assets for the primary government follows.

Primary Government Statement of Net Assets As of June 30, 2009 With Comparatives as of June 30, 2008 (dollars in thousands)						
	As of June 30, 2009			As of June 30, 2008 (as restated)		
	Governmental Activities	Business- Type Activities	Total Primary Government	Governmental Activities	Business- Type Activities	Total Primary Government
Assets:						
Current Assets and Other						
Noncurrent Assets	\$ 19,435,873	\$ 23,544,273	\$ 42,980,146	\$ 22,105,754	\$ 24,073,397	\$ 46,179,151
Capital assets	24,879,536	116,742	24,996,278	24,629,764	128,243	24,758,007
Total Assets	<u>\$ 44,315,409</u>	<u>\$ 23,661,015</u>	<u>\$ 67,976,424</u>	<u>\$ 46,735,518</u>	<u>\$ 24,201,640</u>	<u>\$ 70,937,158</u>
Liabilities						
Current and Other Liabilities...	\$ 8,707,862	\$ 67,592	\$ 8,775,454	\$ 8,971,924	\$ (188,199)	\$ 8,783,725
Noncurrent Liabilities.....	17,049,410	21,686,444	38,735,854	17,184,846	21,253,740	38,438,586
Total Liabilities.....	<u>\$ 25,757,272</u>	<u>\$ 21,754,036</u>	<u>\$ 47,511,308</u>	<u>\$ 26,156,770</u>	<u>\$ 21,065,541</u>	<u>\$ 47,222,311</u>
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	\$ 22,325,346	\$ 37,059	\$ 22,362,405	\$ 21,983,900	\$ 32,068	\$ 22,015,968
Restricted.....	2,343,646	80,131	2,423,777	2,601,580	521,766	3,123,346
Unrestricted.....	(6,110,855)	1,789,789	(4,321,066)	(4,006,732)	2,582,265	(1,424,467)
Total Net Assets	<u>\$ 18,558,137</u>	<u>\$ 1,906,979</u>	<u>\$ 20,465,116</u>	<u>\$ 20,578,748</u>	<u>\$ 3,136,099</u>	<u>\$ 23,714,847</u>

As of June 30, 2009, the primary government's investment in capital assets (i.e., land, buildings, land improvements, machinery and equipment, vehicles, infrastructure, and construction-in-progress), less related outstanding debt, was \$22.36 billion. Restricted net assets were approximately \$2.42 billion, resulting in a \$4.32 billion deficit. Net assets are restricted when constraints on their use are 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) legally imposed through constitutional or enabling legislation. Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The government-wide Statement of Net Assets reflects a \$6.11 billion deficit for unrestricted governmental activities. The State of Ohio, like many other state governments, issues general and special obligation debt, the proceeds of which benefit local governments and component units. The proceeds are used to build facilities for public-assisted colleges and universities and local school districts and finance infrastructure improvements for local governments. The policy of selling general obligation and special obligation bonds for these purposes has been the practice for many years. Of the \$9.56 billion of outstanding general obligation and special obligation debt at June 30, 2009, \$6.88 billion is attributable to debt issued for state assistance to component units (School

Facilities Commission and the colleges and universities) and local governments. The balance sheets of component unit and local government recipients reflect ownership of the related constructed capital assets without the burden of recording the debt. Unspent proceeds related to these bond issuances are included on the Statement of Net Assets as restricted net assets. By issuing such debt, the State is left to reflect significant liabilities without the benefit of recording the capital assets constructed with the proceeds from the debt issuances.

Additionally, as of June 30, 2009, the State's governmental activities have significant unfunded liabilities for compensated absences in the amount of \$341.5 million (see NOTE 14A.) and a \$767 million interfund payable due to the workers' compensation component of business-type activities for the State's workers' compensation liability (see NOTE 7A.). These unfunded liabilities also contribute to the reported deficit for governmental activities.

Condensed financial information derived from the Statement of Activities, which reports how the net assets of the State's primary government changed during fiscal years 2009 and 2008, follows.

	Fiscal Year 2009			Fiscal Year 2008 (as restated)		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Program Revenue:						
Charges for Services, Fees, Fines and Forfeitures	\$ 3,648,227	\$ 6,750,214	\$ 10,398,441	\$ 3,539,963	\$ 6,418,651	\$ 9,958,614
Operating Grants, Contributions and Restricted Investment Income/ (loss)	18,225,832	1,028,756	19,254,588	15,123,481	877,482	16,000,963
Capital Grants, Contributions and Restricted Investment Income/ (loss)	1,198,200	-	1,198,200	1,070,309	-	1,070,309
Total Program Revenues	23,072,259	7,778,970	30,851,229	19,733,753	7,296,133	27,029,886
General Revenues:						
General Taxes	19,520,744	-	19,520,744	22,044,780	-	22,044,780
Taxes Restricted for Transportation	1,743,151	-	1,743,151	1,820,336	-	1,820,336
Tobacco Settlement	366,197	-	366,197	362,897	-	362,897
Escheat Property	117,172	-	117,172	185,016	-	185,016
Unrestricted Investment Income	(8,765)	-	(8,765)	250,293	-	250,293
Federal	-	-	-	2	-	2
Other	134	321	455	200	19	219
Total General Revenues	21,738,633	321	21,738,954	24,663,524	19	24,663,543
Total Revenue	44,810,892	7,779,291	52,590,183	44,397,277	7,296,152	51,693,429
Expenses:						
Primary, Secondary and Other education	11,888,145	-	11,888,145	11,304,014	-	11,304,014
Higher Education Support	2,967,485	-	2,967,485	2,729,423	-	2,729,423
Public Assistance and Medicaid	17,903,102	-	17,903,102	16,003,345	-	16,003,345
Health and Human Services	4,061,765	-	4,061,765	3,651,313	-	3,651,313
Justice and Public Protection	3,251,316	-	3,251,316	3,128,087	-	3,128,087
Environmental Protection and Natural Resources	413,398	-	413,398	393,704	-	393,704
Transportation	2,171,475	-	2,171,475	2,078,732	-	2,078,732
General Government	642,467	-	642,467	746,485	-	746,485
Community and Economic Development	4,265,827	-	4,265,827	4,017,838	-	4,017,838
Interest on Long term Debt (excludes interest charged as program expense)	165,908	-	165,908	173,934	-	173,934
Workers' Compensation	-	2,158,753	2,158,753	-	2,675,254	2,675,254
Lottery Commission	-	1,774,308	1,774,308	-	1,704,848	1,704,848
Unemployment Compensation	-	3,485,941	3,485,941	-	1,333,180	1,333,180
Ohio Building Authority	-	26,837	26,837	-	28,117	28,117
Tuition Trust Authority	-	94,888	94,888	-	121,673	121,673
Liquor Control	-	479,920	479,920	-	460,398	460,398
Underground Parking Garage	-	2,804	2,804	-	2,665	2,665
Office of Auditor of State	-	85,575	85,575	-	73,225	73,225
Total Expenses	47,730,888	8,109,026	55,839,914	44,226,875	6,399,360	50,626,235
Surplus/ (Deficiency) Before Transfers	(2,919,996)	(329,735)	(3,249,731)	170,402	896,792	1,067,194
Transfers - Internal Activities	899,385	(899,385)	-	885,842	(885,842)	-
Change In Net Assets	(2,020,611)	(1,229,120)	(3,249,731)	1,056,244	10,950	1,067,194
Net Assets, July 1	20,578,748	3,136,099	23,714,847	19,522,504	3,125,149	22,647,653
Net Assets, June 30	\$ 18,558,137	\$ 1,906,979	\$ 20,465,116	\$ 20,578,748	\$ 3,136,099	\$ 23,714,847

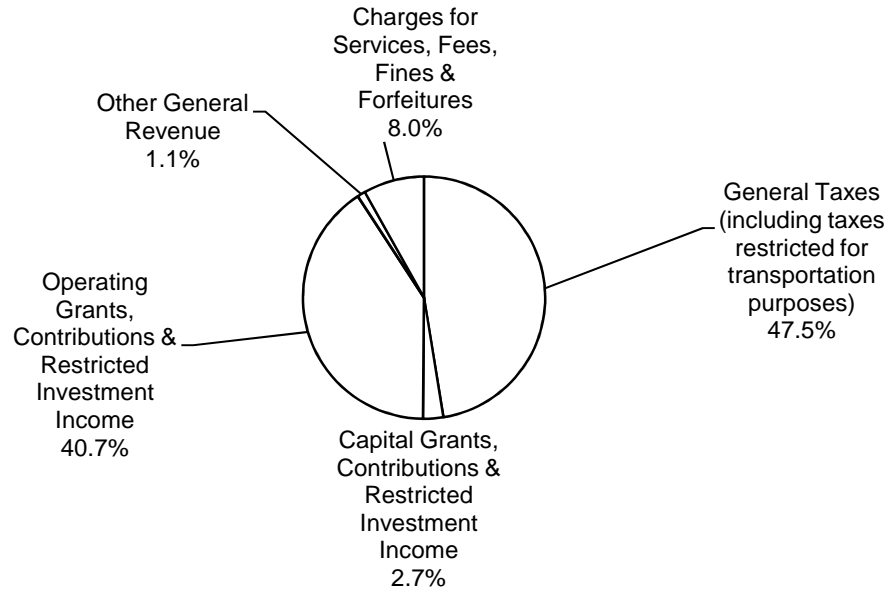
Governmental Activities

Expenses exceeded revenues during fiscal year 2009 for governmental activities. When combined with transfers from the State's business-type activities, net assets for governmental activities decreased from \$20.58 billion, at July 1, 2008, to \$18.56 billion, at June 30, 2009, or \$2.02 billion. Revenues for fiscal year 2009 in the amount of \$44.81 billion were .09 percent higher than those reported for fiscal year 2008. General taxes and operating grants, contributions and restricted investment income revenue fluctuated significantly. While general taxes represented 54 percent of total revenue in 2008, they accounted for 47.5 percent of total revenue in the current

year. This decrease is mainly attributable to the decrease of income taxes collected by the state during the current year due to the State's higher unemployment rate during fiscal year 2009. However, operating grants, contributions and restricted investment income revenue increased relative to total revenue from 34 percent in 2008 to 40.7 percent in 2009. This increase is mainly attributable to the increased federal assistance resulting from American Recovery and Reinvestment Act of 2009 (ARRA) for public assistance and Medicaid and health and human services. Net transfers for fiscal year 2009 also increased to \$899.4 million, or by 1.5 percent, when compared to fiscal year 2008. Expenses increased to the reported \$47.73 billion — a 7.9 percent increase over fiscal year 2008.

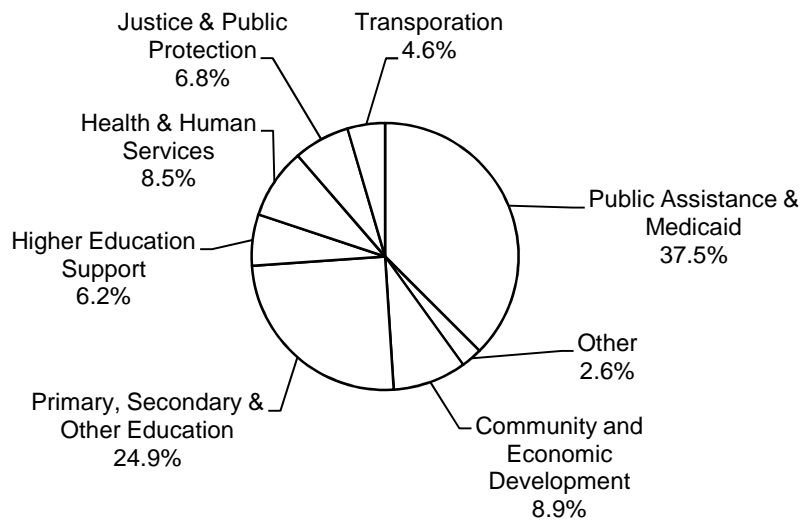
The following charts illustrate revenue by sources and expenses by program of governmental activities as percentages of total revenues and program expenses, respectively, as reported for the fiscal year ended June 30, 2009.

**Governmental Activities-Sources of Revenue
Fiscal Year 2009**



Total FY 09 Revenue for Governmental Activities = \$44.81 Billion

**Governmental Activities — Expenses by Program
Fiscal Year 2009**



FY 09 Program Expenses for Governmental Activities = \$47.73 Billion

The following tables present the total expenses and net cost of each of the State's governmental programs for the fiscal years ended June 30, 2009 and 2008. The net cost (total program expenses less revenues generated by the program) represents the financial burden that was placed on the State's taxpayers by each of these programs; costs not covered by program revenues are essentially funded with the State's general revenues, which are primarily comprised of taxes, tobacco settlement revenue, escheat property, and unrestricted investment income.

Program Expenses and Net Costs of Governmental Activities by Program
For the Fiscal Year Ended June 30, 2009
With Comparatives for the Fiscal Year Ended June 30, 2008
(dollars in thousands)

Program	For the Fiscal Year Ended June 30, 2009			
	Program Expenses	Net Cost of Program	Net Cost as Percentage of Total Expenses for Program	Net Cost as Percentage of Total Expenses—All Programs
Primary, Secondary and Other Education.....	\$ 11,888,145	\$ 10,096,740	84.9%	21.3%
Higher Education Support.....	2,967,485	2,923,884	98.5%	6.1%
Public Assistance and Medicaid.....	17,903,102	3,951,123	22.1%	8.3%
Health and Human Services.....	4,061,765	1,234,191	30.4%	2.6%
Justice and Public Protection.....	3,251,316	2,052,321	63.1%	4.3%
Environmental Protection and Natural Resources.....	413,398	111,485	27.0%	0.2%
Transportation.....	2,171,475	848,310	39.1%	1.8%
General Government.....	642,467	(185,588)	-28.9%	-0.4%
Community and Economic Development.....	4,265,827	3,460,255	81.1%	7.2%
Interest on Long-Term Debt.....	165,908	165,908	100.0%	0.3%
Total Governmental Activities.....	<u>\$ 47,730,888</u>	<u>\$ 24,658,629</u>	51.7%	<u>51.7%</u>

Program	For the Fiscal Year Ended June 30, 2008 (as restated)			
	Program Expenses	Net Cost of Program	Net Cost as Percentage of Total Expenses for Program	Net Cost as Percentage of Total Expenses—All Programs
Primary, Secondary and Other Education.....	\$ 11,304,014	\$ 9,569,754	84.7%	21.6%
Higher Education Support.....	2,729,423	2,677,003	98.1%	6.1%
Public Assistance and Medicaid.....	16,003,345	4,630,440	28.9%	10.5%
Health and Human Services.....	3,651,313	1,311,422	35.9%	3.0%
Justice and Public Protection.....	3,128,087	2,007,013	64.2%	4.5%
Environmental Protection and Natural Resources.....	393,704	109,153	27.7%	0.2%
Transportation.....	2,078,732	864,294	41.6%	2.0%
General Government.....	746,485	(130,206)	-17.4%	-0.3%
Community and Economic Development.....	4,017,838	3,280,315	81.6%	7.4%
Interest on Long-Term Debt.....	173,934	173,934	100.0%	0.4%
Total Governmental Activities.....	<u>\$ 44,226,875</u>	<u>\$ 24,493,122</u>	55.4%	<u>55.4%</u>

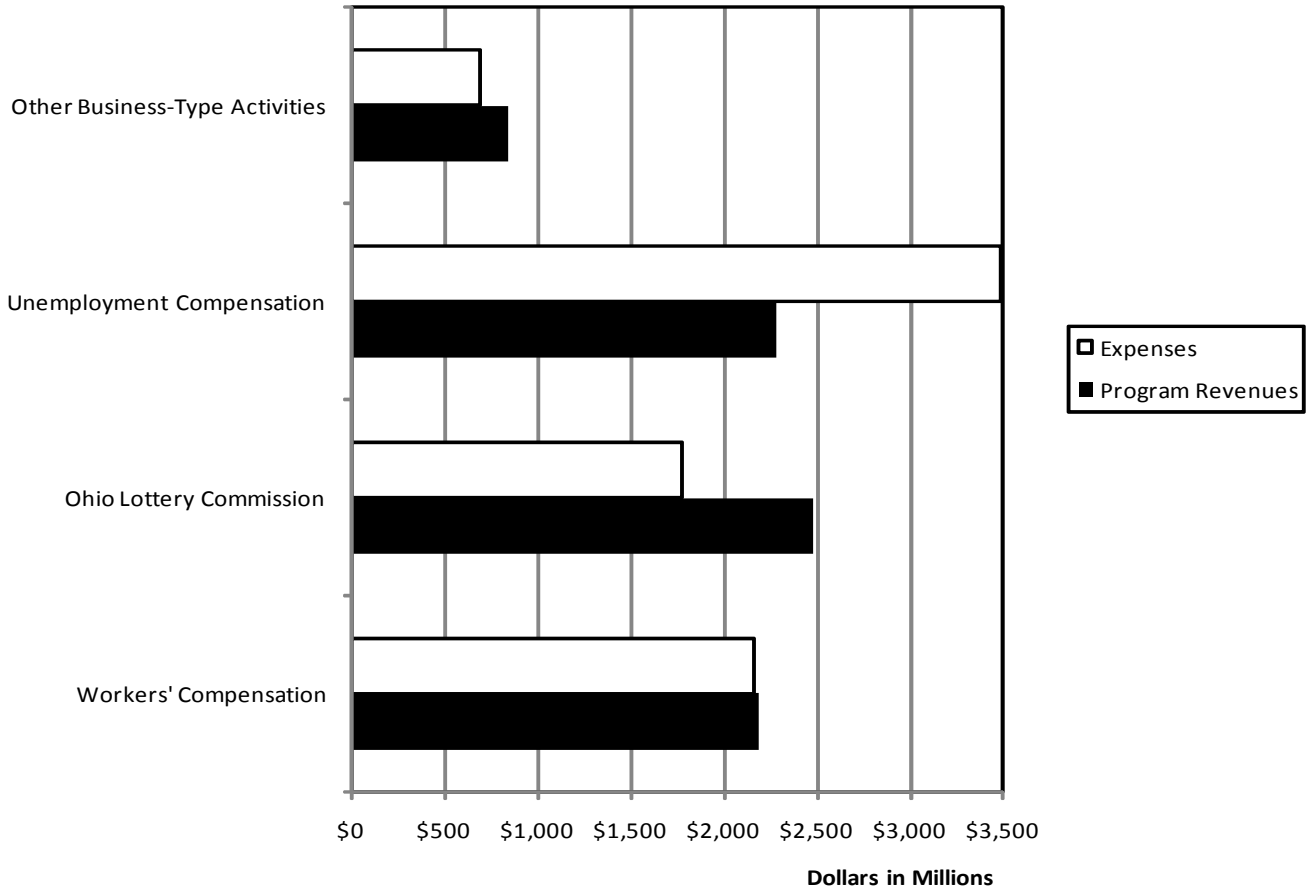
Business-Type Activities

The State's enterprise funds reported net assets of \$1.91 billion, as of June 30, 2009, as compared to \$3.14 billion in net assets, as of June 30, 2008, a decrease of 39.2 percent. The primary decrease in net assets for the business-type activities was the Unemployment Compensation Fund, which reported a net deficit of \$761.2 million, as of June 30, 2009, as compared to net assets of \$452.1 million, as of June 30, 2008, a \$1.21 billion decrease. The Tuition Trust Authority Fund reported a net deficit of \$52.8 million, as of June 30, 2009, as compared to a deficit of \$31.2 million, as of June 30, 2008, a \$21.6 million decrease. The Liquor Control Fund and the Office of the Auditor of State Fund also reported decreases in net assets. The Liquor Control Fund reported net as-

sets of \$26.1 million during fiscal year 2009 and \$30.3 million during fiscal year 2008, a decrease of 13.8 percent. The Office of the Auditor of State Fund reported net assets of \$12.3 million during fiscal year 2009 and \$16.2 million during fiscal year 2008, a decrease of 24.1 percent. The Workers' Compensation Fund and Lottery Commission Fund, however, both reported increases in net assets during fiscal year 2009. The net assets in the Workers' Compensation Fund increased \$12.1 million from \$2.5 billion, as of June 30, 2008, to \$2.51 billion, as of June 30, 2009. The net assets in the Lottery Commission Fund increased \$4.8 million from \$133.9 million, as of June 30, 2008, to \$138.7 million, as of June 30, 2009.

The chart below compares program expenses and program revenues for business-type activities.

**Business-Type Activities — Expenses and Program Revenues
Fiscal Year 2009**



Additional analysis of the Business-Type Activities revenues and expenses is included with the discussion of the Proprietary Funds beginning on page 14.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Governmental funds reported the following results, as of and for the fiscal years ended June 30, 2009 and June 30, 2008 (dollars in thousands).

	As of and for the Fiscal Year Ended June 30, 2009			
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unreserved/Undesignated Fund Balance.....	\$213,054	\$(1,852,180)	\$(585,363)	\$(2,224,489)
Total Fund Balance	773,816	6,563,436	2,548,703	9,885,955
Total Revenues	25,158,663	15,457,914	4,117,949	44,734,526
Total Expenditures	26,290,306	15,711,872	6,985,134	48,987,312

	As of and for the Fiscal Year Ended June 30, 2008			
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unreserved/Undesignated Fund Balance.....	\$844,713	\$(1,557,432)	\$(86,554)	\$(799,273)
Designated Fund Balance	1,012,288	—	—	1,012,288
Total Fund Balance	2,601,372	6,677,810	2,915,903	12,195,085
Total Revenues	26,384,411	14,079,990	3,667,901	44,132,302
Total Expenditures	25,122,540	14,225,795	6,390,859	45,739,194

General Fund

The main operating fund of the State is the General Fund. During fiscal year 2009, General Fund revenue decreased by \$1.23 billion while expenditures increased by \$1.17 billion. Other sources and uses showed a large decline of \$222.8 million when compared with fiscal year 2008. As a result, the fund balance decreased by \$1.83 billion (exclusive of a \$150 thousand increase in inventories) or 70.2 percent.

General Fund Budgetary Highlights

The State ended the second year of its 2008-09 biennial budget on June 30, 2009, with a General Fund budgetary fund balance (i.e., cash less encumbrances) of \$833.6 million. Total budgetary sources for the General Fund (including \$1.7 billion in transfers from other funds) in the amount of \$27.44 billion were below final estimates by \$1.2 billion or 4.2 percent during fiscal year 2009. Total tax receipts were below final estimates by \$950.9 million or 5.3 percent.

Total budgetary uses for the General Fund (including \$1.15 billion in transfers to other funds) in the amount of \$29.88 billion were below final estimates by \$1.94 billion or 6.1 percent for fiscal year 2009. The \$1.01 billion designated for budget stabilization purposes at June 30, 2008, was utilized in balancing the final fiscal year 2009 budget.

The appropriations act (Act) for the 2008-09 biennium for the General Revenue Fund (GRF), the largest, non-GAAP, budgetary-basis operating fund included in the State's General Fund, was passed by the General Assembly and signed (with selective vetoes) by the Governor on June 30, 2007. The Act provided for total GRF biennial revenue of approximately \$53.5 billion (a 3.9 percent increase over the 2006-07 biennial revenue) and total GRF biennial appropriations of approximately \$52.4 billion (a 2.1 percent increase over the 2006-07 biennial expenditures). Ohio's economy, being negatively affected by the national economic downturn, gave rise to consideration by the Governor and General Assembly to original revenue and expenditure projections in the 2008-09 Act. Consideration to GRF revenue shortfalls and increased costs associated with rising Medicaid caseloads resulted in several executive and legislative actions taken in fiscal year 2008 that affected the Act. The continued sluggish economy throughout fiscal year 2009, resulting in unprecedented revenue shortfalls, prompted additional executive and legislative action to balance the fiscal year 2009 budget.

September 2008. An additional \$540 million reduction in GRF revenue projections prompted the following actions:

- Use of additional planned fiscal year-end lapses and GRF carry forward totaling \$126.4 million.
- Use of balances in various non-GRF "rotary funds" totaling \$112 million.

- Transfer to the GRF an additional \$40 million of interest earnings on the proceeds of the tobacco securitization.
- A transfer from the Budget Stabilization Fund (BSF) to the GRF of \$63.3 million to pay for previously authorized Medicaid cost expenditures (transfer from the BSF was authorized in action taken in June 2008).
- The \$198.3 million balance was offset by a 4.75 percent reduction in most agency appropriations, excluding appropriations for debt service or tax relief, Medicaid and disability financial assistance, Department of Education aid to local school districts, the Department of Rehabilitation and Corrections and Youth Services and selected others.

December 2008. A further \$640.4 million reduction in GRF revenue projections for fiscal year 2009 resulted in the following actions to offset much of the shortfall:

- Reducing total GRF Medicaid spending by \$311.1 million by using cash from non-GRF Medicaid accounts and the corresponding federal share previously planned for use in fiscal year 2010.
- Reducing total Medicaid program spending by \$21.3 million by enhanced focus on use of other third party liability sources and other program savings exceeding original estimates.
- Reducing other GRF expenditures by \$180.5 million through a further 5.75 percent reduction in most agency appropriations, with the same exceptions indicated in the September action.
- The remaining \$131.9 million of the shortfall was offset by additional Federal Medical Assistance Payments (FMAP) to be received under the American Recovery and Reinvestment Act of 2009 (ARRA), which increased the federal Medicaid match to the GRF by that amount, after taking into account the loss of federal match from the two Medicaid related actions outlined above.

June 2009. Based on the Administration's continued monitoring of revenues, and as an anticipated step in the ongoing 2010-11 biennial budget and appropriations process, revised fiscal year 2009 revenues were estimated downward by an additional \$912 million over the December 2008 adjusted baseline, based primarily on updated income and sales tax receipts through May 31. The following actions were taken:

- The Governor received General Assembly approval for and used the entire remaining BSF balance of \$949 million for fiscal year 2009.
- Expenditure reductions of \$98 million in addition to expenditure controls previously ordered by the Governor.
- Restructuring of \$52.8 million of fiscal year 2009 general revenue fund debt service into fiscal years 2012 through 2021.

The State ended fiscal year 2009 with a GRF cash balance of \$734.5 million, a GRF budgetary fund balance of \$389.1 million, and a \$-0- balance in the BSF with no designation of any GRF cash for transfer to the budget stabilization fund for fiscal year 2010. Of the ending GRF fund balance, \$133.4 million represents the one-half of one percent of fiscal year 2009 GRF revenues that the State is required to maintain as an ending fund balance.

Other Major Governmental Funds

The *Job, Family and Other Human Services Fund*, had a fund balance of \$283.8 million at June 30, 2009, an increase of \$143.8 million, or 102.7 percent, compared to fiscal year 2008. This increase in fund balance is due to revenues exceeding expenditures by \$147.6 million, with net transfers out totaling \$3.8 million.

Public assistance and Medicaid expenditures increased \$1.05 billion, or 19.3 percent, compared to the previous fiscal year. This increase in expenditures was offset by a \$1.37 billion, or 25.8 percent, increase in federal government revenue compared to the previous fiscal year. The increase in expenditures was due to the costs for the Medicaid, TANF, Food Stamps, Unemployment Insurance, and the federally funded day-care programs all increasing due to increased enrollments largely attributable to increased unemployment and increased costs of providing medical care due to inflation.

The *Education Fund*, as of June 30, 2009, had a fund balance of \$92 million, a decrease of \$23.1 million since June 30, 2008. Expenditures increased by \$143.8 million, or 6.1 percent, compared to fiscal year 2008. This increase is mostly due to an increase in primary, secondary, and other education expenditures. Revenues in the Education Fund increased by \$57.2 million, or 3.2 percent, in fiscal year 2009. The bulk of this is from increased receipts from the Federal Government. Fiscal year 2009 net transfers in for the fund in the amount of \$724.3 million increased by 50.1 million, or 7.4 percent, compared to fiscal year 2008. This is due to debt service that was previously paid via transfers from the Education fund. These special obligation bonds were retired in fiscal year 2008, therefore, no longer requiring transfers out from this fund.

The fund balance for the *Highway Operating Fund*, as of June 30, 2009, totaled approximately \$1.04 billion, an increase of \$41.3 million (including a \$15.2 million increase in inventories) or 4.1 percent since June 30, 2008. This was due to an increase in revenue of \$83.9 million, or 4.4 percent, and a decrease in net transfers of \$175.6 million, or 66.5 percent, when compared to fiscal year 2008. The increase in revenue consists mostly of receipts from the Federal Government under grant agreements for reimbursement of road construction projects previously paid for by the State. The decrease in net transfers is attributable to an increase in transfers out of \$151.1 million compared to fiscal year 2008 and is due to new debt obligations that will be paid from the Highway Operating Fund.

For the *Revenue Distribution Fund*, the fund balance decreased by \$188.8 million since June 30, 2008 for a fund deficit of \$234.2 million at June 30, 2009. Fiscal year 2009 net transfers out of \$671 million were greater than the \$482.1 million excess of revenues over expenditures, thus causing the decrease in fund balance.

Expenditures in the Primary, Secondary and Other Education function increased by \$203.3 million, or 25.7 percent, compared to fiscal year 2008. This increase was almost entirely attributable to the fund's increased collections of the commercial activities tax. The taxes are subsequently distributed to local school districts to serve as a replacement for revenues lost by the local school districts due to the expiration of the tangible property tax, which previously provided funding to local school districts.

Corporate and public utility tax revenues increased by \$153.8 million, or 10.4 percent, compared to fiscal year 2008. The fund's increased share of collections of the commercial activities tax, which continued to be phased in during fiscal year 2009, accounted for the majority of the increase.

Income taxes and sales taxes both saw decreases of \$111.4 million, or 13.9 percent, and \$104.4 million, or 36.6 percent, respectively. Both of these decreases can be attributed to the current economy within the State, as discussed further in the economic outlook section.

The fund balance for the *Buckeye Tobacco Settlement Financing Authority Revenue Bonds Fund*, as of June 30, 2009, totaled approximately \$5.38 billion dollars, a decrease of \$87.5 million or 1.6 percent since June 30, 2008. This fund was established during fiscal year 2008 due to the issuance of \$5.53 billion in revenue bonds used to fund long-lived capital projects at State-supported institutions of higher education and to pay the State's share of the cost of rebuilding elementary and secondary school facilities across the State. Its revenue includes tobacco settlement revenue and investment income of \$374.7 million and \$348 million during fiscal years 2009 and 2008, respectively. Expenditures, totaling \$446.9 million and \$323.3 million during fiscal years 2009 and 2008 respectively, include payments for principal and interest on the revenue bonds. Differences between the years are due to changing debt service requirements for these bonds.

Proprietary Funds

Major Proprietary Funds

The State's proprietary fund financial statements report the same type of information found in the business-type activities portion of the government-wide financial statements, but in a slightly different format.

For the *Workers' Compensation Fund*, the \$12.1 million increase in net assets was primarily due to premium and assessment income of \$2.36 billion, an increase of \$222.5 million and benefit and claim expenses of \$2.07 billion, a decrease of \$513.9 million. However, the excess of premium and assessment income over benefit and claim expenses were offset by a decrease in investment income of \$914.6 million to a loss of \$194.7 million.

The decrease in Workers' Compensation benefits and claims expenses is due to the favorable improvements in medical payments, lump sum settlements, and loss development during the year. The decrease is also due to lower than expected levels of medical inflation, leading to favorable reserve development. Medical reserves for claims occurring on or before June 30, 2008, declined by \$732 million in fiscal year 2009. By comparison, in fiscal year 2008, medical reserves for claims occurring on or before June 30, 2007, declined by \$701 million.

The decline in investment income was primarily the result of a \$928 million decline in the fair value of the investment portfolio for fiscal year 2009. The \$928 million decrease was offset by a cash distribution totaling \$13.1 million from the coin fund liquidation firm contracted by the State to oversee the liquidation of the remaining coin fund related assets.

For fiscal year 2009, the *Lottery Commission Fund* reported \$707.4 million in net income before transfers of \$702.3 million and \$335 thousand to the Education and General funds, respectively, posting a \$4.7 million, or 3.5 percent, increase in the fund's net assets. Ticket sales increased approximately four percent, increasing sales from \$2.33 billion in fiscal year 2008 to \$2.42 billion in fiscal year 2009. The introduction of two new online

games, KENO and EZPLAY, contributed to the increase. Prizes expenses were \$1.46 billion as of June 30, 2009, compared to \$1.4 billion, as of June 30, 2008, an increase of approximately \$62 million or four percent. This increase was in proportion to ticket sales. Investment income decreased \$32.2 million or 36.6 percent during fiscal year 2009 due to declining rates of return and investment portfolio values. Interest expense in the form of borrower rebates associated with securities lending transactions decreased by \$12.7 million, or 83.7 percent, compared to fiscal year 2008.

The \$1.21 billion decrease in net assets in the *Unemployment Compensation Fund* is due to the declining economic condition in Ohio. This economic decline caused an increase in the unemployment rate which meant more individuals were receiving benefits for longer periods of time. The unemployment rate in Ohio rose to 10.3 percent for calendar year 2009 compared to 6.5 percent in calendar year 2008. As a result, benefits and claims expenses were \$3.48 billion, an increase of approximately \$2.15 billion, or 161.5 percent, from the previous year. In order to maintain current benefit levels, federal loans were required. This resulted in a non-current intergovernmental payable of \$862.5 million at June 30, 2009. Increased benefits funding were also reflected in the federal government and a federal grant revenue lines that increased \$670.7 million and \$429.2 million, respectively. The State anticipates Federal assistance to continue into future fiscal years. Decreases in investment income and premium and assessment income of \$12.5 million and \$16.8 million, respectively, also contributed to the overall decrease in net assets during the year.

Nonmajor Proprietary Funds

For fiscal year 2009, the *Tuition Trust Authority Fund* posted a \$52.8 million deficit at June 30, 2009, due to a net loss of \$21.6 million compared to a net loss of \$62.2 million at June 30, 2008. The net loss was caused by an investment loss of \$87.4 million, a decrease of \$63.7 million or 269.6 percent from the previous year. This change is due to the decrease in fair value of investments and declining rates of return. Actuarial tuition benefits expense (which is reflected as "Other" operating revenues in the financial statements) was \$151.3 million, a \$80.1 million, or 112.5 percent, increase. This was the result of the change in tuition benefits payable from fiscal year 2008 to fiscal year 2009 due to an improvement in the actual and forecasted tuition inflation. Benefits and claims expenses decreased \$26.4 million, from \$110.9 million for fiscal year 2008 to \$84.5 million for fiscal year 2009. The drop in expenses is attributed to lower allocations to variable investment options within the Guaranteed Savings Plan for fiscal year 2009.

The *Liquor Control Fund* reported a decrease in net assets of \$4.2 million, or 13.8 percent, after transferring \$163 million to the General Fund and \$50.5 million to other governmental funds. This transfer remained consistent with the fiscal year 2008 transfer, decreasing \$2.2 million or one percent.

The *Office of the Auditor of State Fund* recognized a decrease of net assets from \$16.2 million at June 30, 2008 to \$12.3 million at June 30, 2009, a decrease of 24.1 percent. Charges for Sales and Services increased \$2.9 million due to an average billing rate increase for audits of State agencies and local governments and new audit contracts that were entered during fiscal year 2009. State Appropriations also increased \$1.7 million. The increases in revenues were offset by increases in expenses. Costs of Sales and Services and Administration increased \$11.6 million and \$1.4 million, respectively. These increases were due a study conducted to identify opportunities for improvement and the replacement of computer equipment used by clients of the Uniform Accounting Network program. The equipment purchases were less than the capitalization threshold of the Auditor of State so they were expensed rather than capitalized.

In fiscal year 2009, transfers from proprietary funds to governmental funds totaled \$943.1 million, up \$10.1 million or 1.1 percent when compared to the \$933.1 million in transfers out reported in fiscal year 2008.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2009 and June 30, 2008, the State had invested \$25 billion and \$24.76 billion, respectively, net of accumulated depreciation of \$2.82 billion and \$2.66 billion, respectively, in a broad range of capital assets, as detailed in the table below.

Capital Assets, Net of Accumulated Depreciation
As of June 30, 2009
With Comparatives as of June 30, 2008
(dollars in thousands)

	As of June 30, 2009			As of June 30, 2008		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Land.....	\$1,927,909	\$11,994	\$1,939,903	\$1,885,135	\$11,994	\$1,897,129
Buildings.....	1,898,089	85,940	1,984,029	1,935,616	93,115	2,028,731
Land Improvements.....	210,117	12	210,129	199,236	13	199,249
Machinery and Equipment.....	180,448	16,389	196,837	199,401	20,475	219,876
Vehicles.....	125,520	2,407	127,927	138,895	2,646	141,541
Infrastructure:						
Highway Network:						
General Subsystem.....	8,445,695	—	8,445,695	8,387,073	—	8,387,073
Priority Subsystem.....	7,542,770	—	7,542,770	7,469,454	—	7,469,454
Bridge Network.....	2,559,462	—	2,559,462	2,541,870	—	2,541,870
Parks, Recreation, and Natural Resources System.....	56,384	—	56,384	47,393	—	47,393
	22,946,394	116,742	23,063,136	22,804,073	128,243	22,932,316
Construction-in-Progress.....	1,933,142	—	1,933,142	1,825,691	—	1,825,691
Total Capital Assets, Net.....	\$24,879,536	\$116,742	\$24,996,278	\$24,629,764	\$128,243	\$24,758,007

During fiscal year 2009, the State recognized \$303.9 million in annual depreciation expense relative to its general governmental capital assets as compared with \$403.3 million in annual depreciation expense recognized in fiscal year 2008. The State also recognized \$16.5 million in annual depreciation expense relative to its business-type capital assets as compared with \$15.7 million in annual depreciation expense recognized in fiscal year 2008.

Additionally, the State completed construction on a variety of projects at various state facilities during fiscal year 2009 totaling approximately \$315.6 million, as compared with \$387 million in the previous fiscal year. The total increase in the State's capital assets, net of accumulated depreciation, for the current fiscal year was one percent (approximately a one percent increase for governmental activities and a nine percent decrease for business-type activities). As is further detailed in NOTE 19D. of the notes to the financial statements, the State had \$45.3 million in major construction commitments (unrelated to infrastructure), as of June 30, 2009, as compared with the \$107.6 million balance reported for June 30, 2008.

Modified Approach

For reporting its highway and bridge infrastructure assets, the State has adopted the use of the modified approach. The modified approach allows a government *not to report depreciation expense* for eligible infrastructure assets if the government manages the eligible infrastructure assets using an asset management system that possesses certain characteristics and the government can document that the eligible infrastructure assets are being preserved approximately at (or above) a condition level it sets (and discloses). Under the modified approach, the State is required to expense all spending (i.e., preservation and maintenance costs) on infrastructure assets except for additions and improvements. Infrastructure assets accounted for using the modified approach include approximately 42,817 in lane miles of highway (12,826 in lane miles for the priority highway subsystem and 29,991 in lane miles for the general highway subsystem) and approximately 104.9 million square feet of deck area that comprises 14,112 bridges for which the State has the responsibility for ongoing maintenance.

Ohio accounts for its pavement network in two subsystems: *Priority*, which comprises interstate highways, free-ways, and multi-lane portions of the National Highway System, and *General*, which comprises two-lane routes outside of cities. It is the State's goal to allow no more than 25 percent of the total lane-miles reported for each of the priority and general subsystems, respectively, to be classified with a "poor" condition rating. The most recent condition assessment, completed by the Ohio Department of Transportation for calendar year 2008, indicates that only 2.3 percent and 4.7 percent of the priority and general subsystems, respectively, were assigned a "poor"

condition rating. For calendar year 2007, only 3.1 percent and 5.2 percent of the priority and general subsystems, respectively, were assigned a “poor” condition rating.

For the bridge network, it is the State’s intention to allow no more than 15 percent of the total number of square feet of deck area to be in “fair” or “poor” condition. The most recent condition assessment, completed by the Ohio Department of Transportation for calendar year 2008, indicates that only 3.1 percent and .6 percent of the number of square feet of bridge deck area were considered to be in “fair” and “poor” conditions, respectively. For calendar year 2007, only 3.4 percent and .05 percent of the number of square feet of bridge deck area were considered to be in “fair” and “poor” conditions, respectively.

For fiscal year 2009, total actual maintenance and preservation costs for the priority and general subsystems were \$407.6 million and \$347.2 million, respectively, compared to estimated costs of \$352.6 million for the priority system and \$214.1 million for the general system, while total actual maintenance and preservation costs for the bridge network was \$360.5 million compared to estimated costs of \$308.7 million. For the previous fiscal year, total actual maintenance and preservation costs for the priority and general subsystems were \$405.3 million and \$237.1 million respectively, compared to estimated costs of \$357.4 million for the priority system and \$178.3 million for the general system, while total actual maintenance and preservation costs for the bridge network was \$313.8 million compared to estimated costs of \$288.3 million. The State’s costs for actual maintenance and preservation costs for infrastructure have exceeded estimates over the past two years due to steadily increasing underlying costs for the materials and labor associated with infrastructure projects.

More detailed information on the State’s capital assets can be found in NOTE 8 to the financial statements and in the Required Supplementary Information section of the report.

Debt — Bonds and Notes Payable and Certificates of Participation Obligations

As of June 30, 2009 and June 30, 2008, the State had total debt of approximately \$16.51 billion and \$16.59 billion, respectively, as shown in the table below.

Bonds and Notes Payable and Certificates of Participation
As of June 30, 2009
With Comparatives as of June 30, 2008
(dollars in thousands)

	As of June 30, 2009			As of June 30, 2008		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Bonds and Notes Payable:						
General Obligation Bonds	\$ 7,138,051	\$ —	\$ 7,138,051	\$ 7,310,376	\$ —	\$ 7,310,376
Revenue Bonds and Notes.....	6,646,593	80,657	6,727,250	6,413,182	97,286	6,510,468
Special Obligation Bonds	2,427,556	—	2,427,556	2,585,319	—	2,585,319
Certificates of Participation.....	216,537	—	216,537	187,336	—	187,336
Total Debt	16,428,737	\$ 80,657	\$16,509,394	16,496,213	\$ 97,286	\$16,593,499

The State’s general obligation bonds are backed by its full faith and credit. Revenue bonds issued by the State are secured with revenues pledged for the retirement of debt principal and the payment of interest. Special obligation bonds issued by the State and the Ohio Building Authority (OBA), a blended component unit of the State, are supported with lease payments from tenants of facilities constructed with the proceeds from the bond issuances. Under certificate of participation (COPs) financing arrangements, the State is required to make rental payments (subject to appropriations) that approximate interest and principal payments made by trustees to certificate holders.

During fiscal year 2009, the State issued, at par, \$801.8 million in general obligation bonds, \$425 million in revenue bonds, \$241.4 million in special obligation bonds, and \$39.1 million in certificates of participation. Of the general obligation bonds and special obligation bonds issued, at par, \$461.8 million and \$44.7 million, respectively, were refunding bonds. The total decrease in the State’s debt obligations for the current fiscal year, as based on carrying amount, was .51 percent (a .41 percent decrease for governmental activities and a 17.1 percent decrease for business-type activities).

Credit Ratings

Ohio’s credit ratings for general obligation debt are Aa2 by Moody’s Investors Service, Inc. (Moody’s) and AA by Fitch Inc. (Fitch). Standard & Poor’s Ratings Services (S&P) rates the State’s general obligation debt as AA+, other than Highway Capital Improvement Obligations, which are rated AAA.

For special obligation bonds, which the Ohio Building Authority and the Treasurer of State issue and General Revenue Fund appropriations secure, Moody’s rating is Aa3, Fitch’s rating is AA- and S&P’s rating is AA.

The State’s revenue bonds are rated as follows:

Revenue Bonds	Fitch	Moody’s	S&P	Source of State Payment
Governmental Activities:				
Treasurer of State:				
Economic Development	A+	Aa3	AA	Net Liquor Profits
State Infrastructure Bank.....	AA-	Aa2	AA	Federal Transportation Grants and Loan Receipts
Revitalization Projects.....	A+	A1	AA-	Net Liquor Profits
Buckeye Tobacco Settlement Financing Authority.....	BBB+	Baa3	BBB	Pledged Receipts from the Tobacco Master Settlement Agreement
Business-Type Activities:				
Bureau of Workers’ Compensation.....	AA-	A1	AA	Workers’ Compensation Enterprise Fund

On June 10, 2009, Fitch downgraded the State’s general obligation credit rating to AA from AA+, downgraded the State’s special obligation credit rating to AA- from AA, and downgraded the Bureau of Workers’ Compensation revenue bonds to AA- from AA. Fitch also revised its credit outlook associated with the ratings to stable from negative.

On June 15, 2009, Moody’s downgraded the State’s general obligation credit rating to Aa2 from Aa1, downgraded the State’s special obligation credit rating to Aa3 from Aa2, and downgraded the Bureau of Workers’ Compensation revenue bonds to A1 from Aa3. Moody’s also revised its credit outlook associated with the ratings to stable from negative.

S&P upgraded the ratings on the Economic Development revenue debt from AA- to AA, and also upgraded the ratings on the Revitalization Projects revenue debt from A+ to AA. On September 23, 2009, S&P revised its “credit outlook” on the State from “stable” to “negative.” The change in credit outlook is not a precursor to a rating change, but is an indication over the intermediate to longer term of a potential change.

In April 2010, both Moody’s and Fitch recalibrated their rating scales. The recalibrations are intended to enhance comparability of ratings across types of issuers. Any change in rating based on the recalibrations should not be interpreted as an improvement in credit quality or a change in the credit opinion.

Limitations on Debt

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

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

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

Conditions Expected to Affect Future Operations

Economic Factors

Evidence continues to build that the national economy is slowly emerging from the recession. Real Gross Domestic Product (GDP) increased 5.6 percent in the fourth quarter of calendar year 2009 after increasing 2.2 percent in the third calendar quarter. In spite of these two consecutive quarterly gains, real GDP fell 2.4 percent in calendar year 2009 — the largest calendar year decline since 1948. A decrease in the rate of inventory liquidation propped up real GDP in the fourth quarter, accounting for nearly 60 percent of the increase. Final sales of domestic product, which exclude changes in business inventories, increased a modest 1.7 percent after rising 1.5 percent in the third quarter of calendar year 2009. This weakness in final sales growth provides some support for the widely held belief that subdued consumer spending will restrain economic growth in the current recovery to below average levels.

Nonfarm payroll employment in January 2010 reflected customary annual benchmark revisions that shed additional light on the impact of the recession. Employment in December 2009 was 1.36 million jobs lower than previously estimated. Based on January 2010 employment numbers, the national economy has shed 8.4 million jobs since the recession officially began in December 2007. This loss of jobs is the largest in both absolute number and in percentage terms in any postwar recession.

Ohio and its neighboring states have not escaped the pain of the impact of the national recession on employment. For both Ohio and the Midwest region as a whole, employment was down 3.5 percent during calendar year 2009, compared to a nearly equal decline in employment of 3.6 percent for states outside of the region.

The U.S. unemployment rate was 9.7 percent in January 2010 — down from 10 percent in November and December 2009 and down .4 percent from the peak for the cycle of 10.1 percent in October 2009. The unemployment rate in Ohio increased to 11 percent in March 2010.

U.S. personal income increased .4 percent in December 2009, lifting the year-over-year change above zero for the first time since December 2008. Compared to a year earlier, personal income was up .5 percent. Ohio personal income increased 1.9 percent for the third calendar quarter of 2009 after a 2.4 percent increase in the second calendar quarter. These back-to-back gains follow three consecutive decreases at a compound annual rate of 2.3 percent.

General Revenue Fund

The Ohio Constitution prohibits the State from borrowing money to fund operating expenditures in the GRF. Therefore, by law, the GRF's budget must be balanced so that appropriations do not exceed available cash receipts and cash balances for the current fiscal year.

Consistent with State law, the Governor's Executive Budget for the 2010-11 biennium was released in February 2009 and introduced in the General Assembly. After extended hearings and review, and after passage by the General Assembly and signing by the Governor of three seven-day interim budgets, the 2010-11 biennial appropriations Act was passed by the General Assembly and signed (with selective vetoes) by the Governor on July 17, 2009. All necessary debt service and lease-rental payments related to State obligations for the entire 2010-11 biennium were fully appropriated for the three week interim period and under the final Act. Reflecting the final implementation of the restructuring of State taxes commenced in the 2006-07 biennium and a conservative underlying economic forecast, the Act makes total GRF biennial appropriations of approximately \$50.5 billion (a 3.8 percent decrease from the 2008-09 biennial expenditures) based on GRF biennial estimated revenues of approximately \$51.1 billion (a 4.2 percent decrease from the 2008-09 biennial revenues). Appropriations for major program categories compared to 2008-09 actual spending reflect an increase of 3.4 percent for Medicaid (the Act also includes a number of Medicaid reform and cost containment initiatives), an increase of .7 percent for corrections and youth services, a decrease of 13.8 percent for mental health and development disabilities, a decrease of 8.3 percent for higher education, and a decrease of 5.15 percent for elementary and secondary education. The Act also includes the restructuring of \$736 million of fiscal years 2010 and 2011 general revenue fund debt service into fiscal years 2012 through 2025. Both the Executive Budget and the GRF appropriations complied with the law, signed into law June 5, 2006, limiting GRF appropriations commencing with the 2008-09 biennium.

Major new or recurring sources of revenues reflected in the 2010-11 appropriations Act include the following:

- "Federal Stimulus" funding received under the American Recovery and Reinvestment Act of 2009 (ARRA) of \$2.4 billion, including \$1.46 billion for elementary and secondary education, \$628 million for Federal Medical Assistance Payments (FMAP), and \$326 million for other purposes.

- Gaming and license revenues of \$933 million from the Ohio Lottery Commission's implementation of video lottery terminals (VLTs) at seven horse racing tracks in the State.
- A transfer of \$259 million from the Ohio Tobacco Use Prevention and Control Foundation Endowment Fund (TUPAC) to be deposited into a special State fund (non-GRF) to be used for various health care initiatives.
- "One-time" revenues or savings of \$1.04 billion, including \$364 million from the spend-down of carry-forward balances, \$250 million transferred from an Ohio School Facilities Commission funds cash account, \$272 million of savings for two week unpaid "furlough" during each biennium for the State's employees, \$84.3 million from a reduction in State funding to public libraries, and \$65 million from the transfer of interest on the proceeds of the State's 2007 tobacco securitization to the GRF.
- Transfers of \$530 million to the GRF from unclaimed funds and other non-GRF funds.

In response to the Ohio Supreme Court's decision that the VLTs are subject to voter referendum, the Governor proposed for General Assembly consideration the postponement for two years of the final installment of the personal income tax reduction that was currently scheduled to take effect for the tax year 2009 (for returns filed in 2010). After extended hearings and review, the General Assembly approved, and the Governor signed into law on December 22, 2009, legislation keeping personal income tax rates at 2008 levels through tax year 2010. The Ohio Department of Taxation estimates that this postponement will result in \$844 million of additional State GRF revenues in the 2010-11 biennium.

Under referendum provisions of the Ohio Constitution, if referendum petitions are submitted containing at least 241,366 valid signatures (six percent of the electors of the State) with at least half of those signatures from 44 of the State's 88 counties, those statutory provisions for VLTs will not take effect "unless and until approved by a majority of those [electors] voting upon the same" at an election held on November 2, 2010. After review of the signatures on the timely submitted petitions and supplemental petitions, the Ohio Secretary of State, on March 26, 2010, notified the committee for the petitioners those petitions contained a sufficient number of valid signatures and the referendum will be placed on the November 2, 2010, ballot.

The Court of Appeals has ruled in favor of the State regarding litigation filed to halt the transfers from the TUPAC Endowment Fund. The plaintiffs appealed the Court of Appeals decision to the Ohio Supreme Court which was accepted on March 10, 2010.

Unemployment Compensation Fund

Due to the declining revenues and rising unemployment claims resulting from the challenging economic climate, the State sought federal assistance in meeting the unemployment benefit costs in fiscal year 2009. In accordance with Title XII of the Social Security Act, the State drew repayable advances in the Unemployment Trust Fund of \$862.5 million from the Federal Unemployment Account to cover the insufficient State funds for benefit claims. By the end of fiscal year 2010, the accumulated total repayable advance balance is expected to be approximately \$3 billion. Under current federal regulations, the State will begin accruing interest on any repayable advances balances beginning on January 1, 2011.

Contacting the Ohio Office of Budget and Management

This financial report is designed to provide the State's citizens, taxpayers, customers, investors and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Questions regarding any of the information provided in this report or requests for additional financial information should be addressed to the Ohio Office of Budget and Management, Financial Reporting Section, 30 East Broad Street, 34th Floor, Columbus, Ohio 43215-3457 or by e-mail at obm@obm.state.oh.us.